

Commercial Bank
“National Business Development Bank”
(Limited Liability Company)

Financial Statements
for the year ended 31 December 2006

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Independent Auditors' Report

To the Board of Directors of Commercial Bank "National Business Development Bank" (LLC)

Report on the Financial Statements

We have audited the accompanying financial statements of Commercial Bank "National Business Development Bank" (LLC) (the "Bank") as at 31 December 2006 and 31 December 2005, which comprise the balance sheets as at 31 December 2006 and 31 December 2005, the income statements and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits 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.


Basis for Qualified Opinion

The Bank has measured investments in associates stated at RUR 4,000 thousand as at 31 December 2006 and 31 December 2005 at cost in the accompanying balance sheets on the basis that these associates do not prepare financial statements in accordance with International Financial Reporting Standards. Should such financial statements be prepared, investments in associates would have been accounted in accordance with IAS 28 *Investments in associates*. The effects of this departure from International Financial Reporting Standards on investments in associates, share of profit or loss of associates, profit for the year, taxation and net assets attributable to participants as at and for the years ended 31 December 2006 and 31 December 2005 have not been determined.

We did not observe the counting of cash stated in the balance sheets at RUR 33,514 thousand as at 31 December 2006 and RUR 18,569 thousand as at 31 December 2005 because we were engaged as auditors of the Bank only after those dates. It was impracticable to satisfy ourselves as to those cash balances by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cash balances as at 31 December 2006 and 31 December 2005, income tax expense and profit for the years then ended.

Qualified Opinion


In our opinion, except for any effects of the matters described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006 and as at 31 December 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.


ZAO KPMG
16 October 2007

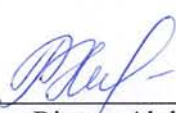
Commercial Bank "National Business Development Bank" (LLC)
Balance Sheet as of 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006 (restated)	2005 (restated)
Assets			
Cash		33,514	18,569
Due from the Central Bank of the Russian Federation	5	168,054	242,588
Placements with banks and other financial institutions	6	691,800	241,528
Financial instruments at fair value through profit or loss	7	261,625	47,569
Amounts receivable under reverse repurchase agreements	8	74,750	9,663
Loans to customers	9	2,682,399	1,269,841
Investments in associates	10	4,000	4,000
Current income tax prepayments		2,871	3,704
Property and equipment	11	8,650	5,281
Other assets	12	6,723	4,625
Total Assets		3,934,386	1,847,368
Liabilities			
Deposits and balances from banks and other financial institutions	13	27,913	180,307
Current accounts and deposits from customers	14	1,172,498	367,619
Debt securities issued	15	432,863	142,650
Current income tax payable		-	50
Other liabilities	16	6,933	1,720
Deferred tax liability	17	75,825	29,088
Net assets attributable to participants	18	2,218,354	1,125,934
Total Liabilities		3,934,386	1,847,368

Approved for issue by the Management Board and signed on its behalf on 16 October 2007.



 Chernyak Oksana Nikolaevna
 Chairman of the Board



 Khamidullina Rimma Abdulkaderovna
 Chief Accountant



Commercial Bank “National Business Development Bank” (LLC)
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(in thousands of Russian Roubles)

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Chernyak Oksana Nikolaevna
Chairman of the Board

Khamidullina Rimma Abdulkaderovna
Chief Accountant

Commercial Bank “National Business Development Bank” (LLC)
Statement of Income for the Year Ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006 (restated)	2005 (restated)
Interest income	20	314,163	166,439
Interest expense	20	(43,902)	(19,253)
Net interest income		270,261	147,186
Provision for loan impairment	9	(66,034)	(30,876)
Net interest income after provision for loan impairment		204,227	116,310
Gains less losses from financial instruments at fair value through profit or loss	21	27,646	22,278
Gains less losses from foreign exchange	22	18,316	11,228
Fee and commission income	23	12,319	8,781
Fee and commission expense	23	(1,932)	(1,801)
Provision for impairment other than loan impairment	27	(2,613)	-
Other operating income		2,705	9,778
Operating income		260,668	166,574
Operating expenses	24	(67,910)	(40,878)
Profit before tax		192,758	125,696
Income tax expense	25	(48,279)	(29,731)
Profit for the year		144,479	95,965

