

# **MDM-BANK**

## **Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

## **Contents**

Independent Accountants' Review Report

Interim Consolidated Condensed Balance Sheet.....	1
Interim Consolidated Condensed Statement of Income.....	2
Interim Consolidated Condensed Statement of Cash Flows.....	3
Interim Consolidated Condensed Statement of Changes in Equity.....	4

Notes to the Interim Consolidated Condensed Financial Statements

1	Organisation of the Group and its Principal Activities.....	5
2	Operating Environment of the Group.....	6
3	Basis of Preparation.....	6
4	Significant Accounting Policies.....	8
5	Loan Impairment Losses.....	9
6	Debt Securities in Issue.....	9
7	Significant Exposures.....	9
8	Analysis by Segment.....	10
9	Contingent Liabilities in Respect of Taxation.....	12
10	Related Party Transactions.....	13
11	Subsequent Events.....	16



**ZAO KPMG**  
11 Gogolevsky Boulevard  
Moscow 119019  
Russia

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet [www.kpmg.ru](http://www.kpmg.ru)

## **Independent Accountants' Review Report**

To the Shareholders of "MDM-BANK"

We have reviewed the accompanying interim consolidated condensed balance sheet of "MDM-BANK" and its subsidiaries (the "Group") as at 31 March 2006 and the related interim consolidated condensed statements of income, changes in equity and cash flows for the three-month period then ended. These interim consolidated condensed financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The interim consolidated condensed financial statements do not include corresponding figures for the three-month period ended 31 March 2005, which is required by International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Based on our review, except for the omission of the information described in the preceding paragraph, nothing has come to our attention that causes us to believe that the interim consolidated condensed financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*ZAO KPMG*

ZAO KPMG  
9 June 2006

**MDM-BANK****Interim Consolidated Condensed Balance Sheet as at 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

	Note	31 March 2006 Unaudited	31 December 2005
<b>Assets</b>			
Cash and cash equivalents		14 967	31 346
Mandatory cash balances with central banks		3 236	2 141
Due from other banks		6 117	6 329
Trading securities		7 550	6 655
Other financial instruments at fair value through profit or loss		2 318	2 484
Loans and advances to customers		99 726	80 313
Assets pledged under sale and repurchase agreements		3 489	3 424
Current income tax prepayments		1 138	570
Other assets		1 316	1 011
Premises and equipment		4 508	4 520
<b>Total assets</b>		<b>144 365</b>	<b>138 793</b>
<b>Liabilities</b>			
Due to other banks		30 552	33 129
Customer accounts		53 374	55 973
Debt securities in issue	6	31 605	22 682
Current income tax payable		28	15
Other liabilities		3 403	1 451
Deferred tax liability		825	1 044
<b>Total liabilities</b>		<b>119 787</b>	<b>114 294</b>
<b>Equity</b>			
Share capital		1 736	1 736
Share premium		9 588	9 588
Revaluation reserve for premises and equipment		1 944	1 944
Cumulative translation reserve		(56)	(41)
Retained earnings		11 366	10 936
Total equity attributable to equity holders of the parent		24 578	24 163
Minority interest		-	336
<b>Total equity</b>		<b>24 578</b>	<b>24 499</b>
<b>Total liabilities and equity</b>		<b>144 365</b>	<b>138 793</b>

Approved for issue by the Management Board of "MDM-BANK" and signed on its behalf on 9 June 2006.

  
 Michel Perhirin  
 Chairman of the Management Board

  
 Andrey Ilyin  
 Chief Financial Officer

**MDM-BANK****Interim Consolidated Condensed Statement of Income for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

	<b>Note</b>	<b>Three-Month Period Ended 31 March 2006 Unaudited</b>
Interest income		3 320
Interest expense		(1 302)
<b>Net interest income</b>		<b>2 018</b>
Loan impairment losses	5	(107)
<b>Net interest income after loan impairment</b>		<b>1 911</b>
Gains less losses arising from trading in securities		23
Gains less losses arising from trading in foreign currencies		(298)
Gains less losses arising from trading in precious metals		23
Foreign exchange translation gains less losses		516
Fee and commission income		337
Fee and commission expense		(154)
Gains less losses from other financial instruments at fair value through profit or loss		(56)
Reversal of provision for losses on credit related commitments		22
Impairment of other assets		(23)
Other operating income		21
<b>Operating income</b>		<b>2 322</b>
Operating expenses		(1 319)
<b>Profit before taxation</b>		<b>1 003</b>
Income tax expense		(286)
<b>Profit for the period</b>		<b>717</b>
<b>Attributable to:</b>		
Equity holders of the parent		710
Minority interest		7
<b>Earnings per share</b>		
Ordinary shares (number of shares)		2 149 950
Earnings per ordinary share (RUR)		330

The notes set out on pages 5 to 16 form an integral part of these interim consolidated condensed financial statements.

