MDM Bank

Consolidated Financial Statements
For the Year Ended 31 December 2006

Audited by KPMG. See separate report.

Contents

Independent Auditor's Report

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

Notes to the Consolidated Financial Statements

1 Organisation of the Group and its Principal Activities....5
2 Operating Environment of the Group....6
3 Basis of Preparation....7
4 Significant Accounting Policies....8
5 Cash and Cash Equivalents....26
6 Due from Other Banks....26
7 Trading Securities....27
8 Derivative Financial Instruments....29
9 Other Financial Instruments at Fair Value through Profit or Loss....33
10 Loans and Advances to Customers....34
11 Other Assets....42
12 Premises and Equipment....43
13 Due to Other Banks....45
14 Customer Accounts....46
15 Debt Securities in Issue....47
16 Subordinated Debt....49
17 Other Liabilities....49
18 Share Capital....49
19 Interest Income and Expense....50
20 Gains less Losses from Foreign Exchange....51
21 Fee and Commission Income and Expense....51
22 Operating Expenses....51
23 Income Taxes....52
24 Analysis by Segment....55
25 Financial Risk Management....57
26 Contingent Liabilities and Commitments....78
27 Fair Value of Financial Instruments....80
28 Related Party Transactions....81
29 Principal Subsidiaries....93
30 Changes in the Composition of the Group....94
31 Subsequent Events....94

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Independent Auditor's Report

To the Shareholders
Joint-Stock Commercial Bank "Moscow Business World" (joint-stock company) (MDM-BANK)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MDM-BANK and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated 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 consolidated 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 misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.

Opinion

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

ZAO KPMG

ZAO KPMG
2 April 2007

MDM Bank
Consolidated Balance Sheet as at 31 December 2006
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	31 December 2006	31 December 2005
Assets			
Cash and cash equivalents	5	32 642	31 346
Mandatory cash balances with central banks		4 030	2 141
Due from other banks	6	13 201	6 329
Trading securities			
- owned by the Group	7	13 510	6 655
- pledged under sale and repurchase agreements	7	3 624	3 209
Derivative financial instruments	8	255	33
Other financial instruments at fair value through profit or loss	9	1 404	2 484
Loans and advances to customers	10	166 875	80 313
Current income tax prepayments		377	570
Other assets	11	2 761	1 193
Premises and equipment	12	4 443	4 520
Total assets		**243 122**	**138 793**
Liabilities			
Due to other banks	13	60 872	33 129
Trading liabilities		229	-
Derivative financial instruments	8	667	19
Customer accounts	14	92 805	55 973
Debt securities in issue	15	52 870	22 682
Subordinated debt	16	5 452	-
Other liabilities	17	2 251	1 447
Deferred tax liability	23	652	1 044
Total liabilities		**215 798**	**114 294**
Equity			
Share capital	18	1 736	1 736
Share premium		9 588	9 588
Revaluation reserve for premises and equipment		1 942	1 944
Cumulative translation reserve		(21)	(41)
Retained earnings		14 079	10 936
Total equity attributable to equity holders of the parent		27 324	24 163
Minority interest		-	336
Total equity		**27 324**	**24 499**
Total liabilities and equity		**243 122**	**138 793**

The consolidated financial statements are approved for issue by the Management Board of MDM Bank and signed on its behalf on 2 April 2007.

Michel Perhirin
Chairman of the Management Board

Andrey Ilyin
Deputy Chairman of the Management Board

Consolidated Statement of Income for the Year Ended 31 December 2006
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	2006	2005
Interest income	19	17 326	11 199
Interest expense	19	(7 269)	(4 203)
Net interest income		**10 057**	**6 996**
Loan impairment losses	10	(1 741)	(313)
Net interest income after loan impairment losses		**8 316**	**6 683**
Gains less losses from trading in securities		457	604
Gains less losses from trading in precious metals		50	53
Gains less losses from foreign exchange	20	1 083	745
Other trading result		(100)	-
Fee and commission income	21	1 943	1 526
Fee and commission expense	21	(634)	(990)
Gains less losses from other financial instruments at fair value through profit or loss	9	(102)	81
Reversal of/(Charge to) provision for losses on credit related commitments	26	13	(30)
Other assets impairment losses	11	(2)	-
Other operating income		293	352
Operating income		**11 317**	**9 024**
Operating expenses	22	(6 715)	(4 705)
Result on disposal of premises		(39)	-
Profit before taxation		**4 563**	**4 319**
Income tax expense	23	(1 243)	(1 091)
Profit for the year		**3 320**	**3 228**
Attributable to			
Equity holders of the parent		3 313	3 151
Minority interest		7	77

MDM Bank
Consolidated Statement of Cash Flows for the Year Ended 31 December 2006
(expressed in millions of Russian Roubles – refer to Note 3)

	Note	2006	2005
Cash flows from operating activities			
Interest received		17 125	11 010
Interest paid		(6 350)	(3 894)
Gains from trading in securities		344	235
Gains from trading in foreign currencies		151	618
Gains from trading in precious metals		46	70
Dividends received		28	49
Commissions received		1 920	1 552
Commissions paid		(631)	(1 127)
Other operating income received		292	302
Operating expenses paid		(5 911)	(4 296)
Income tax paid		(1 458)	(4 577)
Operating profit before changes in operating assets and liabilities		**5 556**	**(58)**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(1 966)	(73)
Net decrease in short-term deposits with central banks		-	45 000
Net (increase)/decrease in due from other banks		(6 995)	9 671
Net increase in trading securities		(4 421)	(1 948)
Net decrease/(increase) in other financial instruments at fair value through profit or loss	9	690	(2 075)
Net increase in loans and advances to customers		(90 230)	(8 316)
Net increase in due to other banks		25 924	5 489
Net decrease in the current account of the Russian Government judiciary agency		-	(58 256)
Net increase in other customer accounts		40 714	8 557
Net increase in promissory notes issued and deposit certificates		1 288	1 017
Net (increase)/decrease in other assets less other liabilities		(3 629)	411
Net cash used in operating activities		**(33 069)**	**(581)**
Cash flows from investing activities			
Acquisition of subsidiaries		(743)	-
Purchase of premises and equipment	12	(247)	(375)
Proceeds from sale of premises and equipment		143	217
Net cash used in investing activities		**(847)**	**(158)**
Cash flows from financing activities			
Subordinated debt issued		5 258	-
Loan participation notes and bonds issued		39 210	8 623
Loan participation notes repaid		(8 024)	(6 867)
Net cash from financing activities		**36 444**	**1 756**
Effect of exchange rate changes on cash and cash equivalents		(1 232)	303
Net increase in cash and cash equivalents		**1 296**	**1 320**
Cash and cash equivalents at the beginning of the year		31 346	30 026
Cash and cash equivalents at the end of the year	5	**32 642**	**31 346**

MDM Bank
Consolidated Statement of Changes in Equity for Year Ended 31 December 2006
(expressed in millions of Russian Roubles – refer to Note 3)

	Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises and equipment	Cumulative translation reserve	Retained earnings	Total		
Balance as at 1 January 2005	**1 736**	**9 588**	**680**	**14**	**7 785**	**19 803**	**291**	**20 094**
Profit for the year	-	-	-	-	3 151	**3 151**	**77**	**3 228**
Revaluation of premises, net (Note 12)	-	-	1 264	-	-	**1 264**	**-**	**1 264**
Currency translation differences	-	-	-	(55)	-	**(55)**	**(32)**	**(87)**
Total income and expense for the year	**-**	**-**	**1 264**	**(55)**	**3 151**	**4 360**	**45**	**4 405**
Balance as at 31 December 2005	**1 736**	**9 588**	**1 944**	**(41)**	**10 936**	**24 163**	**336**	**24 499**
Balance as at 1 January 2006	**1 736**	**9 588**	**1 944**	**(41)**	**10 936**	**24 163**	**336**	**24 499**
Profit for the year	-	-	-	-	3 313	**3 313**	**7**	**3 320**
Revaluation of premises, net (Note 12)	-	-	79	-	-	**79**	**-**	**79**
Currency translation differences	-	-	-	20	-	**20**	**(3)**	**17**
Total income and expense for the year	**-**	**-**	**79**	**20**	**3 313**	**3 412**	**4**	**3 416**
Acquisitions of minority interest of subsidiaries (Note 30)	-	-	-	-	(280)	**(280)**	**(340)**	**(620)**
Acquisition of subsidiaries (Note 30)	-	-	-	-	29	**29**	**-**	**29**
Disposal of premises		-	(81)	-	81	**-**	**-**	**-**
Balance as at 31 December 2006	**1 736**	**9 588**	**1 942**	**(21)**	**14 079**	**27 324**	**-**	**27 324**

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

1 Organisation of the Group and its Principal Activities

These consolidated financial statements include the financial statements of Joint-Stock Commercial Bank ''Moscow Business World'' (joint-stock company) (the "Parent company", or the "Bank", or "MDM-BANK", or "MDM Bank") and its subsidiaries. The parent company and its subsidiaries are hereinafter, collectively, is 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 consolidated financial statements, the management of the Group, collectively, is referred to as "Management".

As at 31 December 2006, the Group operates a total of two banks, one in the Russian Federation and one in Latvia, securities trading and asset management companies and a leasing company. It also owns and operates a real estate company which owns and maintains the majority of the Group's premises used in operating activities.

MDM Bank, the parent company and the lead operating entity of the Group, 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. The Bank also has broker and dealer licenses issued by the Russian Federal Financial Markets Service.

MDM Bank is a member of the state deposit insurance scheme in the Russian Federation.

The Group operates in three main business areas: Corporate banking, Retail banking, and Investment banking and financial markets. Refer to Note 24.

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

		31 December 2006		**31 December 2005**	
Name of the bank	**Registered office**	**Number of branches**	**Number of employees**	**Number of branches**	**Number of employees**
MDM Bank	Kotelnicheskaya nab., 33, Moscow, Russia	34	4 359	34	4 272
Latvian Trade Bank	Grecinieku iela, 4, Riga, LV-1048, Latvia	-	62	1	60
Total		**34**	**4 421**	**35**	**4 332**

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.

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

Changes in the composition of the Group during the years ended 31 December 2006 and 31 December 2005 are presented in Note 30.

As at 31 December 2006, the Bank's parent company is OOO Banking Holding MDM. OOO Banking Holding MDM is a 100% subsidiary of MDM Holding AG, the parent company of MDM Financial Group. Financial statements of MDM Financial Group are publicly available.

As at 31 December 2006, MDM Holding AG, 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").

In December 2006, the Group announced that, subject to all relevant regulatory approvals being obtained, an agreement had been reached between the ultimate beneficiaries whereby Mr. Sergey Popov will become the majority beneficial shareholder in the Group, owning a 90% interest, the remaining 10% interest will be owned by Mr. Martin Andersson, a member of MDM Bank's Strategy Committee.

Refer to Note 28 for information on related party transactions.

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

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

3 Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

These consolidated 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 and available-for-sale financial instruments are stated at fair value, and certain classes of premises and equipment are stated at revalued amounts.

(c) Presentation currency

These consolidated financial statements are presented in Russian Roubles ("RUR"), which is the functional currency of the Bank and the majority of the Group's subsidiaries. Except as indicated, financial information presented has been rounded to the nearest million.

(d) Use of estimates and judgements

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

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

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

- Note 4 (l) "Significant accounting policies" and Note 10 (b) "Loans and advances to customers" in respect of loan impairment allowance.
- Note 8 "Derivative financial instruments" and Note 9 "Other financial instruments at fair value through profit or loss" in respect of valuation of complex derivative products.
- Note 12 "Premises and equipment" in respect of valuation of premises.
- Note 26 (b) "Contingent liabilities and commitments" in respect of tax contingencies.

4 Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of these financial statements. The accounting policies have been consistently applied. Changes in accounting policies as a result of revised accounting standards which have been applied retrospectively are described at the end of this Note.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent company. Control exists when the Parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Parent company controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which that control commences until the date it ceases.

Special purpose entities ("SPEs") are entities which are created to accomplish a narrow and well-defined objective, such as the execution of a specific borrowing transaction. The financial statements of SPEs are included in the consolidated financial statements when the substance of relationship between the Group and the SPE indicates that the SPE is controlled by the Group, even if the Group does not have any direct or indirect shareholdings in the entity.

Intra-group transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Minority interest

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

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

If losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the subsidiary's equity, the excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

(iii) Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the consolidated statement of income.

4 Significant Accounting Policies (Continued)

(iv) Acquisitions from entities under common control

The assets and liabilities acquired as a result of acquisition of controlling interest in the entity that is under control of the beneficiaries of the Group are recognised at their carrying amounts, as recognised in the individual financial statements of the subsidiary acquired. The difference between the consideration paid for the acquisition and the carrying value of net assets acquired is recognised directly in equity attributable to equity holders of the parent.

(v) Acquisition and disposal of minority interests

Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised directly in the equity attributable to equity holders of the parent.

Any difference between the consideration received upon disposal of minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary is recognised directly in the equity attributable to equity holders of the parent.

(vi) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates, from the date that significant influence effectively commences until the date that significant influence effectively ceases. the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of income, and the Group's share of changes recognised directly in the associates' equity is recognised directly in the Group's equity and is disclosed in the statement of changes in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group's carrying amount is reduced to nil and the Group does not recognise further losses unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of impairment.

(b) Functional 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 the Parent company, 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 assets and liabilities of foreign operations are translated to RUR at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to RUR at foreign exchange rates ruling at the dates of the transactions.

4 Significant Accounting Policies (Continued)

Foreign exchange differences arising on translation of foreign group companies are recognised directly in a separate component of equity as cumulative translation reserve. They are released into the consolidated statement of income upon disposal.

(c) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the relevant group entity at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary assets or liabilities is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on retranslation are recognised in the consolidated statement of income, except for differences arising on retranslation on available-for-sale equity instruments, which are recognised directly in equity.

Foreign exchange rates, as at 31 December 2006, are RUR 26.3311 to USD 1 and RUR 34.6965 to EUR 1 for US Dollars and Euros, respectively (31 December 2005: RUR 28.7825 to USD 1 and RUR 34.185 to 1 EUR for US Dollars and Euros, respectively).

(d) Accounting for the effects of hyperinflation

In periods prior to 1 January 2003 the Russian Federation experienced relatively high levels of inflation and was considered to be a hyperinflationary economy as defined by International Financial Reporting Standard IAS 29 “Financial Reporting in Hyperinflationary Economies”.

As from 1 January 2003, the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Group’s assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

(e) Financial assets and liabilities

(i) Classification of financial instruments

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and financial instruments designated at fair value through profit or loss at initial recognition.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

4 Significant Accounting Policies (Continued)

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition. Financial instruments at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, and derivative financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which are classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and receivables include due from other banks, including central banks, loans and advances to customers, and other receivables.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

Financial liabilities, which are not financial liabilities at fair value through profit or loss or financial guarantee liabilities, include debt securities in issue, due to other banks, customer accounts, other borrowed funds, subordinated debt and other payables. Debt securities in issue include promissory notes, certificates of deposit, loan participation notes and bonds issued by the Group.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

(ii) Recognition

The Group initially recognises loans and advances, deposits, and debt securities issued on the date they are originated. All other financial assets and liabilities are initially recognised on trade date at which the Group becomes a party to the contractual provisions of the instrument.

(iii) Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts (excluding future credit losses) through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability, except that future credit losses are not considered when estimating those cash receipts. The effective interest rate is established on initial recognition of the financial asset and liability and is not subsequently revised.

4 Significant Accounting Policies (Continued)

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are, wherever possible, determined by reference to an active market bid price (for financial assets) or offer price (for financial liabilities). Where an active market price is not available, fair value is determined using valuation techniques that make maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different income or expense, total assets or total liabilities.

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

(v) Measurement of financial instruments

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

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated statement of income. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

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

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

4 Significant Accounting Policies (Continued)

Financial liabilities at fair value through profit or loss are measured at their fair value. Financial liabilities, other than financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured subsequent to initial recognition at amortised cost using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and are recognised in the consolidated statement of income over the period of the instrument using the effective interest method.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income/expense within the consolidated statement of income using the effective interest method.

(vi) Gains and losses on subsequent measurement

All gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise.