**MDM-BANK****Interim Consolidated Condensed Statement of Cash Flows for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

	<b>Three-Month Period Ended 31 March 2006 Unaudited</b>
<b>Net cash used in operating activities</b>	<b>(24 259)</b>
<b>Net cash used in investing activities</b>	<b>(52)</b>
<b>Net cash from financing activities</b>	<b>8 430</b>
Effect of exchange rate changes on cash and cash equivalents	(498)
<b>Net decrease in cash and cash equivalents</b>	<b>(16 379)</b>
Cash and cash equivalents at the beginning of the period	31 346
<b>Cash and cash equivalents at the end of the period</b>	<b>14 967</b>

The notes set out on pages 5 to 16 form an integral part of these interim consolidated condensed financial statements.

**MDM-BANK****Interim Consolidated Condensed Statement of Changes in Equity for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

	Attributable to equity holders of the parent					Total	Minority interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises and equipment	Cumulative translation reserve	Retained earnings			
<b>Balance as at 1 January 2006</b>	<b>1 736</b>	<b>9 588</b>	<b>1 944</b>	<b>(41)</b>	<b>10 936</b>	<b>24 163</b>	<b>336</b>	<b>24 499</b>
Profit for the three-month period ended 31 March 2006 (Unaudited)	-	-	-	-	710	710	7	717
Currency translation differences (Unaudited)	-	-	-	(15)	-	(15)	(3)	(18)
<b>Total income and expense for the three-month period ended 31 March 2006 (Unaudited)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15)</b>	<b>710</b>	<b>695</b>	<b>4</b>	<b>699</b>
Acquisition of minority interest of a subsidiary (Note 1) (Unaudited)	-	-	-	-	(280)	(280)	(340)	(620)
<b>Balance as at 31 March 2006 (Unaudited)</b>	<b>1 736</b>	<b>9 588</b>	<b>1 944</b>	<b>(56)</b>	<b>11 366</b>	<b>24 578</b>	<b>-</b>	<b>24 578</b>

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**1 Organisation of the Group and its Principal Activities**

These interim consolidated condensed financial statements include the financial statements of “MDM-BANK” (the “Parent company”, or the “Bank”, or “MDM-BANK”) and its subsidiaries. The Parent company and its subsidiaries are hereinafter collectively referred to as the “Group”. The activities of the Group are conducted principally in Russia, although the Group also conducts operations on international markets.

For the purposes of these interim consolidated condensed financial statements, the management of the Group, collectively, is referred to as “Management”.

**(a) Subsidiaries**

As at 31 March 2006, the Group operates a total of two banks, one bank in the Russian Federation and one in Latvia. MDM-BANK, the lead operating entity of the Group, is an open joint stock company and is registered in the Russian Federation to carry out banking and foreign exchange activities since 1993. The Bank operates under a general banking license issued by the Central Bank of the Russian Federation. MDM-Bank is a participant of the deposit insurance scheme in the Russian Federation.

The banks in the Group operate in three main business areas: Corporate banking, Retail banking, and Investment banking and financial markets. Refer to Note 8.

The table below summarises information about the banking branch network of the Group and the number of employees.

Name of the Bank	Registered office	31 March 2006	
		Number of branches	Number of employees
MDM-BANK	Kotelnicheskaya nab., 33, Moscow, Russia	34	4 289
Latvian Trade Bank	Grecinieku iela, 4, Riga, LV-1048, Latvia	-	62
<b>Total</b>		<b>34</b>	<b>4 351</b>

---

All branches are located within the Russian Federation. The Group also operates a number of sub-branches in the Russian Federation and cash exchange offices and a network of retail micro offices in Moscow.

The Group also owns and operates an asset management company, a leasing company and a real estate company which owns and maintains the majority of the Group’s premises used in operating activities.

In February 2006, MDM-BANK acquired a 36.7% stake in Latvian Trade Bank from MDM Financial Holding (Cyprus) for a consideration of RUR 620 million. As a result, Latvian Trade Bank became a 100% subsidiary of MDM-BANK. The difference between the consideration paid to acquire these shares and the carrying amount of the related minority interest of RUR 280 million was recorded directly in equity.



**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**1 Organisation of the Group and its Principal Activities (Continued)****(b) Beneficiaries of the Group**

As at 31 March 2006, the Bank's parent company is Banking Holding MDM. Banking Holding MDM is a 100% subsidiary of MDM Financial Holding (Cyprus), which is a 100% subsidiary of MDM Holding GmbH, the parent company of MDM Financial Group. As at 31 March 2006, MDM Holding GmbH, an Austrian limited liability company, is owned 50% each by two companies, the ultimate beneficiaries of which are, respectively, Messrs. Andrey Melnichenko and Sergey Popov (together, the "Beneficiaries"). Refer to Note 10 for information on related party transactions.

**2 Operating Environment of the Group**

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation.

In addition, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the issues experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

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

**3 Basis of Preparation****(a) Statement of Compliance**

The interim consolidated condensed financial statements of MDM-BANK have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 "Interim Financial Reporting", except that they do not include corresponding figures for the three-month period ended 31 March 2005. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated statements of the Group as at and for the year ended 31 December 2005, as these interim consolidated condensed financial statements provide an update of previously reported financial information.

These interim consolidated condensed financial statements of MDM-BANK present the interim consolidated condensed balance sheet as at 31 March 2006, corresponding figures as at 31 December 2005, interim consolidated condensed statements of income, changes in equity and cash flows for the three-month period ended 31 March 2006, and selected explanatory notes.

**3 Basis of Preparation (Continued)****(b) Basis of Measurement**

These interim consolidated condensed financial statements are prepared on the historical cost basis except that financial instruments held for trading, other financial instruments held at fair value through profit or loss are stated at fair value, and certain classes of premises and equipment are stated at revalued amounts.

**(c) Functional and Presentation Currency**

Functional currency for each group company has been determined as the currency of the primary economic environment in which the company operates. The Russian Rouble ("RUR") has been selected as the functional currency for group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, where it reflects the economic substance of the underlying events and circumstances. For other group companies the currencies of the respective countries in which these companies are domiciled have been selected as their functional currencies.

The Russian Rouble has been selected as the presentation currency for these interim consolidated condensed financial statements. Amounts in Russian Roubles have been rounded to the nearest million.

**(d) Convenience Translation**

In addition to presenting the interim consolidated condensed financial statements in RUR, supplementary interim consolidated financial information for the three-month period ended 31 March 2006 in USD, comprising the interim consolidated condensed balance sheet as at 31 March 2006 in US Dollars, corresponding figures as at 31 December 2005, and the interim consolidated condensed statement of income for the three-month period ended 31 March 2006, has been prepared for the convenience of users of the financial statements. The supplementary interim consolidated financial information does not form part of these interim consolidated condensed financial statements.

All amounts in US Dollars included in the supplementary interim consolidated financial information have been translated to USD from the amounts in these interim consolidated condensed financial statements at the official rate of the Central Bank of the Russian Federation as at 31 March 2006 of RUR 27.7626 to USD 1.

All financial information presented in USD has been rounded to the nearest thousand.

RUR is not a readily convertible currency outside of the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

**(e) Use of estimates and judgements**

The preparation of 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.

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**3 Basis of Preparation (Continued)**

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.

In preparing these interim consolidated condensed financial statements the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2005.

**4 Significant Accounting Policies**

The accounting policies applied by MDM-BANK in these interim consolidated condensed financial statements are consistent with those applied by MDM-BANK in the consolidated financial statements for the year ended 31 December 2005, except for changes resulting from the amendments to IFRSs, as described below.

As at 1 January 2006, MDM-BANK adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – "Financial Guarantee Contracts". Upon application of this amendment, a financial guarantee issued is recognised initially at its fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee.