Interest income in relation to an available-for-sale financial asset is recognised as earned in the consolidated statement of income using the effective interest method. Dividend income in relation to an available-for-sale financial asset is recognised in the consolidated statement of income on the date when the dividend is declared. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of income. Other changes in fair value of available-for-sale financial assets are recognised directly in equity until the asset is sold or impaired. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income.

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

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

4 Significant Accounting Policies (Continued)

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(viii) Offsetting

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

Income and expenses are presented on a net basis only where either the Group has set off the related assets and liabilities as described above, or for gains and losses arising from a group of similar transactions such as the Group's trading activity.

(ix) Sale and repurchase agreements

Where the Group sells/purchases financial asset and simultaneously enters into an agreement to repurchase/resell the asset at a fixed price on a future date, the arrangement is accounted for as a secured financing transaction.

Assets sold subject to sale and repurchase ("repo") agreements are continued to be recognised in the financial statements. They are reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in amounts due to other banks or to customers, as appropriate.

Assets purchased under agreements to resell ("reverse repo") are not recognised in the Group's financial statements, and corresponding amounts are recorded as due from banks or loans and advances to customers as appropriate.

The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo/reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(x) Securities lending and borrowings

Securities lent to counterparties are retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

4 Significant Accounting Policies (Continued)

(xi) Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's balance sheet.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognised in the Group's balance sheet.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the Group balance sheet.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognized if the Group has not retained control over the assets.

(xii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the consolidated statement of income.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of income. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(f) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the balance sheet.

4 Significant Accounting Policies (Continued)

Mandatory balances with central banks represent mandatory reserve deposits that are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents in the consolidated balance sheet and consolidated statement of cash flows.

(g) Precious metals

Precious metals are stated at lower of net realizable value and costs. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

Precious metals lent to counterparties are retained in the consolidated financial statements.

Precious metals borrowed are recognised in the consolidated financial statements. If the borrowed precious metals are held by the Group, the obligation to return them is recorded in the balance sheet at the carrying value of the precious metals borrowed and related accrued interest. If the borrowed precious metals are sold to third parties, the obligation to return the borrowed precious metals is recorded in the balance sheet at its fair value.

(h) Premises and equipment

Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Where an item of premises and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Subsequent expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of income as an expense as incurred.

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. A revaluation increase for an item of premises is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated statement of income, in which case it is recognised in the consolidated statement of income. A revaluation decrease for an item of premises is recognised in the consolidated statement of income except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment losses. Upon completion, assets are transferred to premises and equipment at their carrying value. 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 are recorded in the consolidated statement of income within other operating income.

4 Significant Accounting Policies (Continued)

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are capitalised and an internally generated intangible asset is recognised only if it is probable that it will generate economic benefits exceeding costs beyond one year and the development costs can be measured reliably. An internally generated intangible asset is recognised only if the Group has the technical feasibility, resources and intention to complete the development and to use the product. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Intangible assets, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

(j) Depreciation and amortisation

Depreciation/amortisation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation/amortisation is applied on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

	years
Premises	40
Fixtures and fittings	6 - 10
Office, computer and other equipment	4 - 6
Intangible assets	3 - 5

Land is not depreciated.

The assets residual values and useful lives are reviewed annually, and adjusted if appropriate.

(k) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

4 Significant Accounting Policies (Continued)

(l) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date. The Group reviews its loan portfolio to assess impairment at least on a quarterly basis.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the consolidated statement of income unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the consolidated statement of income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the consolidated statement of income is the difference between the amortised acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income.

(i) Recoverable amount

The recoverable amount of financial instruments at fair value through profit or loss and financial assets available-for-sale is their fair value. The recoverable amount of the Group's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate that is the effective interest rate computed at initial recognition of these financial assets (refer to "Impairment of financial assets" section below).

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Impairment of financial assets

A financial asset (or a group of assets) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset and that such loss event (or events) has an impact on the estimated future cash flows of the asset (or the group of assets) that can be reliably estimated.

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

4 Significant Accounting Policies (Continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

If there is objective evidence that an impairment loss on a financial asset measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the asset's original effective interest rate. Each asset individually assessed for impairment is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Department.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

The accuracy of the allowances depends on how accurately future cash flows are estimated for specific counterparty allowances and how accurately the model assumptions and parameters used in determining collective allowances predict future cash flows from loans collectively assessed for impairment.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses are recognised in the consolidated statement of income and reflected in an allowance account against financial assets.

Changes in impairment provisions attributable to time value are reflected as a component of interest income.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

4 Significant Accounting Policies (Continued)

(iii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security, a loan or a receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the consolidated statement of income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(n) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at 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. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

4 Significant Accounting Policies (Continued)

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

(o) Income taxes

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Taxation has been provided for in the consolidated financial statements in accordance with applicable legislation currently in force in the respective countries in which the Group operates. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxes, other than on income, are recorded within operating expenses.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries where the Parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are netted only within the individual entities of the Group.

(p) Income and expense recognition

(i) Interest income and expense

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only. Accrued discounts and premiums on financial assets held for trading and on other financial instruments at fair value through profit or loss are recognised in gains less losses from trading in securities and gains less losses from other financial instruments at fair value through profit or loss, respectively.

(ii) Fee and commission

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

4 Significant Accounting Policies (Continued)

Other fees, commissions and other income and expense items are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down (and are not expected to be sold shortly after recognition), are deferred (together with related direct costs) and recorded as an adjustment to the effective interest rate on the loan. Where a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees for provision of credit related commitments and other forms of financial insurance are recognised over the term of the related contract.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(iii) Other gains less losses from financial instruments

Gains less losses from trading in securities include all realised and unrealised changes in fair value of trading securities, except for coupon interest and foreign exchange differences.

Gains less losses from other financial instruments at fair value through profit or loss include all realised and unrealised changes in fair value financial instruments designated at fair value through profit or loss, except for coupon interest and foreign exchange differences.

Gains and losses from derivative financial instruments are included in gains less losses from trading in foreign currency, gains less losses from trading in securities or gains less losses from trading in precious metals depending on the nature of the contracts.

Gains and losses from cross currency interest rate swaps and forward rate agreements are included in other trading result.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

(iv) Other income and expenses

Non-interest expenses are recognised at the time the products are received or the services are provided, unless the expenses result from a constructive obligation, against which a liability and related expense are recognised in the consolidated financial statements.

(q) Pension costs

Companies within the Group which operate in the Russian Federation contribute to the Russian Federation state pension schemes, social insurance and employment funds in respect of their employees. The contributions to these funds are expensed as incurred and included within staff costs in the consolidated statement of income. The Group has no further payment obligation once the contribution has been paid.

4 Significant Accounting Policies (Continued)

(r) Leases

(i) Finance leases

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognised over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Finance income from leases is recognised as part of interest income on loans and advances to customers.

(ii) Operating leases

Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the Group's financial statements, and lease payments are recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is the lessor in a lease agreement where it does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is recognised in the Group's financial statements, and depreciation and lease income are recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

(s) Distributions to/contributions from beneficiaries

Distributions to/contributions from beneficiaries are recorded in equity in the period in which they are declared/received. Distributions to beneficiaries declared after the balance sheet date are disclosed as a subsequent event.

4 Significant Accounting Policies (Continued)

(t) Fiduciary assets

The Group provides custody, trustee, asset management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated financial statements as they are not assets of the Group. Commissions received from such business are shown as fees and commissions received in the consolidated statement of income.

(u) Segment reporting

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

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Segments whose revenue, results or assets are ten per cent or more of all the combined segments are reported separately.

(v) Changes in accounting policies

As at 1 January 2006, the Group 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, the Group adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Group may designate a financial instrument 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 consolidated financial statements of the Group.

(w) Comparative information

Certain comparative information has been reclassified to conform to changes in presentation in the current year.

Term borrowings from the Ministry of Finance of the Russian Federation of RUR 46 million, as at 31 December 2005, were presented within other borrowed funds in the consolidated financial statements of the Group for the year ended 31 December 2005. These balances were included within other liabilities in these consolidated financial statements.

Trading securities of RUR 3 209 million and precious metals of RUR 215 million pledged under sale and repurchase agreements were presented within assets pledged under sale and repurchase agreements in the consolidated financial statements of the Group for the year ended 31 December 2005. These balances are included within trading securities pledged under sale and repurchase agreements and other assets, respectively, in these consolidated financial statements.

4 Significant Accounting Policies (Continued)

Derivatives with positive fair values of RUR 33 million and derivatives with negative fair values of RUR 19 million were presented within other assets and other liabilities, respectively, in the consolidated financial statements of the Group for the year ended 31 December 2005. These balances were disclosed separately in these consolidated financial statements.

Included in gains less losses from foreign exchange for the year ended 31 December 2006 are gains less losses from trading in foreign currencies and foreign exchange translation gains less losses (Refer to Note 20). Gains less losses from trading in foreign currencies were included in gains less losses from trading activities, and foreign exchange translation gains less losses were disclosed separately in the consolidated financial statements for the year ended 31 December 2005. Management believes that the revised presentation results in more appropriate presentation of gains less losses from foreign exchange.

In prior periods, the Group 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 reportable business segments. The Group also identified as a reportable segment a Central treasury segment, which undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements. In addition, the Group has redefined the segment allocation of certain assets and liabilities and income and expenses. Corresponding figures shown in these consolidated financial statements have been restated.

(x) New Standards and Interpretations not yet adopted

The following new Standards and Interpretations, that are relevant to operations of the Group, are not yet effective and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group has not yet fully analysed the likely impact of these new standards on its consolidated financial statements.

The amendment to International Financial Reporting Standard IAS 1 "Presentation of Financial Statements", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements for the entity's objectives, policies and processes for managing capital, including, when an entity is subject to externally imposed capital requirements, the nature of these requirements and how these requirements are incorporated into the management of capital. The Group is currently subject to externally imposed capital requirements in relation to its debt securities issued, and the banks in the Group are subject to capital requirements imposed by the regulatory authorities.

IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements regarding the significance of financial instruments to the entity's financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments. The Standard supersedes International Financial Reporting Standard IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements in International Financial Reporting Standard IAS 32 "Financial Instruments: Presentation and Disclosure". A large portion of existing disclosure requirements in International Financial Reporting Standard IAS 32 "Financial Instruments: Presentation and Disclosure" is transferred to the new Standard. The title of International Financial Reporting Standard IAS 32 is amended to IAS 32 "Financial Instruments: Presentation". Operations with financial instruments and management of risks arising from financial instruments is fundamental to the business of the Group and is an essential element of the Group's operations.

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

4 Significant Accounting Policies (Continued)

IFRS 8 "Operating Segments", which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 "Operating Segments" will replace International Financial Reporting Standard IAS 14 "Segment Reporting".

5 Cash and Cash Equivalents

	31 December 2006	31 December 2005
Cash on hand	3 418	3 901
Correspondent accounts with central banks	3 749	2 955
Correspondent accounts and overnight deposits with other banks	25 475	24 490
Total cash and cash equivalents	**32 642**	**31 346**

As at 31 December 2006, the Group has one counterparty with aggregated balances on correspondent accounts and overnight deposits greater than 10% of equity (31 December 2005: one counterparty). The total aggregate amount of these balances was RUR 8 010 million or 25% of total cash and cash equivalents, as at 31 December 2006 (31 December 2005: RUR 5 615 million or 18% of total cash and cash equivalents).

In November 2006, the Group issued loan participation notes of USD 200 million and EUR 225 million secured by the Group's diversified payment rights ("DPR"), i.e. its rights to funds being transferred to the Group's USD and EUR correspondent accounts. As at 31 December 2006, the carrying amount of these notes was RUR 13 042 million. Refer to Note 15.

Geographical and currency analysis of cash and cash equivalents is disclosed in Note 25.

6 Due from Other Banks

	31 December 2006	31 December 2005
Current interbank loans	7 461	5 651
Reverse sale and repurchase agreements	5 740	678
Due from other banks	**13 201**	**6 329**

As at 31 December 2006, the Group has one counterparty with aggregated balances greater than 10% of equity (31 December 2005: nil). The total aggregate amount of these balances was RUR 4 072 million or 31% of due from other banks balances, as at 31 December 2006. This balance comprises amounts due under a reverse sale and repurchase agreement between MDM Bank and a large international bank, which are pledged as collateral for a term deposit received by one of the Group's subsidiaries from the same bank. Refer to Note 13.

Included in due from other banks balances, as at 31 December 2006, are loans to an international bank of RUR 951 million pledged as collateral for interest and principal repayments in respect of loan participation notes secured by diversified payment rights. Refer to Note 15.

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

6 Due from Other Banks (Continued)

Securities received as collateral under reverse sale and repurchase agreements are marketable corporate bonds and equity securities. The following table presents information about the fair value of these securities:

	31 December 2006	31 December 2005
Held by the Group	5 752	835
Pledged under sale and repurchase agreements (Notes 10, 13 and 14)	369	-
Securities received as collateral under reverse sale and repurchase agreements	**6 121**	**835**

Geographical and currency analysis, effective interest rates and maturity structure of due from other banks are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

7 Trading Securities

	31 December 2006	31 December 2005
- Owned by the Group		
Government bonds		
Russian Federation Eurobonds	191	-
Municipal bonds issued by Russian municipalities	138	399
Russian Federal loan bonds (OFZ)	9	2
VneshEconomBank (VEB) 3% coupon bonds ("MinFin bonds")	1	1
Corporate debt and equity securities		
Corporate bonds	9 242	4 303
Promissory notes	1 751	1 753
Corporate shares	2 178	197
Total trading securities owned by the Group	**13 510**	**6 655**
- Pledged under sale and repurchase agreements		
Government bonds		
Russian Federal loan bonds (OFZ)	1 159	-
Corporate debt and equity securities		
Corporate bonds	2 465	3 209
Total trading securities pledged under sale and repurchase agreements	**3 624**	**3 209**
Total trading securities	**17 134**	**9 864**

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

7 Trading Securities (Continued)

Russian Federation Eurobonds are securities issued by the Government of the Russian Federation denominated in US Dollars.

Municipal bonds are securities issued by Russian municipalities denominated in Russian Roubles. As at 31 December 2005, municipal bonds of RUR 120 million were pledged with the Central Bank of the Russian Federation as collateral for overnight deposits.

Russian Federal loan bonds (OFZ) are securities issued by the Government of the Russian Federation denominated in Russian Roubles.

VEB bonds are US dollar denominated bearer securities, which carry the guarantee of the Ministry of Finance of the Russian Federation, and are commonly referred to as "MinFin bonds".

Corporate bonds are interest-bearing securities, issued by Russian companies. The majority of corporate bonds are freely tradable in the Russian and foreign securities markets.

Promissory notes are discounted debt securities of Russian companies denominated in Russian Roubles.

The majority of corporate shares are shares of Russian companies traded in the Moscow Interbank Currency Exchange (MICEX) or the Russian Trading System (RTS).

The following table provides details of the Group's debt trading securities as at 31 December 2006:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	**Maximum**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Russian Federation Eurobonds	June 2028	June 2028	12.8%	12.8%	6.1%	6.1%
Municipal bonds issued by Russian municipalities	May 2007	June 2015	7.6%	10.0%	6.1%	7.5%
Russian Federal loan bonds (OFZ)	January 2011	February 2036	6.1%	9.0%	6.3%	6.8%
VneshEconomBank (VEB) 3% coupon bonds ("MinFin bonds")	November 2007	November 2007	3.0%	3.0%	5.6%	5.6%
Corporate bonds denominated in Russian Roubles	February 2007	June 2018	6.2%	15.5%	5.7%	13.7%
Corporate bonds denominated in USD	January 2007	December 2015	7.1%	12.0%	5.4%	10.9%
Promissory notes	January 2007	November 2007	-	-	3.0%	11.7%

Included in corporate bonds, as at 31 December 2006, are credit-linked leveraged notes issued by a major international bank of RUR 27 million, the repayment amount of which is linked to the market price of a certain bond issued by a Russian entity. The maximum losses of the Group under these credit-linked leveraged notes are limited to the amount of the Group's investments in the notes.

Geographical and currency analysis, effective interest rates and maturity structure of trading securities are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

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

8 Derivative Financial Instruments

The fair values of derivative instruments held are set out in the following table:

	31 December 2006			31 December 2005		
	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Contract/ notional amount	Fair values Assets	Fair values Liabilities
Foreign exchange derivative contracts						
- currency spot transactions	20 385	6	(20)	13 663	11	(5)
- currency forwards	21 847	31	(352)	9 752	20	(13)
- currency futures	6 106	-	-	8 083	-	-
Precious metals derivative contracts						
- precious metals forwards	123	4	-	101	-	(1)
Securities derivative contracts						
- securities forwards	1 551	155	(27)	169	2	-
- written securities put options	527	-	-	288	-	-
Other derivative contracts						
- cross currency interest rate swaps	2 375	59	-	-	-	-
- forward rate agreements	790	-	-	-	-	-
- balance guaranteed cross currency interest rate swaps	10 262	-	(268)	-	-	-
Total recognised derivative assets/(liabilities)		**255**	**(667)**		**33**	**(19)**

All derivatives are recognised at fair value, with changes in fair value being immediately recognised in the statement of income. Derivatives with positive fair values are recorded within assets, while derivatives with negative fair values are included in liabilities.

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions or exchange traded. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (positive fair value) or unfavourable (negative fair value) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

Currency spot transactions are regular way foreign exchange contracts, which are settled within two working days after a trade date.

Currency, precious metal and securities forwards are over-the-counter contracts which establish terms and conditions of a deal which is settled at a future date.

Currency futures are exchange traded contracts which establish terms and conditions of a deal which is settled at a future date.

8 Derivative Financial Instruments (Continued)

Written securities put options are put options expiring in January 2007 and in March 2007 written by the Group to a major international bank in respect of bonds issued by Russian entities with a total nominal amount of USD 20 million, or RUR 527 million. As at 31 December 2006, the market price of the underlying bonds was significantly above the exercise price. Further, the Group has the right to terminate the options before maturity under certain conditions. Based on these facts, Management of the Group estimates that, as at 31 December 2006, the fair value of the related liability is nil (31 December 2005: nil).

Cross currency interest rate swaps are over-the-counter contracts whereby one party swaps principal and interest payments in one currency determined using a fixed or floating interest rate for principal and interest payments in other currency determined using a fixed or floating interest rate.

Forward rate agreements are over-the-counter contracts whereby parties agree on the level of the interest rate to be used at a future date to determine interest payments to be paid or received.

Balance guaranteed cross currency interest rate swaps are swap agreements with major international banks, in which the Group entered as a part of its car loans securitisation transaction. Under the terms of the swap agreements all RUR or USD denominated fixed rate amounts received by the Group from car loans pledged as collateral under its loan participation notes are swapped for USD floating rate amounts which are then used for repayment of the loan participation notes. Refer to Note 15.

Derivatives which are embedded in financial instruments measured at fair value through profit or loss are not included in the above table. These derivatives comprise credit derivatives embedded into first to default credit-linked notes of RUR 1 404 million included within other financial instruments through profit or loss (Refer to Note 9) and credit derivatives embedded into credit-linked leveraged notes of RUR 27 million included in trading securities (Refer to Note 7), as at 31 December 2006. The maximum losses of the Group in respect of these embedded derivatives are limited to the carrying value of the related financial instruments.

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

8 Derivative Financial Instruments (Continued)

Maturity, fair value and weighted average exchange rate breakdowns for forward and future currency contracts as at 31 December 2006 are set out in the following table:

	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Forwards				
Buy USD sell RUR				
Less than three months	11 249	27.08	8	(322)
Buy RUR sell USD				
Less than three months	4 304	26.40	13	(3)
Buy EUR sell USD				
Less than three months	789	1.32	1	-
Buy USD sell EUR				
Less than three months	1 091	1.31	-	(5)
Buy GBP sell USD				
Less than three months	797	1.96	2	-
Buy USD sell GBP				
Less than three months	567	1.96	-	(3)
Buy USD sell JPY				
Less than three months	610	118.41	2	-
Buy USD sell CAD				
Less than three months	470	1.16	2	-
Buy CAD sell USD				
Less than three months	472	1.16	-	(2)
Buy USD sell LVL				
Between three months and one year	325	1.82	-	(12)
Buy EUR sell LVL				
Between three months and one year	537	1.42	1	-
Buy GBP sell JPY				
Less than three months	259	232.34	2	-
Other				
Less than three months	377	-	-	(5)
Futures				
Buy USD sell RUR				
Less than three months	1 976	26.79	-	-
Between three months and one year	1 054	26.53	-	-
Buy RUR sell USD				
Less than three months	2 015	26.86	-	-
Between three months and one year	1 061	26.53	-	-
Total	**27 953**		**31**	**(352)**

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

8 Derivative Financial Instruments (Continued)

Maturity, fair value and weighted average exchange rate breakdowns for forward and future currency contracts as at 31 December 2005 are set out in the following table:

	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Forwards				
Buy USD sell RUR				
Less than three months	2 123	28.81	4	(4)
Between three months and one year	1 302	28.98	-	(3)
Buy RUR sell USD				
Less than three months	3 504	28.85	8	(3)
Between three months and one year	578	28.88	1	-
Buy EUR sell USD				
Less than three months	720	1.19	2	-
Buy USD sell EUR				
Less than three months	119	1.18	-	(1)
Buy GBP sell USD				
Less than three months	696	1.73	-	(2)
Buy USD sell GBP				
Less than three months	701	1.74	5	-
Other				
Less than three months	9	-	-	-
Futures				
Buy USD sell RUR				
Less than three months	6 583	28.81	-	-
Between three months and one year	432	28.83	-	-
Buy RUR sell USD				
Less than three months	635	28.84	-	-
Between three months and one year	433	28.90	-	-
Total	**17 835**		**20**	**(13)**

Geographical, currency analysis and maturity structure of derivative financial instruments are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

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

9 Other Financial Instruments at Fair Value through Profit or Loss

	31 December 2006	31 December 2005
First to default credit-linked notes	1 404	2 484
Total other financial instruments at fair value through profit or loss	**1 404**	**2 484**

First to default credit-linked notes are USD denominated fixed coupon notes issued by a major international bank, repayment of which is dependent on certain government, municipal and corporate bonds being repaid by their issuers in full (the "reference bonds"). In case of default of any of the reference bonds, the major international bank has the right to transfer defaulted bonds to the Group with a nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group under these notes.

Included in first to default credit-linked notes as at 31 December 2006 are first to default credit-linked notes with a nominal amount of USD 50 million, or RUR 1 317 million, a coupon rate of 15.5% per annum and a maturity date of 6 May 2008 (31 December 2005: first to default credit-linked notes with a nominal amount of USD 25 million, or RUR 720 million, a coupon rate of 15.6% per annum and a maturity date of 5 March 2008 and first to default credit-linked notes with a nominal amount of USD 50 million, or RUR 1 439 million, a coupon rate of 15.5% per annum and a maturity date of 6 May 2008).

The issuers of the reference bonds are as follows:

Types of issuers	31 December 2006		31 December 2005	
	Number of issuers	Range of international credit ratings of the issuers as at 31 December 2006	Number of issuers	Range of international credit ratings of the issuers as at 31 December 2005
Governments	5	B1-Aaa	5	B1-A2
Municipal authorities	1	Baa1	1	Baa3
Corporate companies	8	Ba3-A3	8	B1-Baa3
Financial institutions	7	Baa2-Aa1	10	Ba1-Aa1

These instruments were priced using a valuation technique which is based on estimated probabilities of default for the reference bonds. Statistical methods used in this valuation technique are commonly used by market participants for valuation of first to default credit-linked notes. Observable market data on yields to maturity for debt securities of the issuers of the reference bonds has been used as an input for the valuation model. The valuation technique used by the Group has demonstrated to provide reliable estimates of prices for first to default credit-linked notes obtained in actual market transactions or quotes obtained for these instruments from major market participants.

The Group disposed of its investments in first to default credit-linked notes in January 2007. Refer to Note 31.

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

9 Other Financial Instruments at Fair Value through Profit or Loss (Continued)

The movement in other financial instruments at fair value through profit or loss for the year ended 31 December 2006 is as follows:

	2006	2005
Other financial instruments at fair value through profit or loss as at 1 January	**2 484**	**-**
Acquisition of instruments	-	2 075
Interest income accrued	291	245
Interest coupon received	(385)	-
Disposal of instruments	(690)	-
Gains less losses from changes in fair value	(102)	81
Effect of foreign currency translation	(194)	83
Other financial instruments at fair value through profit or loss as at 31 December	**1 404**	**2 484**

Geographical and currency analysis, effective interest rates and maturity structure of other financial instruments at fair value through profit or loss are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

10 Loans and Advances to Customers

	31 December 2006	31 December 2005
Loans to corporate entities		
- Commercial loans	120 508	63 502
- Reverse sale and repurchase agreements	20 024	3 519
- Net investment in finance leases	2 095	1 351
Loans to individuals		
- Direct loans	28 709	14 165
- Reverse sale and repurchase agreements	38	625
Gross loans and advances to customers	**171 374**	**83 162**
Less: loan impairment	(4 499)	(2 849)
Net loans and advances to customers	**166 875**	**80 313**

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

10 Loans and Advances to Customers (Continued)

(a) Pledged loans and asset securitisation

Included in the loan portfolio, as at 31 December 2006, are gross loans to corporate entities of RUR 685 million pledged to an international bank under term deposits placed with the Group. Included in the loan portfolio as at 31 December 2005 were gross loans to corporate entities of RUR 248 million pledged to a non-Russian bank under a term deposit placed with the Group.

Included in the loan portfolio, as at 31 December 2006, are direct loans to individuals of RUR 10 262 million (31 December 2005: nil) pledged by the Group under loan participation notes secured by a pool of car loans issued by the Group as collateral. As at 31 December 2006, the carrying amount of the notes was RUR 9 828 million. Refer to Note 15.

(b) Loan impairment

Movements in loan impairment are as follows:

	2006	2005
Loan impairment as at 1 January	**2 849**	**2 562**
Loans written off during the year as uncollectible	(7)	(64)
Loan impairment losses during the year	1 741	313
Effect of foreign currency translation	(84)	38
Loan impairment as at 31 December	**4 499**	**2 849**

The loan portfolio, as at 31 December 2006, includes overdue loans totalling RUR 4 245 million (31 December 2005: RUR 1 206 million).

As described in Note 4(l), the Group uses its experience and judgement to estimate the amount of impairment loss for loans and advances to customers.

As retail lending is relatively new to Russia, the Group and the industry have limited historical experience in this type of lending on which to base the assessment of impairment.

Should actual repayments be less than Group's Management estimates, the Group would be required to record additional loan impairment losses.

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

10 Loans and Advances to Customers (Continued)

The Group has reviewed its loan portfolio as at 31 December 2006 and recognised loan impairment as follows:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Loans to corporate entities				
- Commercial loans				
Collectively assessed for impairment				
Standard loans not past due				
- Margin loans fully secured by traded securities	1 893	-	1 893	0.0
- Other standard loans	115 747	(1 831)	113 916	1.6
Watch list loans not past due	1 645	(26)	1 619	1.6
Total collectively assessed for impairment	*119 285*	*(1 857)*	*117 428*	*1.6*
Individually assessed for impairment				
Overdue loans	93	(3)	90	3.2
Non-recoverable loans	1 130	(1 130)	-	100.0
Total individually assessed for impairment	*1 223*	*(1 133)*	*90*	*92.6*
Total commercial loans	**120 508**	**(2 990)**	**117 518**	**2.5**
- Reverse sale and repurchase agreements	**20 024**	**-**	**20 024**	**-**
- Net investment in finance leases				
Collectively assessed for impairment	2 095	(36)	2 059	1.7
Total net investment in finance lease	**2 095**	**(36)**	**2 059**	**1.7**
Loans to individuals				
- Direct loans				
Retail loans collectively assessed for impairment				
- Standard loans to finance purchase of cars	14 358	(470)	13 888	3.3
- Express loans to finance purchase of cars	7 508	(790)	6 718	10.5
- Credit card overdrafts	934	(101)	833	10.8
- Mortgage loans	2 484	(12)	2 472	0.5
- Other loans to individuals	3 415	(90)	3 325	2.6
Total retail loans collectively assessed for impairment	*28 699*	*(1 463)*	*27 236*	*5.1*
Retail loans individually assessed for impairment				
Overdue non-recoverable loans	10	(10)	-	100.0
Total retail loans individually assessed for impairment	*10*	*(10)*	*-*	*100.0*
Total direct loans	**28 709**	**(1 473)**	**27 236**	**5.1**
- Reverse sale and repurchase agreements	**38**	**-**	**38**	**-**
Total loans and advances to customers	**171 374**	**(4 499)**	**166 875**	**2.6**

Management of the Group believes that receivables under reverse repurchase agreements and margin loans, which are fully collateralised by pledge of liquid traded securities, are not impaired.

Included in other standard commercial loans not past due collectively assessed for impairment are loans of RUR 26 million, which were overdue by less than 10 working days, as at 31 December 2006, and for which overdue amounts were settled in January 2007.

During the year ended 31 December 2006 the Group renegotiated loans to corporate entities that would otherwise be past due or impaired of RUR 315 million. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Express loans to finance purchase of cars are loans for which simplified credit approval procedures are used.

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

10 Loans and Advances to Customers (Continued)

The following table shows gross loans and advances to customers and related loan impairment, as at 31 December 2005:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Loans to corporate entities				
- Commercial loans				
Collectively assessed for impairment				
Standard loans not past due	58 207	(1 141)	57 066	2.0
Watch list not past due	2 243	(44)	2 199	2.0
Total collectively assessed for impairment	*60 450*	*(1 185)*	*59 265*	*2.0*
Individually assessed for impairment				
Overdue loans	169	(23)	146	13.6
Sub-standard loans not past due	1 959	(392)	1 567	20.0
Non-recoverable loans	924	(924)	-	100.0
Total individually assessed for impairment	*3 052*	*(1 339)*	*1 713*	*43.9*
Total commercial loans	**63 502**	**(2 524)**	**60 978**	**4.0**
- Reverse sale and repurchase agreements	**3 519**	**-**	**3 519**	**-**
- Net investment in finance leases				
Collectively assessed for impairment	1 351	(27)	1 324	2.0
Total investment in finance lease	**1 351**	**(27)**	**1 324**	**2.0**
Loans to individuals				
- Direct loans				
Collectively assessed for impairment	14 165	(298)	13 867	2.1
Total direct loans	**14 165**	**(298)**	**13 867**	**2.1**
- Reverse sale and repurchase agreements	**625**	**-**	**625**	**-**
Total loans and advances to customers	**83 162**	**(2 849)**	**80 313**	**3.4**

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

10 Loans and Advances to Customers (Continued)

The following table shows the ageing analysis of direct loans to individuals as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Retail loans collectively assessed for impairment				
Standard loans to finance purchase of cars				
- Not past due	12 964	(23)	12 941	0.2
- Overdue less than 30 days	644	(28)	616	4.3
- Overdue 30-89 days	320	(79)	241	24.7
- Overdue 90-179 days	205	(128)	77	62.4
- Overdue 180 - 360 days	141	(128)	13	90.8
- Overdue more than 360 days	84	(84)	-	100.0
Total loans to finance purchase of cars	**14 358**	**(470)**	**13 888**	**3.3**
Express loans to finance purchase of cars				
- Not past due	6 218	(67)	6 151	1.1
- Overdue less than 30 days	513	(92)	421	17.9
- Overdue 30-89 days	274	(161)	113	58.8
- Overdue 90-179 days	203	(177)	26	87.2
- Overdue 180 - 360 days	241	(234)	7	97.1
- Overdue more than 360 days	59	(59)	-	100.0
Total express loans to finance purchase of cars	**7 508**	**(790)**	**6 718**	**10.5**
Credit card overdrafts				
- Not past due	785	(18)	767	2.3
- Overdue less than 30 days	36	(4)	32	11.1
- Overdue 30-89 days	32	(11)	21	34.4
- Overdue 90-179 days	25	(15)	10	60.0
- Overdue 180 - 360 days	16	(13)	3	81.3
- Overdue more than 360 days	40	(40)	-	100.0
Total credit card overdrafts	**934**	**(101)**	**833**	**10.8**
Mortgage loans				
- Not past due	2 412	(1)	2 411	0.0
- Overdue less than 30 days	47	(1)	46	2.1
- Overdue 30-89 days	10	(2)	8	20.0
- Overdue 90-179 days	11	(5)	6	45.5
- Overdue 180 - 360 days	4	(3)	1	75.0
Total mortgage loans	**2 484**	**(12)**	**2 472**	**0.5**
Other loans to individuals				
- Not past due	3 308	(49)	3 259	1.5
- Overdue less than 30 days	49	(9)	40	18.4
- Overdue 30-89 days	31	(5)	26	16.1
- Overdue 90-179 days	3	(3)	-	100.0
- Overdue 180 - 360 days	5	(5)	-	100.0
- Overdue more than 360 days	19	(19)	-	100.0
Total other loans to individuals	**3 415**	**(90)**	**3 325**	**2.6**
Retail loans individually assessed for impairment				
Overdue non-recoverable loans	**10**	**(10)**	**-**	**100.0**
Total direct loans to individuals	**28 709**	**(1 473)**	**27 236**	**5.1**