As at 1 January 2006, MDM-BANK adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, MDM-BANK may designate a financial instrument as at fair value through profit or loss only if certain conditions are met. Financial instruments which were designated as at fair value through profit or loss as at 31 December 2005 complied with the requirements of the amendment and were retained within this category upon its application.

Application of these amendments did not have a significant impact on the interim consolidated condensed financial statements of MDM-BANK.

Disclosure of the MDM-BANK's significant accounting policies will be updated to reflect the requirements of these amendments when the next full set of interim consolidated financial statements of MDM-BANK is prepared for the six-month period ended 30 June 2006.

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**5 Loan Impairment Losses**

Movements in impairment of loans and advances to customers are as follows:

	<b>Three-Month Period Ended 31 March 2006 Unaudited</b>
<b>Loan impairment as at 1 January</b>	<b>2 849</b>
Loans written off during the period as uncollectible	(1)
Charge to loan impairment during the period	107
Effect of foreign currency translation	(37)
<b>Loan impairment as at 31 March</b>	<b>2 918</b>

---

**6 Debt Securities in Issue**

During the three-month period ended 31 March 2006 MDM-BANK issued USD 300 million, or RUR 8 329 million, 6.8% per annum short-term loan participation notes maturing in February 2007 with an effective rate of 7.2% per annum.

**7 Significant Exposures**

As at 31 March 2006, credit exposure to the ten largest borrowers (or groups of borrowers) totalled RUR 24 129 million or 23.5% of the gross loan portfolio of the Group (31 December 2005: RUR 18 216 million or 21.9% of the gross loan portfolio).

As at 31 March 2006, the Group had four borrowers (or groups of borrowers) with aggregated loan amounts greater than 10% of equity (31 December 2005: one borrower). The total aggregate amount of these loans was RUR 13 596 million or 13.2% of the gross loan portfolio (31 December 2005: RUR 4 107 million or 4.9% of the gross loan portfolio).

As at 31 March 2006, included in due to other banks are balances due to one counterparty, which are greater than 10% of equity (31 December 2005: one counterparty). The total aggregate amount of these balances is RUR 3 898 million or 12.8% of due to other banks balances (31 December 2005: RUR 4 256 million or 12.8% of due to other banks balances).

As at 31 March 2006, aggregate balances of the ten largest customers (or groups of customers) totalled RUR 22 673 million or 42.5% of total customer accounts (31 December 2005: RUR 21 865 million or 39.1% of total customer accounts).

As at 31 March 2006, the Group had three customers (or groups of customers) with aggregated balances on customer accounts greater than 10% of equity (31 December 2005: three customers). The total aggregate amount of these balances was RUR 12 262 million or 23.0% of total customer accounts (31 December 2005: RUR 10 501 million or 18.8% of total customer accounts).

## **8 Analysis by Segment**

The Group's format for reporting segment information is by business segment. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relate to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments.

The Group is organised into three main reportable business segments:

- Corporate banking – includes deposit taking and lending to corporate clients, leasing, factoring, settlements, cash management, cash collection, trade finance, syndications, *a forfait* financing, and export credit agency financing.
- Retail banking – includes deposit taking and lending to individuals and small and medium enterprises, money transfer and foreign exchange services, and a range of banking card products provided to individual customers.
- Investment banking and financial markets – includes corporate finance, debt and equity capital markets, money markets, trading and brokerage in securities, foreign exchange and precious metals, repo transactions, banknote trading, and trading in derivatives.

In the consolidated financial statements for the year ended 31 December 2005, MDM-BANK presented information for Commercial banking and Investment banking and financial markets segments as reportable business segments. Due to the growth of its retail business, starting 1 January 2006, the Group ceased presenting information for Commercial banking segment and has identified Corporate banking and Retail banking segments as additional reportable business segments. In addition, the Group has redefined the segment allocation of certain assets and liabilities and income and expenses. Corresponding figures shown in these interim consolidated condensed financial statements have been restated.