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

10 Loans and Advances to Customers (Continued)

(c) Collateral

The following table provides the analysis of loan portfolio, net of impairment, by types of collateral as at 31 December 2006:

	Loans to corporate entities	Loans to individuals	Total	% of loan portfolio
Traded securities	28 155	38	28 193	17
Real estate	16 897	2 472	19 369	12
Motor vehicles	991	20 606	21 597	13
Other realizable collateral	15 133	-	15 133	9
Other non-realizable collateral	64 073	323	64 396	38
No collateral	14 352	3 835	18 187	11
Total	**139 601**	**27 274**	**166 875**	**100**

The table below shows the analysis of loans to corporate entities, net of impairment, by types of collateral, as at 31 December 2006:

	Traded securities	Real estate	Motor vehicles	Other realizable collateral	Other non-realizable collateral	No collateral	Total
Loans to corporate entities							
- Commercial loans							
Collectively assessed for impairment							
Standard loans not past due							
- Margin loans fully secured by traded securities	1 893	-	-	-	-	-	1 893
- Other standard loans	6 238	16 858	324	13 184	62 981	14 331	113 916
Watch list loans not past due	-	39	-	557	1 009	14	1 619
Total collectively assessed for impairment	*8 131*	*16 897*	*324*	*13 741*	*63 990*	*14 345*	*117 428*
Total overdue loans individually assessed for impairment	-	-	-	-	83	7	90
Total commercial loans	**8 131**	**16 897**	**324**	**13 741**	**64 073**	**14 352**	**117 518**
- Reverse sale and repurchase agreements	**20 024**	**-**	**-**	**-**	**-**	**-**	**20 024**
Net investment in finance leases collectively assessed for impairment	**-**	**-**	**667**	**1 392**	**-**	**-**	**2 059**
Total	**28 155**	**16 897**	**991**	**15 133**	**64 073**	**14 352**	**139 601**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Other realizable collateral is collateral, which, in the opinion of the Group's management, the Group will be able to sell to reduce losses in case of loan default.

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

10 Loans and Advances to Customers (Continued)

Loans issued to finance purchase of cars are secured by underlying cars. The majority of credit card overdrafts are not secured. Mortgage loans are secured by underlying real estate.

During the year ended 31 December 2006 the Group did not obtain any assets by taking control of collateral accepted as security.

Securities received as collateral under reverse sale and repurchase agreements are marketable corporate bonds and equity securities. The following table presents information about the fair value of these securities:

	31 December 2006	31 December 2005
Held by the Group	19 668	4 061
Pledged under sale and repurchase agreements (Notes 6, 13 and 14)	8 231	2 900
Securities received as collateral under reverse sale and repurchase agreements	**27 899**	**6 961**

(d) Finance leases

Loans and advances to customers include finance lease receivables, which are analysed as follows:

	31 December 2006	31 December 2005
Gross investment in finance leases, receivable:		
- Not later than 1 year	1 409	696
- Later than 1 year and not later than 5 years	1 231	1 053
- Later than 5 years	63	-
Less: Unearned finance income	(608)	(398)
Net investment in finance leases	**2 095**	**1 351**

Net investment in finance leases are analysed as follows:

	31 December 2006	31 December 2005
Net investment in finance leases, receivable:		
- Not later than 1 year	1 092	537
- Later than 1 year and not later than 5 years	954	814
- Later than 5 years	49	-
Net investment in finance leases	**2 095**	**1 351**

(e) Concentration analysis

As at 31 December 2006, credit exposure to the ten largest borrowers (or groups of borrowers), excluding claims under reverse repurchase agreements fully secured by traded securities, total RUR 23 381 million or 14% of the gross loan portfolio of the Group (31 December 2005: RUR 17 519 million or 21% of the gross loan portfolio).

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

10 Loans and Advances to Customers (Continued)

As at 31 December 2006, the Group has one borrower with aggregated loan amounts, excluding claims under reverse repurchase agreements fully secured by traded securities, greater than 10% of equity (31 December 2005: one borrower). The total aggregate amount of these loans is RUR 4 652 million or 3% of the gross loan portfolio (31 December 2005: RUR 3 764 million or 5% of the gross loan portfolio).

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

	31 December 2006		31 December 2005	
	Amount	**%**	**Amount**	**%**
Trade	28 880	17	13 470	16
Individuals	28 747	17	14 790	18
Finance	26 923	16	6 955	8
Construction	24 381	14	6 142	7
Manufacturing	18 463	11	8 896	11
Real estate	13 994	8	8 303	10
Transport	7 399	4	1 434	2
Metallurgy	3 840	2	2 459	3
Oil and gas	3 511	2	5 229	6
Chemicals	3 059	2	503	1
Energy and atomic power	2 603	2	4 114	5
Ore	1 901	1	766	1
Communication	1 301	1	1 387	2
Food and agriculture	874	1	3 581	4
Coal	803	-	1 843	2
Gaming	640	-	367	-
Other	4 055	2	2 923	4
Gross loans and advances to customers	**171 374**	**100**	**83 162**	**100**

The table below shows the analysis of loans to corporate entities which are individually assessed for impairment by industry, as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to Gross loans (%)
Commercial loans individually assessed for impairment				
Overdue loans				
- Food and agriculture	82	(2)	80	2.4
- Manufacturing	8	(1)	7	12.5
- Trade	3	-	3	-
Total overdue loans	**93**	**(3)**	**90**	**3.2**
Non-recoverable loans	**1 130**	**(1 130)**	**-**	**100.0**
Total commercial loans individually assessed for impairment	**1 223**	**(1 133)**	**90**	**92.6**

Geographical and currency analysis, effective interest rates and maturity structure of loans and advances to customers are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

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

11 Other Assets

	31 December 2006	31 December 2005
Net amounts in course of settlement	642	472
Settlements on securities transactions	543	109
Trade debtors and prepayments	533	158
Prepaid taxes	439	127
Commission receivable under credit related commitments	255	23
Precious metals	122	30
Precious metals pledged under sale and repurchase agreements	-	215
Other	229	59
Gross other assets	**2 763**	**1 193**
Less: other assets impairment	(2)	-
Net other assets	**2 761**	**1 193**

Movements in other assets impairment are as follows:

	2006	2005
Other assets impairment as at 1 January	**-**	**-**
Net charge to other assets impairment during the year	2	-
Other assets impairment as at 31 December	**2**	**-**

Geographical and currency analysis and maturity structure of other assets are disclosed in Note 25.

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

12 Premises and Equipment

The reconciliation of the carrying amount of premises and equipment as at 31 December 2006 and as at 31 December 2005 is presented below:

	Premises	Office, computer and other equipment	Fixtures and fittings	Intangible assets	Total
Net book amount as at 1 January 2006	**3 922**	**502**	**92**	**4**	**4 520**
Cost or valuation					
Opening balance	3 922	886	122	10	4 940
Additions (Note 24)	45	196	5	1	247
Disposals	(120)	(37)	(30)	-	(187)
Effect of foreign currency translation	-	1	-	-	1
Elimination of accumulated depreciation of revalued assets	(72)	-	-	-	(72)
Revaluation	104	-	-	-	104
Closing balance	**3 879**	**1 046**	**97**	**11**	**5 033**
Accumulated depreciation and impairment					
Opening balance	-	384	30	6	420
Depreciation charge (Note 24)	97	158	21	2	278
Disposals	(1)	(21)	(14)	-	(36)
Elimination of accumulated depreciation of revalued assets	(72)	-	-	-	(72)
Closing balance	**24**	**521**	**37**	**8**	**590**
Net book amount as at 31 December 2006	**3 855**	**525**	**60**	**3**	**4 443**

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

12 Premises and Equipment (Continued)

The reconciliation of the carrying amount of premises and equipment as at 31 December 2005 and as at 31 December 2004 is presented below:

	Premises	Office, computer and other equipment	Fixtures and fittings	Intangible assets	Construction in progress	Total
Net book amount as at 1 January 2005	**2 271**	**327**	**212**	**31**	**58**	**2 899**
Cost or valuation						
Opening balance	2 348	786	246	83	58	3 521
Additions (Note 24)	84	290	1	-	-	375
Disposals	(69)	(219)	(125)	(73)	-	(486)
Transfers	29	29	-	-	(58)	-
Elimination of accumulated depreciation of revalued assets	(133)	-	-	-	-	(133)
Revaluation	1 663	-	-	-	-	1 663
Closing balance	**3 922**	**886**	**122**	**10**	**-**	**4 940**
Accumulated depreciation and impairment						
Opening balance	77	459	34	52	-	622
Depreciation charge (Note 24)	61	141	32	2	-	236
Disposals	(5)	(216)	(36)	(48)	-	(305)
Elimination of accumulated depreciation of revalued assets	(133)	-	-	-	-	(133)
Closing balance	**-**	**384**	**30**	**6**	**-**	**420**
Net book amount as at 31 December 2005	**3 922**	**502**	**92**	**4**	**-**	**4 520**

As a part of the process of the merger of MDM Bank and MVK-Nedvizhimost, a real estate company which owns and maintains the majority of the Group's premises, premises of the Group were revalued by Management based on the results of independent appraisal performed by the independent firm of appraisers, as at 30 September 2006. The revaluation surplus of RUR 104 million, net of associated deferred tax, was recorded directly in equity.

Management believe that this valuation continues to be reflective of the fair value of these properties as at 31 December 2006.

The primary basis used for the appraisal was the income capitalization approach. The income capitalization approach considers income and expense data relating to the property being valued and estimates fair value through a capitalization process. The market approach was used to assess the reasonableness of the results of the income capitalization approach. The market approach was based upon an analysis of the results of comparable sales of similar premises.

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

12 Premises and Equipment (Continued)

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

- annual cash flows were projected based on estimated rental income net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses;

- vacancy and collection losses were estimated as 3% to 10% from potential gross rent income;

- discount rates of 12% to 14% and 16% to 21% were applied to capitalise annual cash flows for Moscow premises and premises located in other regions, respectively.

Included in the net book value of premises as at 31 December 2006 is RUR 2 555 million (31 December 2005: RUR 2 558 million) representing the revaluation surplus. The net book value of premises that would have been recognised under the historic cost method is RUR 1 437 million, as at 31 December 2006 (31 December 2005: RUR 1 419 million).

The gross book value of fully depreciated premises and equipment that is still in use is RUR 152 million, as at 31 December 2006 (31 December 2005: RUR 96 million). As at 31 December 2006 and 31 December 2005, the Group does not have internally developed intangible assets.

13 Due to Other Banks

	31 December 2006	**31 December 2005**
Correspondent accounts and overnight deposits of other banks	10 030	2 565
Term deposits from other banks	41 411	26 370
Sale and repurchase agreements	9 431	4 194
Total due to other banks	**60 872**	**33 129**

As at 31 December 2006, the Group has three counterparties with aggregate balances greater than 10% of equity (31 December 2005: one counterparty). The total aggregate amount of these balances is RUR 15 237 million or 25% of due to other banks balances (31 December 2005: RUR 4 256 million or 13% of due to other banks balances).

Included in due to other banks balances, as at 31 December 2006, is a term deposit received from a large international bank of RUR 4 072 million, in respect of which the Group pledged its receivable under a reverse sale and repurchase agreement from the same bank of RUR 4 072 million as collateral. Refer to Note 6.

The following table presents information about assets sold under sale and repurchase agreements with other banks:

	31 December 2006	**31 December 2005**
Securities received as collateral under sale and repurchase agreements, fair value (Notes 6, 10 and 14)	8 521	2 645
Trading securities, carrying value (Note 7 and 14)	3 624	3 145
Precious metals, carrying value (Note 11)	-	215
Total assets sold under sale and repurchase agreements with other banks	**12 145**	**6 005**

Geographical and currency analysis, effective interest rates and maturity structure of due to other banks are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

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

14 Customer Accounts

	31 December 2006	31 December 2005
State organisations		
- Current/settlement accounts	8 806	1 775
- Term deposits	1 000	-
Other legal entities		
- Current/settlement accounts	24 336	28 868
- Term deposits	47 414	14 484
- Sale and repurchase agreements	77	319
Retail customers		
- Current/demand accounts	5 202	2 942
- Term deposits	5 970	7 585
Total customer accounts	**92 805**	**55 973**

The following table presents information about assets sold under sale and repurchase agreements with customers:

	31 December 2006	31 December 2005
Securities received as collateral under sale and repurchase agreements, fair value (Notes 6, 10 and 13)	79	255
Trading securities, carrying value (Note 7 and 13)	-	64
Total assets sold under sale and repurchase agreements with customers	**79**	**319**

Economic sector concentrations within customer accounts are as follows:

	31 December 2006		31 December 2005	
	Amount	**%**	**Amount**	**%**
Trade	35 920	39	21 653	39
Financial	20 259	22	6 649	12
State and intergovernmental	11 574	12	3 930	7
Retail	11 172	12	10 527	19
Mining and oil	8 736	9	4 541	8
Manufacturing	4 595	5	8 000	14
Other	549	1	673	1
Total customer accounts	**92 805**	**100**	**55 973**	**100**

As at 31 December 2006, aggregate balances of the ten largest customers (or groups of customers) total RUR 44 336 million or 48% of total customer accounts (31 December 2005: RUR 21 865 million or 39% of total customer accounts).

As at 31 December 2006, the Group has five customers with aggregated accounts greater than 10% of equity (31 December 2005: three customers). The total aggregate amount of these accounts is RUR 35 643 million or 38% of the total customer accounts (31 December 2005: RUR 10 501 million or 19% of the total customer accounts).

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

14 Customer Accounts (Continued)

Included in customer accounts, as at 31 December 2006, is RUR 15 914 million held as collateral for irrevocable commitments under import letters of credit (31 December 2005: RUR 9 333 million).

Geographical and currency analysis, effective interest rates and maturity structure of customer accounts are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

15 Debt Securities in Issue

	31 December 2006	31 December 2005
Unsecured loan participation notes	14 569	14 282
Loan participation notes secured by diversified payment rights ("DPR")	13 042	-
Loan participation notes secured by a pool of car loans	9 828	-
Promissory notes	9 311	8 400
Bonds	6 090	-
Deposit certificates	30	-
Total debt securities in issue	**52 870**	**22 682**

Loan participation notes, bonds issued, promissory notes and deposit certificates are unconditional debt instruments issued by the Group.

As at 31 December 2006 loan participation notes and bonds comprise the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate	Effective rate
Russian bonds denominated in RUR	6 090	5 October 2006	1 October 2009	7.6%	7.8%
Loan participation notes secured by a pool of car loans:					
- tranche A (senior)	6 443	23 October 2006	15 June 2008	Libor + 1%	8.5%
- tranche B (sub-senior)	1 989	23 October 2006	15 February 2009	Libor + 1.6%	9.2%
- tranche C (junior)	1 396	23 October 2006	15 September 2009	Libor + 3.3%	11.1%
Loan participation notes secured by diversified payment rights denominated in EUR	7 783	21 November 2006	17 November 2011	Euribor + 2%	6.5%
Loan participation notes secured by diversified payment rights denominated in USD	5 259	21 November 2006	17 November 2011	Libor + 2%	8.1%
Unsecured loan participation notes denominated in USD	6 553	7 December 2005	7 December 2007	7.5%	8.0%
Unsecured loan participation notes denominated in USD	8 016	15 February 2006	15 February 2007	6.8%	7.3%

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

15 Debt Securities in Issue (Continued)

As at 31 December 2005, unsecured loan participation notes comprised the following issues:

	Carrying amount	Issue date	Maturity	Coupon rate	Effective rate
Unsecured Loan participation notes denominated in USD	5 870	23 September 2004	23 September 2006	9.4%	9.9%
Unsecured Loan participation notes denominated in USD	6 970	7 December 2005	7 December 2007	7.5%	8.0%
Unsecured Loan participation notes denominated in USD	1 442	22 December 2005	22 December 2006	Libor + 2.7%	7.3%

Maturity dates in the tables above represent latest contractual dates when the last payment under the notes are due. Loan participation notes secured by diversified payment rights and loan participation notes secured by a pool of car loans have quarterly and monthly repayments, respectively. Loan participation notes secured by a pool of car loans may be repaid before contractual repayment dates in case of earlier repayment of underlying car loans.

In October 2006, the Group issued fixed rate RUR denominated bonds with an aggregate nominal amount of RUR 6 000 million. The issue proceeds net of transaction costs amounted to RUR 5 991 million.

In October 2006, the Group issued three tranches of loan participation notes totaling USD 403.1 million secured by a pool of car loans with a carrying value of RUR 10 262 million, as at 31 December 2006. Total amounts of tranche A, tranche B and tranche C notes on the issue date were USD 270.9 million, USD 77.4 million, and USD 54.8 million, respectively. The issue proceeds net of transaction costs amounted to USD 395 million. The notes have monthly repayments. Under the conditions of the notes, more senior tranches are repaid first. As a part of this transaction, the Group entered into balance guaranteed cross currency interest rate swap agreements with major international banks. Under conditions of the swap agreements, all RUR or USD denominated fixed rate amounts received by the Group from car loans pledged as collateral under its loan participation notes are swapped for USD floating rate amounts which are then used for repayment of the loan participation notes. Refer to Notes 8 and 10.

In November 2006, the Group issued floating rate loan participation notes of USD 200 million and EUR 225 million secured by the Group's diversified payment rights, i.e. its rights to funds being transferred to the Group's USD and EUR correspondent accounts. The issue proceeds net of transaction costs amounted to USD 198 million and EUR 223 million. The principal of the notes is repaid quarterly by equal installments with final maturity on 17 November 2011. Included in due from other banks balances, as at 31 December 2006, are loans to a large international bank of RUR 951 million pledged as collateral for interest and principal repayments in respect of these notes. Refer to Note 6.

In November 2005, the Group established a Programme for the issuance of loan participation notes. The aggregate principal amount of outstanding notes issued under this programme may not exceed USD 2 000 million.

In December 2005, the Group issued fixed rate loan participation notes under this programme with an aggregate nominal amount of USD 250 million. The issue proceeds net of transaction costs amounted to USD 248 million.

In February 2006, the Group issued additional fixed rate loan participation notes under this programme with an aggregate nominal amount of USD 300 million. The issue proceeds net of transaction costs amounted to USD 299 million.

Geographical and currency analysis, effective interest rates and maturity structure of debt securities in issue are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

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

16 Subordinated Debt

	31 December 2006	31 December 2005
Subordinated loan participation notes	5 452	-
Total subordinated debt	**5 452**	**-**

In July 2006, the Group issued USD 200 million fixed rate subordinated unsecured notes maturing in July 2011 with a coupon rate of 9.75% per annum and an effective rate of 10.1% per annum. The issue proceeds net of transaction costs were USD 199 million.

In case of bankruptcy, the repayment of the subordinated loan participation notes shall be made after repayment in full of all other liabilities of the Bank.

17 Other Liabilities

	31 December 2006	31 December 2005
Accrued compensation expenses	860	404
Trade creditors	744	547
Liabilities from credit related commitments	309	140
Settlements on conversion operations	186	60
Taxes other than income tax payable	66	38
Current income tax payable	27	15
Borrowings in precious metals	-	215
Other	59	28
Total other liabilities	**2 251**	**1 447**

Included in liabilities from credit related commitments as at 31 December 2006 is a provision for losses in respect of credit related commitments of RUR 50 million (31 December 2005: RUR 64 million). Refer to Note 26.

Geographical and currency analysis, maturity structure of other liabilities are disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

18 Share Capital

The share capital of the Bank has been contributed by shareholders in Russian Roubles. Shareholders are entitled to dividends and any capital distribution in Russian Roubles.

As at 1 January 2006 and 1 January 2007, share capital of the Bank consisted of 2 149 950 authorized, issued and fully paid ordinary shares with a fixed nominal value of 500 Russian Roubles and 50 050 authorized, issued and fully paid preference shares with a fixed nominal value of 500 Russian Roubles.

Ordinary shares carry the right to vote at annual and general meetings, to receive dividends and a residual interest in the assets of the Bank after deducting all its liabilities on liquidation. All ordinary shares provide equal rights to their owners.

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

18 Share Capital (Continued)

Preference shares have no right of conversion or redemption. Preference shares carry the right to vote at annual and general meetings in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation. Preference shares are entitled to receive the same dividends as dividends attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote at annual and general meetings until dividends are paid. Dividends are not cumulative. In the event of liquidation preference shareholders are entitled to receive declared unpaid dividends and the par value of the preference shares ("liquidation value").

Dividends payable to Bank's shareholders are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. As at 31 December 2006, Bank's reserves available for distribution amount to RUR 14 893 million (31 December 2005: RUR 11 909 million). No dividends on ordinary or preference shares have been declared during the year ended 31 December 2006.

The share capital of the Bank, as at 31 December 2006 and 2005, comprises the following:

	Nominal value	**Inflation adjustment**	**Total share capital**
Ordinary shares	1 075	534	1 609
Preference shares	25	102	127
Total share capital	**1 100**	**636**	**1 736**

19 Interest Income and Expense

	2006	**2005**
Interest income		
Loans and advances to customers	14 747	9 319
Overnight deposits and due from other banks	1 496	1 047
Trading securities	792	588
Other financial instruments at fair value through profit or loss	291	245
Total interest income	**17 326**	**11 199**
Interest expense		
Debt securities in issue	(2 483)	(1 551)
Due to other banks	(2 390)	(1 526)
Customer accounts	(2 167)	(1 126)
Subordinated debt	(229)	-
Total interest expense	**(7 269)**	**(4 203)**
Net interest income	**10 057**	**6 996**

Included in interest income for the year ended 31 December 2006 is RUR 334 million in respect of interest income from finance leases (31 December 2005: RUR 292 million).

Information on related party transactions is disclosed in Note 28.

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

20 Gains less Losses from Foreign Exchange

	2006	2005
Gains less losses from trading in foreign currencies	(199)	605
Foreign exchange translation gains less losses	1 282	140
Total gains less losses from foreign exchange	**1 083**	**745**

Information on related party transactions is disclosed in Note 28.

21 Fee and Commission Income and Expense

	2006	2005
Commission on settlement and trade finance transactions	1 115	925
Commission on foreign currency transactions	344	182
Commission on cash transactions	263	252
Commission for brokerage and other services of an investment banking nature	211	124
Commission for trust and fiduciary services	7	19
Other	3	24
Total fee and commission income	**1 943**	**1 526**
Commission on settlement transactions	(258)	(486)
Commission on foreign currency transactions	(126)	(105)
Commission on cash transactions	(73)	(70)
Other	(177)	(329)
Total fee and commission expense	**(634)**	**(990)**
Net fee and commission income	**1 309**	**536**

Information on related party transactions is disclosed in Note 28.

22 Operating Expenses

	2006	2005
Staff costs	4 572	3 117
Depreciation, rent and other expenses related to premises and equipment	737	670
Taxes other than on income	389	142
Professional services	377	232
Advertising and marketing	244	193
Security	157	94
Software	106	98
Telecommunications	81	76
Other	52	83
Total operating expenses	**6 715**	**4 705**

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

22 Operating Expenses (Continued)

The Group's principal auditor is ZAO KPMG. ZAO KPMG and other KPMG firms (together "KPMG") are also auditors of MDM Financial Group. Audit fees paid by the Group and MDM Financial Group to KPMG for the year ended 31 December 2006 are RUR 21 million (31 December 2005: RUR 20 million). During the year ended 31 December 2006 RUR 4 million was paid by the Group to KPMG for audit-related services, comprising mainly provision of comfort letters in respect of debt issues of the Group (31 December 2005: RUR 2 million). During the years ended 31 December 2006 and 2005, the Group's principal auditor, KPMG, did not provide any significant non-audit services to the Group.

Included in professional services expenses for the year ended 31 December 2006 are fees of RUR 9 million paid to professional firms for services rendered to the Board of Directors of MDM Bank (31 December 2005: RUR 7 million).

Information on related party transactions is disclosed in Note 28.

23 Income Taxes

Income tax expense comprises the following:

	2006	2005
Current tax charge	1 660	3 706
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(392)	(2 216)
Deferred tax charge recorded directly in equity	(25)	(399)
Income tax expense	**1 243**	**1 091**

The income tax rate applicable to the majority of the Russian entities of the Group's income is 24% (31 December 2005: 24%). The income tax rate applicable to income of non-Russian entities of the Group ranges from 0% to 15%, as at 31 December 2006 (31 December 2005: from 0% to 15%).

The reconciliation between the expected and the actual income tax expense is provided below:

	2006	%	2005	%
Profit before taxation	**4 563**	**100.0**	**4 319**	**100.0**
Theoretical income tax expense at the applicable statutory rate	1 095	24.0	1 037	24.0
Tax effect of items taxed at different tax rates	(136)	(3.0)	(15)	(0.3)
Tax effect of items which are not deductible or assessable for taxation purposes, and other items of a non-temporary nature	277	6.1	127	3.0
Unrecognised net deferred tax asset movement	7	0.1	(58)	(1.4)
Income tax expense	**1 243**	**27.2**	**1 091**	**25.3**

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

23 Income Taxes (Continued)

Movements in temporary differences for the year ended 31 December 2006:

	1 January 2006	Movements	31 December 2006
Tax effect of deductible temporary differences			
Impairment allowances and provisions	6	24	30
Premises and equipment	-	31	31
Accruals	198	237	435
Securities	-	53	53
Other	10	18	28
Gross deferred tax asset	**214**	**363**	**577**
Less unrecognised deferred tax asset	(16)	(7)	(23)
Net deferred tax asset	**198**	**356**	**554**
Tax effect of taxable temporary differences			
Impairment allowances and provisions	(315)	(111)	(426)
Accruals	(3)	(39)	(42)
Premises and equipment	(760)	30	(730)
Securities	(133)	133	-
Other	(31)	23	(8)
Gross deferred tax liability	**(1 242)**	**36**	**(1 206)**
Total net deferred tax liability	**(1 044)**	**392**	**(652)**

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

23 Income Taxes (Continued)

Movements in temporary differences for the year ended 31 December 2005:

	1 January 2005	Movements	31 December 2005
Tax effect of deductible temporary differences			
Impairment allowances and provisions	22	(16)	6
Premises and equipment	54	(54)	-
Accruals	112	86	198
Securities	29	(29)	-
Other	19	(9)	10
Gross deferred tax asset	**236**	**(22)**	**214**
Less unrecognised deferred tax asset	(74)	58	(16)
Net deferred tax asset	**162**	**36**	**198**
Tax effect of taxable temporary differences			
Impairment allowances and provisions	(3 051)	2 736	(315)
Accruals	-	(3)	(3)
Premises and equipment	(368)	(392)	(760)
Securities	(3)	(130)	(133)
Other	-	(31)	(31)
Gross deferred tax liability	**(3 422)**	**2 180**	**(1 242)**
Total net deferred tax liability	**(3 260)**	**2 216**	**(1 044)**

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rates applicable to entities of the Group.

As at 31 December 2006, the Group did not recognise a deferred tax liability in respect of its investments in subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will reverse in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

As at 31 December 2006, a net deferred tax asset in respect of net deductible temporary differences of RUR 23 million (31 December 2005: RUR 16 million) has not been recorded as it is not probable that the relevant entity of the Group will have sufficient taxable profit that will allow the Group to benefit from the deferred tax asset.

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

24 Analysis by Segment

The Group is organised into four main reportable business segments:

- Corporate banking – includes deposit taking and lending to corporate clients and small and medium enterprises, 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, 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.

- Central treasury – includes treasury, which undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements.

The Group also has a central administrative function that manages its premises and certain corporate costs. Cost sharing agreements are used to allocate central costs to business segments on a reasonable basis.

Business segments pay and receive interest to and from the Central treasury at internal rates to reflect the allocation of capital and funding costs.

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

	31 December 2006	31 December 2005
Assets		
Corporate banking	120 388	63 982
Retail banking	26 867	15 772
Investment banking and financial markets	75 494	43 229
Central treasury	19 176	14 883
Unallocated assets	1 197	927
Total assets	**243 122**	**138 793**
Liabilities		
Corporate banking	91 066	50 021
Retail banking	9 073	5 497
Investment banking and financial markets	44 515	35 369
Central treasury	62 443	21 745
Unallocated liabilities	8 701	1 662
Total liabilities	**215 798**	**114 294**

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

24 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2006 is set out below:

	Corporate banking	Retail banking	Investment banking and financial markets	Central treasury	Unallocated	Consolidated Group
External revenue	12 009	3 627	4 930	247	98	20 911
Net result from other segments	(2 150)	(1 134)	(129)	3 079	334	-
Impairment and provisions losses	(539)	(1 164)	(27)	-	-	(1 730)
Interest expense	(2 768)	(235)	(1 350)	(2 888)	(28)	(7 269)
Fee and commission expense	(262)	(170)	(197)	(3)	(2)	(634)
Direct operating expenses	(1 399)	(865)	(1 087)	(34)	-	(3 385)
Segment result before allocation of indirect operating expenses	**4 891**	**59**	**2 140**	**401**	**402**	**7 893**
Allocation of indirect operating expenses	(1 363)	(1 264)	(696)	(7)	-	(3 330)
Segment result	**3 528**	**(1 205)**	**1 444**	**394**	**402**	**4 563**
Income tax expense						(1 243)
Profit for the year						**3 320**
Other segment items						
Capital expenditure (Note 12)	100	98	49	-	-	247
Depreciation charge (Note 12)	113	110	55	-	-	278
Credit-related commitments	41 805	-	-	-	-	41 805

Net result from other segments represents income and expense from funding transactions between the segments, based on internally calculated rates.

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

24 Analysis by Segment (Continued)

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

	Corporate banking	Retail banking	Investment banking and financial markets	Central treasury	Unallocated	Consolidated Group
External revenue	8 647	2 091	3 517	47	258	14 560
Net result from other segments	(1 939)	(132)	232	679	1 160	-
Impairment and provisions losses	(199)	(144)	-	-	-	(343)
Interest expense	(1 042)	(290)	(1 552)	(1 319)	-	(4 203)
Fee and commission expense	(648)	(107)	(234)	-	(1)	(990)
Operating expenses	(2 336)	(1 257)	(1 112)	-	-	(4 705)
Segment result	**2 483**	**161**	**851**	**(593)**	**1 417**	**4 319**
Income tax expense						(1 091)
Profit for the year						**3 228**
Other segment items						
Capital expenditure (Note 12)	194	143	38	-	-	375
Depreciation charge (Note 12)	122	90	24	-	-	236
Credit-related commitments	19 900	-	-	-	-	19 900

25 Financial Risk Management

The Group has exposure to risks, which include credit, market, liquidity, and operational risks.

(a) Risk management framework

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards, aims to develop a disciplined and efficient control environment, in which all employees understand their roles and obligations.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification and (iii) risk assessment, management and control.

25 Financial Risk Management (Continued)

(i) Risk governance

The Board of Directors of MDM Bank, the lead entity of the Group, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of MDM Bank has established a Risk Committee which is responsible for overseeing compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Risk Committee reviews all significant exposures in addition to assessing the effectiveness of current risk management policies and procedures. It meets regularly and provides recommendations to the Board of Directors of MDM Bank on policies and major exposures as well as its view on developments in risk positions and the quality of risk management.

The Executive Management Board of MDM Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that both the Group and the Bank operate within the established risk parameters. The Chief Risk and Compliance Officer (CRCO) of MDM Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chief Executive Officer (CEO) of MDM Bank and indirectly to the Risk Committee.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

(ii) Risk identification

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The risk maps are updated on a quarterly basis and any significant changes in the risk profile are communicated to the Executive Management Board of MDM Bank together with proposed action steps aimed at mitigating such risks.