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

**8 Analysis by Segment (Continued)**

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

	<b>31 March 2006 Unaudited</b>	<b>31 December 2005</b>
<b>Assets</b>		
Corporate banking	71 050	61 901
Retail banking	16 814	14 893
Investment banking and financial markets	32 385	22 587
Unallocated assets	24 116	39 412
<b>Total assets</b>	<b>144 365</b>	<b>138 793</b>
<b>Liabilities</b>		
Commercial banking	56 855	58 265
Retail banking	10 350	10 527
Investment banking and financial markets	48 149	43 640
Unallocated liabilities	4 433	1 862
<b>Total liabilities</b>	<b>119 787</b>	<b>114 294</b>

Segment information for the main reportable business segments of the Group for the three-month period ended 31 March 2006 is set out below:

	<b>Three-Month Period Ended 31 March 2006 (Unaudited)</b>				<b>Consolidated Group</b>
	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Investment banking and financial markets</b>	<b>Unallocated</b>	
External revenue	2 116	826	385	43	3 370
Net result from other segments	(650)	(237)	360	527	-
Impairment losses and provisions	(13)	(72)	-	(23)	(108)
Interest expense	(324)	(121)	(857)	-	(1 302)
Fee and commission expense	(43)	(32)	(79)	-	(154)
Operating expenses	(537)	(464)	(318)	-	(1 319)
Foreign exchange translation gains less losses	-	-	516	-	516
<b>Segment result</b>	<b>549</b>	<b>(100)</b>	<b>7</b>	<b>547</b>	<b>1 003</b>
Taxation				(286)	(286)
<b>Profit for the period</b>					<b>717</b>
<b>Other segment items</b>					
Capital expenditure	-	-	-	53	53
Depreciation charge	29	32	10	-	71

Net result from other segments represents income and expense from lending and borrowing between segments and a charge for the use of equity allocated to the segments.

**9 Contingent Liabilities in Respect of Taxation**

The Group operates in a number of tax jurisdictions. In the normal course of business, management must interpret and apply existing legislation to transactions with third parties and its own activities. Current Russian tax legislation is principally based on the form in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The interpretation of Russian tax legislation by the tax authorities and court practice, which are subject to frequent changes, in the future may focus less on the form rather than on the substance of a transaction. 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. Tax years remain open to normal audit by the Russian tax authorities for three years; during such time any change in interpretation or practice, even if there is no change in Russian tax legislation, could be applied retroactively. The interpretation and practice in other jurisdictions in which the Group operates is also changing, sometimes with retroactive effect.

The Group has taken steps to reduce its overall tax liability by structuring its operations. In Management's opinion, the Group is in substantial compliance with the tax and other laws governing its operations in Russia and in other tax jurisdictions. However, a risk remains that the relevant authorities could take different positions with regard to interpretative issues or that court practice could develop adversely to positions taken by the Group and the effect on these interim consolidated condensed financial statements, should the authorities succeed in asserting their positions, could be significant.

During the three-month period ended 31 March 2006, local tax authorities issued a claim against MDM-BANK of approximately RUR 88 million, including associated fines and penalty interest, in respect of value added taxes (VAT) on transactions of the Bank with precious metals in 2002. The matter is now under consideration of the Moscow Department of the Federal Tax Service. Management believes that the Bank is in full compliance with the tax legislation in respect of these transactions and that the claim can be successfully contested. Therefore no provision in respect of this matter has been recorded in the interim consolidated condensed financial statements of MDM-BANK for the three-month period ended 31 March 2006. However should the tax authorities succeed in asserting their position, similar claims could be made in respect of other tax periods. Management estimates that in this case the potential amount of tax claims in respect of this matter, including associated fines and penalty interest, may reach approximately RUR 350 million.

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**10 Related Party Transactions**

For the purposes of these interim consolidated condensed financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by International Financial Reporting Standard 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.

Related parties comprise ultimate beneficiaries of the Group, which have joint control over the Group, directors and key management personnel, entities of MDM Financial Group other than the subsidiaries of MDM-BANK, and other related parties. Other related parties are entities, which are under common control with the Group, and entities which are significantly influenced by the Group's beneficiaries, directors and key management personnel. These include mainly Joint Stock Company Mineral and Chemical Company EuroChem (mineral fertilizers), Joint Stock Company Siberian Coal Energy Company (SUEK) (coal and energy), and TMK (pipes), and holding companies for these companies.

Key management personnel comprise members of the Management Board of MDM-BANK and the Chief accountant of MDM-BANK.

Banking transactions are entered into in the normal course of business with the related parties. These include settlements, loans, deposit taking, trade finance, securities and foreign currency transactions. These transactions are priced at market rates.

As at 31 March 2006, total balance sheet exposure to related parties (net of impairment) is RUR 8 791 million, or 6.1% of total assets (31 December 2005: RUR 2 920 million, or 2.1% of total assets). As at 31 March 2006, total (on and off balance sheet) exposure to related parties (net of impairment) is RUR 8 791 million, or 6.1% of total assets (31 December 2005: RUR 3 046 million, or 2.2% of total assets).

The total remuneration of the members of the Board of Directors of MDM-BANK amounts to RUR 11 million for the three-month period ended 31 March 2006.

The total remuneration of key management personnel, including discretionary compensation, amounts to RUR 134 million for the three-month period ended 31 March 2006.

The Group does not provide post-employment, share-based or other long-term benefits to the directors and key management personnel.



**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

**10 Related Party Transactions (Continued)**

The outstanding balances as at 31 March 2006 with related parties are as follows:

	Beneficiaries Unaudited	Directors and key management Unaudited	MDM Financial Group Unaudited	Other related parties				Total Unaudited	Total Unaudited
				EuroChem Unaudited	SUEK Unaudited	TMK Unaudited	Other Unaudited		
Cash and cash equivalents	-	-	3	-	-	-	-	-	<b>3</b>
Due from other banks	-	-	538	-	-	-	-	-	<b>538</b>
Trading securities	-	-	-	-	3	94	-	97	<b>97</b>
Loans and advances to customers (gross)	-	89	4 313	-	416	612	2 878	3 906	<b>8 308</b>
Loan impairment	-	-	(83)	-	(8)	(12)	(57)	(77)	<b>(160)</b>
Other assets	-	-	5	-	-	-	-	-	<b>5</b>
Due to other banks	-	-	1 510	-	-	-	-	-	<b>1 510</b>
Customer accounts	342	22	2 261	254	57	-	174	485	<b>3 110</b>
Promissory notes issued	-	-	-	-	50	-	-	50	<b>50</b>

The outstanding balances as at 31 December 2005 with related parties were as follows:

	Beneficiaries	Directors and key management	MDM Financial Group	Other related parties				Total	Total
				EuroChem	SUEK	TMK	Other		
Cash and cash equivalents	-	-	3	-	-	-	-	-	<b>3</b>
Due from other banks	-	-	527	-	-	-	-	-	<b>527</b>
Trading securities	-	-	-	-	1	37	-	38	<b>38</b>
Loans and advances to customers (gross)	-	91	-	-	1 374	932	-	2 306	<b>2 397</b>
Loan impairment	-	-	-	-	(27)	(18)	-	(45)	<b>(45)</b>
Due to other banks	-	-	1 324	-	-	-	-	-	<b>1 324</b>
Customer accounts	400	15	2 276	88	398	-	49	535	<b>3 226</b>
Promissory notes issued	-	-	-	-	50	-	-	50	<b>50</b>
Credit related commitments	-	-	-	-	-	127	-	127	<b>127</b>
Provision for credit related commitments	-	-	-	-	-	(1)	-	(1)	<b>(1)</b>

**MDM-BANK****Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended 31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

**10 Related Party Transactions (Continued)**

The results of transactions with related parties for the three-month period ended 31 March 2006 are as follows:

	Beneficiaries Unaudited	Directors and key management Unaudited	MDM Financial Group Unaudited	Other related parties					Total Unaudited
				EuroChem Unaudited	SUEK Unaudited	TMK Unaudited	Other Unaudited	Total Unaudited	
Interest income on due from other banks	-	-	12	-	-	-	-	-	<b>12</b>
Interest income on loans and advances to customers	-	2	52	-	36	20	25	81	<b>135</b>
Interest income received from securities issued by related parties	-	-	-	-	-	1	-	1	<b>1</b>
Interest expense on due to other banks	-	-	(12)	-	-	-	-	-	<b>(12)</b>
Interest expense on customer accounts	(6)	-	(24)	-	-	-	(3)	(3)	<b>(33)</b>
Loan impairment reversal/(losses)	-	-	(85)	-	19	6	(57)	(32)	<b>(117)</b>
Net fee and commission income	-	-	10	-	2	-	-	2	<b>12</b>
Other income	-	-	2	-	-	-	-	-	<b>2</b>
Operating expenses	-	(145)	-	-	(11)	-	-	(11)	<b>(156)</b>