An overview of the key risks is also communicated to the Board of Directors of MDM Bank as part of a Quarterly Risk Management Report covering credit, market, liquidity, operational and reputational risks. A more detailed Monthly Risk Management Report is presented to the Risk Committee by the CRCO.

(iii) Risk Assessment, Management and Control

The Group's risk assessment, reporting and control procedures vary by risk type, but share a common methodology developed and updated by the Risk Department.

25 Financial Risk Management (Continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk, country and industry risk.

For risk management purposes, credit risk arising from positions in trading securities and other financial instruments at fair value through profit or loss is managed and reported as a market risk exposure.

(i) Credit risk governance

The Group has established a number of credit committees, which are responsible for oversight of the Group's credit risk.

The following Credit committees are responsible for approving corporate and retail credit risk exposures:

- The Senior Credit Committee reviews and approves all loan/credit applications from corporate customers and issuers (for securities) above USD 5 million, as well as approving all credit risk management policies and procedures. It is chaired by the Head of the Credit Products Department and meets on a weekly basis;

- The Junior Credit Committee reviews and approves all loan/credit applications from corporate customers between USD 1.5 and 5 million as well as SME loans from RUR 45 million to RUR 60 million;

- The Small Loans Credit Committee reviews and approves all loan/credit applications from corporate customers up to USD 1.5 million as well as SME loans from RUR 30 million to RUR 45 million;

- The Credit Committee for Standard Credit Products reviews and approves all applications for the Group's off-the-shelf credit products to corporate and SME customers (overdrafts, leasing, loans to car dealers, etc.) utilising the Group's in-house Electronic Credit Approval System;

- The Credit Committee for Retail Lending reviews and approves standard terms and conditions for the Group's off-the-shelf retail credit products as well as individual loans to the Group's retail customers that have non-standard terms and conditions. All such deviations from the standard terms and conditions are pre-approved by the Senior Credit Committee. Loans that do not fall within the pre-approved terms and conditions are passed for approval by the Junior or Senior Credit Committee.

The following Credit committees are responsible for approving credit risk exposures to financial institutions:

- The Senior Credit Committee on Counterparties approves credit exposure limits to sovereign issuers and the Group's main counterparties as well as settlement limits above USD 25 million;

- The Junior Credit Committee on Counterparties approves credit exposure limits to counterparties and settlement limits up to USD 25 million.

All direct credit exposures above USD 75 million to both corporate customers and financial institutions are additionally reviewed by the Risk Committee. Direct credit exposures above USD 100 million must also be approved by the Board of Directors.

25 Financial Risk Management (Continued)

(ii) Credit risk management

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), groups of related customers, counterparties and issuers, as well as by industry/sector, credit rating and market liquidity (for securities). Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Credit Products Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit officers are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's credit risk managers and a second opinion is given accompanied by a check that credit policy requirements have been met. The relevant Credit Committee reviews the loan/credit application on the basis of submissions by the Credit Products Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. All loans and other credit related products are rated and priced using the Group's internal rating model based on borrower's default probability and recovery estimates. The ratings reflect the risk assessment of the transaction and form the basis for transaction pricing.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. In light of this information, the borrower's internal credit rating may be revised. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Bank's Retail Banking Division through the use of scoring models and application data verification procedures developed together with the Risk Department. The loans are approved by one of the three credit committees (see above) depending on the terms and conditions of the loan.

Information on the credit quality of the Group's loan portfolio is presented in Note 10.

25 Financial Risk Management (Continued)

(iii) Collateral and other credit enhancements

Exposure to credit risk is also managed, in part, by obtaining and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities, and other collateral including corporate and personal guarantees.

While collateral is an important mitigant to credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather than to over rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The principal collateral types are as follows:

- in the commercial and industrial sector, charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector, mortgages and/or charges over the properties being financed;
- in the financial sector, charges over financial instruments such as debt securities and equities;
- in the personal sector, mortgages over residential properties, and charges over motor vehicles or other valuables.

Collateral is not generally held over loans and advances to banks, except where securities are held as part of reverse repurchase agreements. Collateral is not held against exposures to securities.

The Group does not provide information on fair value of collateral as it believes that fair value of collateral can not be reliably measured.

(iv) Allowance for loan losses

The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its loan portfolio.

The Group writes off a loan balance (and any related allowances for loan losses) when the Group's Senior Credit Committee determines that the loans are uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write off decisions are generally based on a product specific past due status. Generally, overdue loans are written off when overdue more than 3 years or if the borrower is declared bankrupt.

(v) Settlement risk

The Group's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transaction specific and/or counterparty specific settlement limits which form part of the counterparty limit approval / monitoring process described earlier.

25 Financial Risk Management (Continued)

(vi) Maximum exposure to credit risk

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same procedures and methodologies, as defined by the Group's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). The Group's maximum exposure to off balance sheet credit risk is reflected in Note 26 "Contingent liabilities and commitments".

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 10 "Loans and advances to customers".

(c) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chief Executive Officer of MDM Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlement limits.

The Group also utilises Value-at-Risk (VaR) methodology for most of its trading positions and stress tests for those that do not have a liquid market. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1 or 10-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

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

25 Financial Risk Management (Continued)

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature.
- The use of a 1 or 10-day holding period assumes that all positions can be liquidated or hedged within 1 or 10 days. In nearly all cases this should be possible, but in cases of exceptional market illiquidity even a 10-day liquidation period may be insufficient.
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could be greater than the VaR.
- As VaR is only calculated at close of business for all trading portfolios it does not necessarily reflect intra-day exposures.

The Group does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position, as well as gap analysis.

A summary of the VaR estimates in respect of foreign currency risk and securities price risk of the Group's portfolio of financial instruments as at 31 December 2006 is as follows:

	31 December 2006
Foreign exchange risk	23
Fixed income securities price risk	159
Equity securities price risk	497

(i) Currency analysis

Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments.

Foreign exchange risk within the Group is managed by the foreign exchange trading desks in respect of trading foreign exchange positions which are opened within the limits established by the ALCO. Other structural exposures to foreign exchange risk are managed by the Treasury Department.

The aggregate foreign exchange exposures are controlled by the Risk Department. The trading foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

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

25 Financial Risk Management (Continued)

As at 31 December 2006, the Group has the following positions in different currencies:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	11 216	16 889	4 107	430	32 642
Mandatory cash balances with central banks	3 145	-	-	885	4 030
Due from other banks	5 739	6 487	630	345	13 201
Trading securities					
- owned by the Group	10 072	3 437	1	-	13 510
- pledged under sale and repurchase agreements	1 969	1 655	-	-	3 624
Derivative financial instruments	19	171	61	4	255
Other financial instruments at fair value through profit or loss	-	1 404	-	-	1 404
Loans and advances to customers	84 343	71 485	10 931	116	166 875
Current income tax prepayments	377	-	-	-	377
Other assets	2 074	627	38	22	2 761
Premises and equipment	4 424	5	-	14	4 443
Total assets	**123 378**	**102 160**	**15 768**	**1 816**	**243 122**
Liabilities					
Due to other banks	16 917	36 710	7 239	6	60 872
Trading liabilities	229	-	-	-	229
Derivative financial instruments	447	195	5	20	667
Customer accounts	42 695	47 396	2 222	492	92 805
Debt securities in issue	8 864	35 677	8 329	-	52 870
Subordinated debt	-	5 452	-	-	5 452
Other liabilities	1 154	1 023	40	34	2 251
Deferred tax liability	652	-	-	-	652
Total liabilities	**70 958**	**126 453**	**17 835**	**552**	**215 798**
Net balance sheet position	**52 420**	**(24 293)**	**(2 067)**	**1 264**	**27 324**
Off balance sheet net notional position	**(24 761)**	**23 401**	**2 602**	**(1 242)**	**-**
Credit related commitments	**17 633**	**20 573**	**3 544**	**5**	**41 755**

Currency classification of monetary assets and liabilities is based on the currency in which they are denominated. Investments in equities have been attributed to the currency of the country where the issuer of the equity instrument is resident (predominantly, the Russian Rouble and the Russian Federation, respectively). Currency classification of tangible assets (precious metals, premises and equipment) and prepayments has been based on the functional currency used to record them.

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

25 Financial Risk Management (Continued)

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against the Russian Rouble may adversely affect the borrower's repayment ability and therefore increase the likelihood of future loan losses.

As at 31 December 2005, the Group had the following positions in different currencies:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	7 055	20 576	3 329	386	31 346
Mandatory cash balances with central banks	1 823	-	-	318	2 141
Due from other banks	4 094	1 007	654	574	6 329
Trading securities					
- owned by the Group	5 060	1 595	-	-	6 655
- pledged under sale and repurchase agreements	-	3 209	-	-	3 209
Derivative financial instruments	9	22	2	-	33
Other financial instruments at fair value through profit or loss	-	2 484	-	-	2 484
Loans and advances to customers	44 135	33 955	2 160	63	80 313
Current income tax prepayments	570	-	-	-	570
Other assets	984	114	15	80	1 193
Premises and equipment	4 504	-	-	16	4 520
Total assets	**68 234**	**62 962**	**6 160**	**1 437**	**138 793**
Liabilities					
Due to other banks	6 320	23 165	3 637	7	33 129
Derivative financial instruments	8	9	-	2	19
Customer accounts	21 654	31 205	2 678	436	55 973
Debt securities in issue	2 719	19 896	67	-	22 682
Other liabilities	1 007	69	43	328	1 447
Deferred tax liability	1 044	-	-	-	1 044
Total liabilities	**32 752**	**74 344**	**6 425**	**773**	**114 294**
Net balance sheet position	**35 482**	**(11 382)**	**(265)**	**664**	**24 499**
Off balance sheet net notional position	**(8 942)**	**8 475**	**481**	**(14)**	**-**
Credit related commitments	**5 836**	**10 782**	**3 161**	**57**	**19 836**

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

25 Financial Risk Management (Continued)

(ii) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed 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 also reduce or create losses in the event that unexpected movements arise. ALCO is responsible for the Group's asset and liability management. ALCO delegates day-to-day management of the interest rate mismatch to the Treasury Department.

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

	31 December 2006 %			31 December 2005 %		
	RUR	USD	EUR and other currencies	RUR	USD	EUR and other currencies
Assets						
Due from other banks:						
- Current interbank loans	7.1	6.0	3.2	8.3	4.9	2.8
- Reverse sale and repurchase agreements	9.0	5.9	-	10.7	-	-
Trading securities:						
- Russian Federation Eurobonds	-	6.1	-	-	-	-
- Municipal bonds issued by Russian municipalities	6.8	-	-	5.7	-	-
- Russian Federal loan bonds (OFZ)	6.5	-	-	6.5	-	-
- VneshEconomBank (VEB) 3% coupon bonds ("MinFin bonds")	-	5.6	-	-	5.7	-
- Corporate bonds	9.2	9.1	-	8.5	6.8	-
- Promissory notes	8.5	-	-	7.9	7.5	-
Other financial instruments at fair value through profit or loss	-	18.4	-	-	13.3	-
Loans and advances to customers:						
- Loans and advances	13.1	11.5	10.1	13.0	11.4	7.8
- Reverse sale and repurchase agreements	9.2	9.1	-	11.1	8.9	-
Liabilities						
Due to other banks:						
- Term deposits from other banks	5.5	6.1	4.8	6.1	5.6	2.5
- Sale and repurchase agreements	6.7	6.7	-	-	5.8	-
Customer accounts:						
- Term deposits	6.6	6.8	4.0	7.3	6.7	3.9
- Sale and repurchase agreements	2.0	-	-	-	3.9	-
Debt securities in issue:						
- Unsecured loan participation notes	-	7.6	-	-	8.7	-
- Loan participation notes secured by diversified payments rights	-	8.1	6.5	-	-	-
- Loan participation notes secured by a pool of car loans	-	9.0	-	-	-	-
- Promissory notes	7.8	6.5	4.9	7.3	6.7	3.8
- Bonds	7.8	-	-	-	-	-
- Deposit certificates	6.4	-	-	-	-	-
Subordinated debt	-	10.1	-	-	-	-

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

25 Financial Risk Management (Continued)

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

	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	32 642	-	-	-	-	-	32 642
Mandatory cash balances with central banks	-	-	-	-	-	4 030	4 030
Due from other banks	6 403	2 404	4 229	165	-	-	13 201
Trading securities							
- owned by the Group	408	155	919	664	9 186	2 178	13 510
- pledged under sale and repurchase agreements	-	-	-	-	3 624	-	3 624
Derivative financial instruments	-	-	-	-	-	255	255
Other financial instruments at fair value through profit or loss	-	-	-	-	1 404	-	1 404
Loans and advances to customers	19 629	37 587	27 895	29 967	51 797	-	166 875
Current income tax prepayments	-	-	-	-	-	377	377
Other assets	-	-	-	-	-	2 761	2 761
Premises and equipment	-	-	-	-	-	4 443	4 443
Total assets	**59 082**	**40 146**	**33 043**	**30 796**	**66 011**	**14 044**	**243 122**
Liabilities							
Due to other banks	40 875	4 149	7 000	5 952	2 896	-	60 872
Trading liabilities	-	-	-	-	-	229	229
Derivative financial instruments	-	-	-	-	-	667	667
Customer accounts	47 593	19 415	8 745	13 942	3 110	-	92 805
Debt securities in issue	12 295	21 840	2 644	15 824	267	-	52 870
Subordinated debt	-	-	-	-	5 452	-	5 452
Other liabilities	-	-	-	-	-	2 251	2 251
Deferred tax liability	-	-	-	-	-	652	652
Total liabilities	**100 763**	**45 404**	**18 389**	**35 718**	**11 725**	**3 799**	**215 798**
Interest rate sensitivity gap	**(41 681)**	**(5 258)**	**14 654**	**(4 922)**	**54 286**	**10 245**	**27 324**

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

25 Financial Risk Management (Continued)

The Group's exposure to interest rate risks as at 31 December 2005 is set out below:

	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	31 346	-	-	-	-	-	31 346
Mandatory cash balances with central banks	-	-	-	-	-	2 141	2 141
Due from other banks	4 117	549	133	1 019	511	-	6 329
Trading securities							
- owned by the Group	33	319	1 630	407	4 069	197	6 655
- pledged under sale and repurchase agreements	-	-	-	-	3 209	-	3 209
Derivative financial instruments	-	-	-	-	-	33	33
Other financial instruments at fair value through profit or loss	-	-	-	-	2 484	-	2 484
Loans and advances to customers	5 042	15 392	16 316	20 973	22 590	-	80 313
Current income tax prepayments	-	-	-	-	-	570	570
Other assets	-	-	-	-	-	1 193	1 193
Premises and equipment	-	-	-	-	-	4 520	4 520
Total assets	**40 538**	**16 260**	**18 079**	**22 399**	**32 863**	**8 654**	**138 793**
Liabilities							
Due to other banks	14 516	13 998	3 122	977	516	-	33 129
Derivative financial instruments	-	-	-	-	-	19	19
Customer accounts	39 007	5 652	5 238	4 395	1 681	-	55 973
Debt securities in issue	2 973	1 885	1 323	9 442	7 059	-	22 682
Other liabilities	-	-	-	-	-	1 447	1 447
Deferred tax liability	-	-	-	-	-	1 044	1 044
Total liabilities	**56 496**	**21 535**	**9 683**	**14 814**	**9 256**	**2 510**	**114 294**
Interest rate sensitivity gap	**(15 958)**	**(5 275)**	**8 396**	**7 585**	**23 607**	**6 144**	**24 499**

25 Financial Risk Management (Continued)

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

An analysis of sensitivity of the Group's projected net interest margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel fall or rise in all yield curves (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	31 December 2006
100 bp parallel increase	21
100 bp parallel decrease	(21)

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including MDM Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

25 Financial Risk Management (Continued)

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios include:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days.

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The Bank was in compliance with the above ratios during the year ended 31 December 2006.

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

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

25 Financial Risk Management (Continued)

The two tables which follow show carrying amounts of assets and liabilities of the Group by their remaining contractual maturity, with the exception of trading securities owned by the Group, which are shown in the category "Demand and less than 1 month" based on the fact that Management believes that all of these trading securities could be liquidated within one month in the normal course of business.