**MDM-BANK**

**Notes to the Interim Consolidated Condensed Financial Statements for the Three-Month Period Ended  
31 March 2006**

(expressed in millions of Russian Roubles – refer to Note 3)

---

**11 Subsequent Events**

In May 2006, MDM-BANK, has originated a USD 300 000 thousand syndicated trade-related term loan facility maturing in May 2007. The facility has an interest rate of LIBOR plus 0.8% per annum.

**MDM-BANK****Supplementary Interim Consolidated Financial Information - Interim Consolidated Condensed Balance Sheet  
as at 31 March 2006 in US Dollars***(\*expressed in thousands of US Dollars – refer to Note 3)*

	<b>31 March 2006 Unaudited</b>	<b>31 December 2005</b>
<b>Assets</b>		
Cash and cash equivalents	539 121	1 129 078
Mandatory cash balances with central banks	116 556	77 112
Due from other banks	220 338	227 972
Trading securities	271 958	239 719
Loans and advances to customers	3 592 088	2 892 861
Other financial instruments at fair value through profit or loss	83 500	89 473
Assets pledged under sale and repurchase agreements	125 684	123 323
Current income tax prepayments	40 979	20 532
Other assets	47 386	36 417
Premises and equipment	162 377	162 812
<b>Total assets</b>	<b>5 199 987</b>	<b>4 999 299</b>
<b>Liabilities</b>		
Due to other banks	1 100 471	1 193 302
Customer accounts	1 922 529	2 016 128
Debt securities in issue	1 138 392	817 006
Current income tax payable	999	545
Other liabilities	122 569	52 252
Deferred tax liability	29 728	37 616
<b>Total liabilities</b>	<b>4 314 688</b>	<b>4 116 849</b>
<b>Equity</b>		
Share capital	62 549	62 549
Share premium	345 343	345 343
Revaluation reserve for premises and equipment	70 033	70 033
Cumulative translation reserve	(2 010)	(1 497)
Retained earnings	409 384	393 913
Total equity attributable to equity holders of the parent	885 299	870 341
Minority interest	-	12 109
<b>Total equity</b>	<b>885 299</b>	<b>882 450</b>
<b>Total liabilities and equity</b>	<b>5 199 987</b>	<b>4 999 299</b>

\*The US Dollar figures are provided for information purposes only and do not form part of the interim consolidated condensed financial statements for the three-month period ended 31 March 2006 – refer to note 3(e).

**MDM-BANK****Supplementary Interim Consolidated Financial Information – Interim Consolidated Condensed Statement of Income for the Three-Month Period Ended 31 March 2006 in US Dollars***(\*expressed in thousands of US Dollars – refer to Note 3)*

	<b>Three-Month Period Ended 31 March 2006 Unaudited</b>
Interest income	119 584
Interest expense	(46 875)
<b>Net interest income</b>	<b>72 709</b>
Loan impairment losses	(3 860)
<b>Net interest income after loan impairment</b>	<b>68 849</b>
Gains less losses arising from trading in securities	810
Gains less losses arising from trading in foreign currencies	(10 743)
Gains less losses arising from trading in precious metals	845
Foreign exchange translation gains less losses	18 602
Fee and commission income	12 131
Fee and commission expense	(5 560)
Gains less losses from other financial instruments at fair value through profit or loss	(2 016)
Reversal of provision for losses on credit related commitments	801
Impairment of other assets	(836)
Other operating results	744
<b>Operating income</b>	<b>83 627</b>
Operating expenses	(47 517)
<b>Profit before taxation</b>	<b>36 110</b>
Income tax expense	(10 291)
<b>Profit for the period</b>	<b>25 819</b>
<b>Attributable to:</b>	
Equity holders of the parent	25 551
Minority interest	268
<b>Earnings per share</b>	
Ordinary shares (number of shares)	2 149 950
Earnings per ordinary share (USD)	11.9

\*The US Dollar figures are provided for information purposes only and do not form part of the interim consolidated condensed financial statements for the three-month period ended 31 March 2006 – refer to note 3(e).