The position as at 31 December 2006 is set out below:

	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	32 642	-	-	-	-	-	32 642
Mandatory cash balances with central banks	2 289	522	499	497	223	-	4 030
Due from other banks	6 403	2 404	4 229	165	-	-	13 201
Trading securities							
- owned by the Group	13 510	-	-	-	-	-	13 510
- pledged under sale and repurchase agreements	2 506	1 118	-	-	-	-	3 624
Derivative financial instruments	36	154	8	57	-	-	255
Other financial instruments at fair value through profit or loss	-	-	-	-	1 404	-	1 404
Loans and advances to customers	18 592	37 443	27 896	30 461	52 483	-	166 875
Current income tax prepayments	-	-	207	170	-	-	377
Other assets	2 120	99	128	179	235	-	2 761
Premises and equipment	-	-	-	-	-	4 443	4 443
Total assets	**78 098**	**41 740**	**32 967**	**31 529**	**54 345**	**4 443**	**243 122**
Liabilities							
Due to other banks	40 875	4 149	6 822	6 055	2 971	-	60 872
Trading liabilities	229	-	-	-	-	-	229
Derivative financial instruments	128	254	-	17	268	-	667
Customer accounts	47 593	19 415	8 745	13 942	3 110	-	92 805
Debt securities in issue	2 923	10 277	4 387	13 091	22 192	-	52 870
Subordinated debt	226	-	-	-	5 226	-	5 452
Other liabilities	1 090	880	18	40	223	-	2 251
Deferred tax liability	-	-	-	-	-	652	652
Total liabilities	**93 064**	**34 975**	**19 972**	**33 145**	**33 990**	**652**	**215 798**
Net liquidity gap	**(14 966)**	**6 765**	**12 995**	**(1 616)**	**20 355**	**3 791**	**27 324**
Cumulative liquidity gap	**(14 966)**	**(8 201)**	**4 794**	**3 178**	**23 533**	**27 324**	-

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

25 Financial Risk Management (Continued)

The position as at 31 December 2005 is set out below:

	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	31 346	-	-	-	-	-	31 346
Mandatory cash balances with central banks	1 276	332	231	255	47	-	2 141
Due from other banks	4 117	549	133	1 019	511	-	6 329
Trading securities							
- owned by the Group	6 655	-	-	-	-	-	6 655
- pledged under sale and repurchase agreements	2 342	867	-	-	-	-	3 209
Derivative financial instruments	33	-	-	-	-	-	33
Other financial instruments at fair value through profit or loss	-	-	-	-	2 484	-	2 484
Loans and advances to customers	5 042	15 252	15 877	20 989	23 153	-	80 313
Current income tax prepayments	-	-	286	284	-	-	570
Other assets	1 160	-	32	1	-	-	1 193
Premises and equipment	-	-	-	-	-	4 520	4 520
Total assets	**51 971**	**17 000**	**16 559**	**22 548**	**26 195**	**4 520**	**138 793**
Liabilities							
Due to other banks	12 078	8 566	4 746	6 638	1 101	-	33 129
Derivative financial instruments	14	2	1	2	-	-	19
Customer accounts	39 007	5 652	5 238	4 395	1 681	-	55 973
Debt securities in issue	2 973	443	1 323	10 884	7 059	-	22 682
Other liabilities	1 322	30	63	14	18	-	1 447
Deferred tax liability	-	-	-	-	-	1 044	1 044
Total liabilities	**55 394**	**14 693**	**11 371**	**21 933**	**9 859**	**1 044**	**114 294**
Net liquidity gap	**(3 423)**	**2 307**	**5 188**	**615**	**16 336**	**3 476**	**24 499**
Cumulative liquidity gap	**(3 423)**	**(1 116)**	**4 072**	**4 687**	**21 023**	**24 499**	-

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

25 Financial Risk Management (Continued)

The following table shows the contractual maturities of trading securities of the Group:

	31 December 2006	31 December 2005
Demand and less than 1 month	408	33
From 1 to 3 months	155	319
From 3 to 6 months	919	1 630
From 6 to 12 months	664	407
More than one year	12 810	7 278
No stated maturity	2 178	197
Total trading securities	**17 134**	**9 864**

Management believes that in spite of a substantial portion of deposits from customers being on demand (customer current/settlement accounts), diversification of these deposits by number and type of depositors, and the past experience of the Group, would indicate that these deposits provide a long-term and stable source of funding for the Group.

The following table shows the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Gross nominal (inflow)/ outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

The position of the Group as at 31 December 2006 was as follows:

	Demand and less than 1 month	From 1 to 3 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross nominal inflow/ (outflow)	Carrying amount
Non-derivative liabilities							
Due to other banks	40 912	4 186	6 861	6 319	4 298	62 576	60 872
Trading liabilities	229	-	-	-	-	229	229
Customer accounts	47 631	19 795	9 012	14 672	5 163	96 273	92 805
Debt securities in issue	3 053	10 970	5 292	14 765	24 371	58 451	52 870
Subordinated debt	257	-	-	257	7 320	7 834	5 452
Other liabilities	1 090	880	18	40	223	2 251	2 251
Derivative liabilities							
- Inflow	(27 220)	(8 565)	(3 553)	(6 696)	(12 299)	(58 333)	(255)
- Outflow	27 248	8 610	3 624	6 901	12 765	59 148	667
Total	**93 200**	**35 876**	**21 254**	**36 258**	**41 841**	**228 429**	**214 891**
Credit related commitments	**17 390**	**2 965**	**5 917**	**12 322**	**3 211**	**41 805**	**41 755**

25 Financial Risk Management (Continued)

(e) Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, or systems failure. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal risk.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures which restrict initiative and creativity.

The primary responsibility for the implementation of controls to address operational risk is assigned to management within each business unit. This responsibility is supported by the development of overall standards within the Group for the management of operational risk which is done by the Risk Department and which cover the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced;
- the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate and presented to the Risk Department, with summaries submitted to the Audit and Risk Committees and senior management of the Group.

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

25 Financial Risk Management (Continued)

(f) Geographical analysis

The majority of the operations of the Group are located in Russia. The geographical analysis of the Group's assets and liabilities as at 31 December 2006 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	13 230	16 013	3 399	32 642
Mandatory cash balances with central banks	3 145	-	885	4 030
Due from other banks	7 186	5 273	742	13 201
Trading securities				
- owned by the Group	13 510	-	-	13 510
- pledged under sale and repurchase agreements	3 624	-	-	3 624
Derivative financial instruments	183	70	2	255
Other financial instruments at fair value through profit or loss	1 404	-	-	1 404
Loans and advances to customers	166 127	694	54	166 875
Current income tax prepayments	377	-	-	377
Other assets	2 390	3	368	2 761
Premises and equipment	4 424	-	19	4 443
Total assets	**215 600**	**22 053**	**5 469**	**243 122**
Liabilities				
Due to other banks	18 476	38 696	3 700	60 872
Trading liabilities	-	-	229	229
Derivative financial instruments	104	563	-	667
Customer accounts	53 158	15 690	23 957	92 805
Debt securities in issue	19 056	31 423	2 391	52 870
Subordinated debt	-	5 452	-	5 452
Other liabilities	1 980	10	261	2 251
Deferred tax liability	652	-	-	652
Total liabilities	**93 426**	**91 834**	**30 538**	**215 798**

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

25 Financial Risk Management (Continued)

The geographical analysis of the Group's assets and liabilities as at 31 December 2005 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	10 133	19 673	1 540	31 346
Mandatory cash balances with central banks	1 823	-	318	2 141
Due from other banks	5 308	14	1 007	6 329
Trading securities				
- owned by the Group	6 655	-	-	6 655
- pledged under sale and repurchase agreements	3 209	-	-	3 209
Derivative financial instruments	25	8	-	33
Other financial instruments at fair value through profit or loss	2 484	-	-	2 484
Loans and advances to customers	80 173	139	1	80 313
Current income tax prepayments	570	-	-	570
Other assets	900	216	77	1 193
Premises and equipment	4 504	-	16	4 520
Total assets	**115 784**	**20 050**	**2 959**	**138 793**
Liabilities				
Due to other banks	12 248	15 826	5 055	33 129
Derivative financial instruments	9	10	-	19
Customer accounts	31 174	18 678	6 121	55 973
Debt securities in issue	6 076	16 569	37	22 682
Other liabilities	829	59	559	1 447
Deferred tax liability	1 044	-	-	1 044
Total liabilities	**51 380**	**51 142**	**11 772**	**114 294**

The majority of credit related commitments, as at 31 December 2006 and 31 December 2005, relate to residents of the Russian Federation.

The geographical classification of financial assets, liabilities and credit related commitments has been based on the country in which the counterparty is located. The classification of tangible assets (precious metals, premises and equipment) has been based on the country in which they are physically held.

First to default credit-linked notes included as at 31 December 2006 and 31 December 2005 within other financial instruments at fair value through profit or loss are presented in the above tables as being with Russian counterparties, as the majority of bonds, upon repayment of which repayment of first to default credit-linked notes is dependent, are issued by Russian issuers.

As at 31 December 2006, loans and advances to customers of RUR 28 060 million (31 December 2005: RUR 5 731 million), included in the above tables as being with Russian counterparties, have been granted to subsidiaries and affiliates of these Russian counterparties located outside of the Russian Federation.

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

25 Financial Risk Management (Continued)

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Central Bank of Russia sets and monitors capital requirements for MDM Bank, the lead operating entity of the Group. The Central Bank of Latvia sets and monitors capital requirements for Latvian Trade Bank.

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2006, this minimum level is 10%.

MDM Bank was in compliance with the statutory capital ratio during the year ended 31 December 2006.

The Group and the Bank also are subject to minimum capital requirements established by covenants under liabilities incurred by the Bank or the Group, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2006:

	31 December 2006
Tier 1 capital	
Share capital	1 736
Share premium	9 588
Cumulative translation reserve	(21)
Retained earnings	14 079
Total tier 1 capital	**25 382**
Tier 2 capital	
Asset revaluation reserve	1 942
Subordinated debt (unamortised portion)	4 767
Total tier 2 capital	**6 709**
Total capital	**32 091**
Risk-weighted assets	
Banking book	210 322
Trading book	23 194
Total risk weighted assets	**233 516**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**13.7**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**10.9**

25 Financial Risk Management (Continued)

There is no specific guidance in the Basle Accord in respect of credit derivative products. The Bank calculated the capital adequacy requirement for its investments in first to default credit-linked notes included within other financial instruments at fair value through profit or loss by applying a 100% risk weighting to the carrying amount of the notes recognised within assets, and a 100% risk weighting to the credit related commitment arising from the notes, which is equal to the nominal amount of the notes. The treatment of credit derivatives is specifically addressed in the Revised International Capital Framework, commonly known as Basel II. The application of the methodology outlined in Basel II would result in a lower total capital ratio and tier 1 capital ratio.

The Management believes that a 10% tier I capital ratio and a 12% total capital ratio, calculated in accordance with the requirements of the Basle Accord, are the appropriate minimum capitalization levels for the Group and MDM Bank.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. Although maximisation of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are regularly reviewed by the Board of Directors of MDM Bank through approval and review of annual budgets, including those for various business segments of the Group.

26 Contingent Liabilities and Commitments

(a) Legal proceedings

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

(b) Tax legislation

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 constantly changing, 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 are also changing, sometimes with retroactive effect.

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 consolidated financial statements, should the authorities succeed in asserting their positions, could be significant.

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

26 Contingent Liabilities and Commitments (Continued)

During the year ended 31 December 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 and resolved in the Bank's favour. Therefore no provision in respect of this matter has been recorded in the consolidated financial statements of the Group for the year ended 31 December 2006.

(c) Capital commitments

As at 31 December 2006, the Group has capital commitments mainly in respect of the development of its branch network and system enhancements, totalling approximately RUR 272 million (31 December 2005: RUR 183 million).

(d) Operating lease commitments

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

	31 December 2006	31 December 2005
Not later than 1 year	42	57
Later than 1 year and not later than 5 years	87	94
Later than 5 years	187	108
Total operating lease commitments	**316**	**259**

During the year ended 31 December 2006 RUR 191 million was recognised as an expense in the consolidated statement of income in respect of operating leases (31 December 2005: RUR 211 million).

(e) Credit related commitments

Credit related commitments comprise letters of credit, guarantees and undrawn loan commitments. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless.

Outstanding credit related commitments are as follows:

	31 December 2006	31 December 2005
Letters of credit	19 444	13 272
Undrawn loan commitments	14 756	5 012
Guarantees issued	7 605	1 616
Total credit related commitments	**41 805**	**19 900**

The Group creates provisions for losses on a collective basis for its credit related commitments.

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

26 Contingent Liabilities and Commitments (Continued)

Movements in provision for losses on credit related commitments are as follows:

	2006	2005
Provision for losses in respect of credit related commitments as at 1 January	**64**	**34**
Effect of foreign currency translation	(1)	-
(Reversal of)/Charge to provision during the year	(13)	30
Provision for losses in respect of credit related commitments as at 31 December	**50**	**64**

This provision is recorded within other liabilities. Refer to Note 17.

The total outstanding contractual amount of guarantees, letters of credit and undrawn loan commitments does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Currency analysis of credit related commitments is disclosed in Note 25. Information on related party transactions is disclosed in Note 28.

(f) Fiduciary assets

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

The Group also provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds or invests funds received at the discretion of the customer. The Group provides asset management services to its customers, whereby it manages assets or invests funds received in various financial instruments. The Group receives fee income for providing these services. Trust assets and assets for which the Group provide asset management services to its customers are not assets of the Group and are not recognised in the consolidated balance sheet. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2006, total assets held in trust by the Group on behalf of customers are RUR 309 million (31 December 2005: RUR 515 million).

As at 31 December 2006, total assets for which the Group provide asset management services to its customers are RUR 349 million (31 December 2005: RUR 54 million).

27 Fair Value of Financial Instruments

The Group has performed an assessment of its financial instruments, as required by International Financial Reporting Standard IAS 32 "Financial Instruments: Disclosure and Presentation".

The estimated fair value of cash, correspondent accounts with central banks, correspondent accounts, overnight deposits with other banks and other floating rate placements is their carrying value.

The estimated fair value of fixed rate balances due from other banks, including central banks, is calculated based on discounted expected future principal and interest cash flows.

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

27 Fair Value of Financial Instruments (Continued)

The estimated fair value of quoted trading securities, derivative financial instruments and other financial instruments at fair value through profit or loss is based on quoted market prices at the balance sheet date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

The estimated fair value of due to other banks and customer accounts balances, which are payable on demand, is their carrying value. The estimated fair value of due to other banks and customer accounts balances, which are not payable on demand, and other borrowed funds, which are not quoted in an active market, is calculated based on discounted expected future principal and interest cash flows.

The estimated fair value of quoted debt securities in issue and subordinated debt is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received.

The following table summarises the fair values of major financial assets and liabilities which are not presented on the balance sheet at their fair value:

	31 December 2006		31 December 2005	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Mandatory cash balances with central banks	4 030	3 953	2 141	2 105
Due from other banks	13 201	13 214	6 329	6 328
Loans and advances to customers	166 875	167 104	80 313	80 393
Due to other banks	(60 872)	(61 008)	(33 129)	(33 042)
Customer accounts	(92 805)	(92 856)	(55 973)	(55 923)
Debt securities in issue	(52 870)	(53 138)	(22 682)	(22 777)
Subordinated debt	(5 452)	(5 697)	-	-

Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

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

28 Related Party Transactions

For the purposes of these consolidated 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.

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

28 Related Party Transactions (Continued)

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 primary consist of Joint Stock Company Mineral and Chemical Company EuroChem (mineral fertilizers), Joint Stock Company Siberian Coal Energy Company (SUEK) (coal and energy), holding companies for these companies and other fellow subsidiaries, and TMK (pipes). TMK ceased to be a related party in October 2006.

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.

The following table shows exposure of the Group to related parties as at 31 December 2006 and 31 December 2005:

	31 December 2006		31 December 2005	
	Amount	**% of Total assets**	**Amount**	**% of Total assets**
Total balance sheet exposure (net of impairment)	1 483	0.6	2 920	2.1
Total (on and off balance sheet) exposure (net of impairment)	1 490	0.6	3 046	2.2

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

28 Related Party Transactions (Continued)

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

	(a) Beneficiaries	(b) Directors and key management	(c) MDM Financial Group	(d) Other related parties				Total
				EuroChem	SUEK	Other	Total	
Assets								
Trading securities								
- Corporate bonds	**-**	**-**	**-**	-	9	-	**9**	**9**
- Corporate shares	**-**	**-**	**-**	-	771	-	**771**	**771**
Loans and advances to customers (gross)	**-**	**38**	**-**	-	522	-	**522**	**560**
Loan impairment	**-**	**-**	**-**	-	(6)	-	**(6)**	**(6)**
Derivatives	**-**	**-**	**-**	-	149	-	**149**	**149**
Total assets	**-**	**38**	**-**	**-**	**1 445**	**-**	**1 445**	**1 483**
Liabilities								
Customer accounts								
- Current accounts	**1 196**	**7**	**208**	50	91	22	**163**	**1 574**
- Term deposits	**310**	**59**	**2 388**	-	-	7 906	**7 906**	**10 663**
Derivatives	**-**	**-**	**-**	-	5	-	**5**	**5**
Total liabilities	**1 506**	**66**	**2 596**	**50**	**96**	**7 928**	**8 074**	**12 242**
Credit related commitments								
Credit related commitments	**-**	**-**	**-**	-	7	-	**7**	**7**

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

28 Related Party Transactions (Continued)

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

	(a) Beneficiaries	(b) Directors and key management	(c) MDM Financial Group	(d) Other related parties					Total
				EuroChem	SUEK	TMK	Other	Total	
Assets									
Cash and cash equivalents	**-**	**-**	**3**	-	-	-	-	**-**	**3**
Due from other banks									
- Current interbank loans	**-**	**-**	**527**	-	-	-	-	**-**	**527**
Trading securities									
- Corporate bonds	**-**	**-**	**-**	-	1	37	-	**38**	**38**
Loans and advances to customers (gross)	**-**	**91**	**-**	-	1 374	932	-	**2 306**	**2 397**
Loan impairment	**-**	**-**	**-**	-	(27)	(18)	-	**(45)**	**(45)**
Total assets	**-**	**91**	**530**	**-**	**1 348**	**951**	**-**	**2 299**	**2 920**
Liabilities									
Due to banks									
- Correspondent accounts	**-**	**-**	**346**	-	-	-	-	**-**	**346**
- Term deposits	**-**	**-**	**978**	-	-	-	-	**-**	**978**
Customer accounts									
- Current accounts	**-**	**-**	**1 498**	88	398	-	49	**535**	**2 033**
- Term deposits	**400**	**15**	**778**	-	-	-	-	**-**	**1 193**
Promissory notes issued	**-**	**-**	**-**	-	50	-	-	**50**	**50**
Total liabilities	**400**	**15**	**3 600**	**88**	**448**	**-**	**49**	**585**	**4 600**
Credit related commitments									
Credit related commitments	**-**	**-**	**-**	-	-	127	-	**127**	**127**
Provision for losses in respect of credit related commitments	**-**	**-**	**-**	-	-	(1)	-	**(1)**	**(1)**

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

28 Related Party Transactions (Continued)

The results of transactions with related parties for the year ended 31 December 2006 are as follows:

	(a) Beneficiaries	(b) Directors and key management	(c) MDM Financial Group	(d) Other related parties					Total
				EuroChem	SUEK	TMK	Other	Total	
Interest income on due from banks	**-**	**-**	**26**	-	-	-	-	**-**	**26**
Interest income on loans and advances to customers	**-**	**6**	**138**	-	71	38	134	**243**	**387**
Interest income received from securities issued by related parties	**-**	**-**	**-**	-	1	6	-	**7**	**7**
Loan impairment reversal/(losses)	**-**	**-**	**-**	-	21	18	(2)	**37**	**37**
Interest expense on due to banks	**-**	**-**	**(21)**	-	-	-	-	**-**	**(21)**
Interest expense on customer accounts	**(17)**	**(2)**	**(132)**	-	-	-	(10)	**(10)**	**(161)**
Interest expense on debt securities issued to related parties	**-**	**-**	**-**	-	(1)	-	-	**(1)**	**(1)**
Net trading gain from trading in securities issued by related parties	**-**	**-**	**-**	-	1	1	-	**2**	**2**
Results from trading in foreign currencies	**-**	**-**	**-**	3	9	(1)	2	**13**	**13**
Net fee and commission income	**-**	**-**	**(88)**	1	6	-	-	**7**	**(81)**
Other operating income	**-**	**-**	**2**	-	-	-	-	**-**	**2**
Operating expenses	**-**	**(736)**	**(5)**	-	(94)	-	-	**(94)**	**(835)**

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

28 Related Party Transactions (Continued)

The results of transactions with related parties for the year ended 31 December 2005 are as follows:

	(a) Beneficiaries	(b) Directors and key management	(c) MDM Financial Group	(d) Other related parties					Total
				EuroChem	SUEK	TMK	Other	Total	
Interest income on due from banks	**-**	**-**	**62**	-	-	-	-	**-**	**62**
Interest income on loans and advances to customers	**-**	**5**	**581**	14	454	57	107	**632**	**1 218**
Interest income received from securities issued by related parties	**-**	**-**	**-**	-	13	15	-	**28**	**28**
Loan impairment reversal/(losses)	**-**	**-**	**-**	3	41	(14)	-	**30**	**30**
Interest expense on due to banks	**-**	**-**	**(473)**	-	-	-	-	**-**	**(473)**
Interest expense on customer accounts	**(39)**	**-**	**(22)**	-	-	-	(10)	**(10)**	**(71)**
Net trading gain from trading in securities issued by related parties	**-**	**-**	**-**	-	-	7	-	**7**	**7**
Results from trading in foreign currencies	**-**	**-**	**4**	-	-	-	4	**4**	**8**
Net fee and commission income	**-**	**-**	**(423)**	1	8	13	-	**22**	**(401)**
Other operating income	**-**	**-**	**6**	-	15	-	-	**15**	**21**
Operating expenses	**-**	**(485)**	**-**	-	(17)	-	-	**(17)**	**(502)**

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

28 Related Party Transactions (Continued)

(a) Transactions with beneficiaries of the Group

As at 31 December 2006 and 31 December 2005, term deposits from beneficiaries have remaining maturities less than one year. The table below summarises information about average effective interest rates and outstanding balances of term deposits from beneficiaries:

	2006				2005			
	RUR	**USD**	**EUR**	**Total**	**RUR**	**USD**	**EUR**	**Total**
Outstanding balances, as at 31 December	-	246	64	**310**	-	343	57	**400**
Average effective interest rate, %, as at 31 December	-	6.7	4.9	**6.3**	-	7.6	7.9	**7.6**
Average daily balances during the year	-	189	58	**247**	25	639	56	**720**

(b) Transactions with the members of the board of directors and key management personnel

The total remuneration of the members of the Board of Directors of MDM Bank, including discretionary compensation, amounts to RUR 94 million for the year ended 31 December 2006 (31 December 2005: RUR 43 million). MDM Bank's Board of Directors elected in May 2006 is composed of six members, all of them non-executive. The Board also includes four Board Committees: audit, strategy, risk, and nomination and remuneration. Boards stand for re-election every year under Russian law.

Key management personnel comprise members of the Executive Management Board of MDM Bank, and the Chief accountant of MDM Bank.

The total remuneration of key management personnel, including discretionary compensation, is as follows:

	2006	**2005**
Salary and bonuses	574	409
Contributions to the Russian Federation State pension fund	-	1
Termination benefits	68	32
Total remuneration of key management personnel	**642**	**442**

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

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

28 Related Party Transactions (Continued)

The table below summarises information about average effective interest rates and outstanding balances of loans to the directors and key management personnel:

	31 December 2006				31 December 2005			
	RUR	USD	EUR	Total	RUR	USD	EUR	Total
Outstanding balances, as at 31 December	38	-	-	**38**	35	56	-	**91**
Average effective interest rate, %, as at 31 December	10.0	-	-	**10.0**	10.5	10.0	-	**10.2**
Average daily balances during the year	19	38	-	**57**	1	40	-	**41**

As at 31 December 2006, loans to directors and key management personnel of RUR 38 million made under sale and repurchase agreements were collateralised by corporate shares with a fair value of RUR 61 million (31 December 2005: RUR 35 million, collateralised by corporate shares with a fair value of RUR 43 million).

The table below summarises information about remaining maturities of loans to the directors and key management personnel:

	31 December 2006	31 December 2005
Up to one year	38	36
From 1 to 5 years	-	55
Total loans to the directors and key management personnel	**38**	**91**

As at 31 December 2006 and 31 December 2005, term deposits from the directors and key management personnel have remaining maturities less than one year. The table below summarises information about average effective interest rates and outstanding balances of term deposits from the directors and key management personnel:

	31 December 2006				31 December 2005			
	RUR	USD	EUR	Total	RUR	USD	EUR	Total
Outstanding balances, as at 31 December	33	13	13	**59**	-	4	11	**15**
Average effective interest rate, %, as at 31 December	8.1	6.3	4.4	**6.9**	-	6.2	5.0	**5.3**
Average daily balances during the year	17	5	9	**31**	22	34	9	**65**

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

28 Related Party Transactions (Continued)

(c) Transactions with entities of MDM Financial Group other than subsidiaries of MDM Bank

The table below summarises information about average effective interest rates and outstanding balances with other related parties:

	31 December 2006				31 December 2005			
	RUR	USD	EUR	Total	RUR	USD	EUR	Total
Current interbank loans due from other banks								
Outstanding balance	-	-	-	**-**	510	14	3	**527**
Average yield to maturity, %	-	-	-	**-**	7.0	7.3	9.3	**7.0**
Term deposits due to banks								
Outstanding balance	-	-	-	**-**	20	958	-	**978**
Average yield to maturity, %	-	-	-	**-**	15.2	4.7	-	**4.9**
Term deposits due to customers								
Outstanding balance	2 388	-	-	**2 388**	323	455	-	**778**
Average effective interest rate, %	7.7	-	-	**7.7**	13.0	10.6	-	**11.6**

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

28 Related Party Transactions (Continued)

The table below summarises information about average balances with other related parties:

	2006	2005
Current interbank loans due from other banks		
RUR	286	388
USD	4	591
EUR	1	2 205
Loans and advances to customers		
RUR	-	262
USD	2 576	6 927
Term deposits due to other banks		
RUR	107	5 112
USD	268	315
Term deposits due to customers		
RUR	1 098	108
USD	236	30
EUR	7	-

The table below summarises information about the remaining maturity of balances with other related parties:

	31 December 2006	31 December 2005
Current interbank loans due from other banks		
Up to one year remaining maturity	-	16
From 1 to 5 years remaining maturity	-	511
Term deposits due to other banks		
Up to one year remaining maturity	-	959
From 1 to 5 years remaining maturity	-	19
Term deposits due to customers		
Up to one year remaining maturity	1 113	33
From 1 to 5 years remaining maturity	1 275	745

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

28 Related Party Transactions (Continued)

(d) Transactions with other related parties

The table below summarises information about average effective interest rates and outstanding balances with other related parties:

	31 December 2006				31 December 2005			
	RUR	USD	EUR	Total	RUR	USD	EUR	Total
Corporate bonds								
Outstanding balance	2	7	-	**9**	38	-	-	**38**
Average yield to maturity, %	7.1	8.6	-	**8.6**	7.8	-	-	**7.8**
Corporate shares								
Outstanding balance	771	-	-	**771**	-	-	-	**-**
Loans and advances to customers								
Outstanding balance	522	-	-	**522**	1 644	662	-	**2 306**
Average yield to maturity, %	13.2	-	-	**13.2**	11.4	10.5	-	**11.1**
Term deposits due to customers								
Outstanding balance	-	7 906	-	**7 906**	-	-	-	**-**
Average effective interest rate, %	-	8.1	-	**8.1**	-	-	-	**-**
Promissory notes								
Outstanding balance	-	-	-	**-**	50	-	-	**50**
Average effective interest rate, %	-	-	-	**-**	1.8	-	-	**1.8**
Credit related commitments								
Outstanding balance	7	-	-	**7**	127	-	-	**127**

Balances on current accounts of other related parties are on terms similar to those for third parties.

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

28 Related Party Transactions (Continued)

The table below summarises information about average balances with other related parties:

	2006	2005
Corporate bonds		
RUR	190	253
USD	7	-
Corporate shares		
RUR	164	-
Loans and advances to customers		
RUR	704	1 353
USD	2 243	4 223
Term deposits due to customers		
RUR	-	5
USD	274	12
EUR	21	-
Promissory notes		
RUR	41	7
Credit related commitments		
RUR	11	251

The table below summarises information about the remaining maturity of balances with other related parties:

	31 December 2006	31 December 2005
Corporate bonds		
Up to one year remaining maturity	2	30
From 1 to 5 years remaining maturity	7	8
Loans and advances to customers		
Up to one year remaining maturity	322	2 158
From 1 to 5 years remaining maturity	200	148
Term deposits		
Up to one year remaining maturity	7 906	-
Promissory notes		
Up to one year remaining maturity	-	50
Credit related commitments		
Up to one year remaining maturity	7	127

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

29 Principal Subsidiaries

Included in the table below is the list of the principal subsidiaries of the Group, as at 31 December 2006 and 31 December 2005.

Name	Jurisdiction	Voting rights/ Equity owned, % 31 December 2006	Voting rights/ Equity owned, % 31 December 2005
Banking			
Latvian Trade Bank	Latvia	100.0	63.3
Securities trading			
MDM Investments Limited	Cyprus	100.0	-
MCM Russian Investments Limited	Cyprus	100.0	-
Asset management			
MDM Asset Management	Russia	100.0	100.0
Leasing			
LeasingPromHold	Russia	100.0	100.0
Group real estate management			
MVK Nedvizhimost	Russia	100.0	100.0
Special purpose entities for financing transactions			
MDM International Funding plc	Ireland	100.0	100.0
Taganka Car Loan Finance plc	Ireland	100.0	-
MDM DPR Finance Company S.A.	Luxemburg	100.0	-

MDM Investments Limited is a company licensed by the Cyprus Securities and Exchange Commission specializing in securities brokerage, trading on its own account and asset management.

MCM Russian Investments Limited is a company that specializes in trading in securities on its own account and providing margin loans to customers of MDM Investments Limited.

MDM Asset Management is a company licensed by the Russian Federal Financial Markets Service to manage third-party assets and collective investment schemes.

LeasingPromHold is a company specializing in provision of leasing services to corporate customers of the Group.

MVK Nedvizhimost holds most of the Group's premises used in the course of the ordinary banking business, and provides real estate management services exclusively to the Group's entities (mostly MDM Bank). During the year ended 31 December 2006, the Group started the process of merging MDM Bank and MVK-Nedvizhimost.

MDM International Funding plc, Taganka Car Loan Finance plc and MDM DPR Finance Company S.A. are special purpose entities used for financing transactions in international capital markets such as Loan Participation Notes issues, asset securitisations, future flows (DPR) securitisations etc. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks and rewards related to the SPEs.

30 Changes in the Composition of the Group

In February 2006, MDM Bank increased its stake in Latvian Trade Bank from 63.3% to 100% by the acquisition of shares from MDM Financial Holding (Cyprus) for a consideration of RUR 620 million. 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.

In June 2006, MDM Bank acquired a 100% stake in MDM Investments Limited (Cyprus) from MDM Financial Holding (Cyprus) for a consideration of RUR 135 million. The difference between the consideration paid and the carrying value of net assets acquired of RUR 27 million was recorded directly in equity.

In July 2006, MDM Bank acquired a 100% stake in MCM Russian Investments Limited (Cyprus) from MDM Financial Holding (Cyprus) for a consideration of RUR 0.1 million. The difference between the carrying value of net assets acquired and the consideration paid of RUR 56 million was recorded directly in equity.

MDM Financial Holding (Cyprus), a 100% subsidiary of MDM Holding AG, has merged with MDM Holding AG during the year ended 2006.

31 Subsequent Events

In January 2007, the Group placed USD 425 million, or RUR 11 258 million, of unsecured loan participation notes. The notes have a coupon rate of 7.765% and mature in January 2010.

In January 2007, the Group disposed of its investments in first to default credit-linked notes for a consideration of USD 48.3 million, or RUR 1 282 million, net of accrued interest.