Commercial Bank “National Business Development Bank” (LLC)
Statement of Cash Flows for the Year Ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		316,670	166,510
Interest paid		(46,765)	(18,452)
Income received from financial instruments at fair value through profit or loss		27,409	31,293
Income received from trading in foreign currencies		9,359	9,997
Fees and commissions received		12,026	9,815
Fees and commissions paid		(1,639)	(1,801)
Other operating income received		1,386	8,559
Operating expenses paid		(66,294)	(39,331)
Income tax paid		(15,898)	(7,374)
Cash flows from operating activities before changes in operating assets and liabilities		236,254	159,216
(Increase)/decrease in operating assets			
Minimum reserve deposit with the Central Bank of the Russian Federation		(11,515)	(4,034)
Placements with banks and other financial institutions		(452,053)	(58,846)
Financial instruments at fair value through profit or loss		(213,819)	377,118
Amounts receivable under reverse repurchase agreements		(66,189)	(9,663)
Loans to customers		(1,460,775)	(528,554)
Other assets		(4,124)	(1,423)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		(152,404)	137,430
Current accounts and deposits from customers		803,075	42,670
Debt securities issued		293,174	25,810
Other liabilities		5,213	686
Net cash (used in)/provided from operating activities		(1,023,163)	140,410
Cash flows from investing activities			
Acquisition of property and equipment		(4,885)	(1,983)
Investments in associates		-	(4,000)
Net cash used in investing activities		(4,885)	(5,983)
Cash flows from financing activities			
Issue of shares		900,000	-
Contributions made by the participants		63,080	-
Net cash provided from financing activities		963,080	-
Effect of exchange rate changes on cash and cash equivalents		(6,136)	1,222
Net (decrease)/increase in cash and cash equivalents		(71,104)	135,649
Cash and cash equivalents as at the beginning of the year		252,255	116,606
Cash and cash equivalents as at the end of the year		181,151	252,255

The Notes form an integral part of the financial statements.

1. Principal Activities of the Bank

Limited liability company Commercial Bank “National Business Development Bank” was established by the decision of the participants on 14 September 1993 as a limited liability partnership. In accordance with the decisions of the General meeting of participants of the Bank dated 11 December 1998 and 20 February 2002 the legal structure and the name of the Bank were changed to its current legal structure and name. The Bank conducts its business on the basis of general banking license No. 2795 issued by the Central Bank of the Russian Federation (“CBRF”) on 8 May 2002. The Bank was accepted into the Russian Federation state deposit insurance scheme in August 2005.

The principal activities of the Bank are deposits taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2006 the Bank had 1 branch in Krasnodar and 2 representative offices in Armavir and Novorossiysk (as at 31 December 2005 there were no branches or representative offices).

The registered address of the Bank is 115054, Moscow, Pyatnickaya st., Building 67/7, Block 1.

2. Russian business environment

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

3. Basis of Preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 9 in respect of loan impairment estimates.

4. Significant Accounting Policies

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

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the official CBR foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the official CBR foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the official CBR foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of income. As at 31 December 2006, the official CBR foreign exchange rates used for translation of balances in foreign currencies were 26.3311 RUR/USD and 34.6965 RUR/EUR (31 December 2005: 28.7825 RUR/USD and 34.185 RUR/EUR).

Inflation accounting

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

Cash and cash equivalents

The Bank considers cash and nostro accounts with the CBR to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

Financial instruments

Classification

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

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

The Bank 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.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held for trading.

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

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

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

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

Recognition

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

Measurement

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

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

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

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

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

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

Gains and losses on subsequent measurement

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

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

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

Derecognition

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

Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repurchase agreements. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property and equipment acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required.

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

Leased assets

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

Payments under operating leases, in accordance with the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed over the term of the lease.

Depreciation

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

	Useful life
Fixtures and fittings	10 years
Vehicles	5 years
Computers and office equipment	4 years

Impairment

Financial assets carried at amortized cost

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

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

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

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

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

Financial assets carried at cost

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

All impairment losses in respect of these investments are recognized in the statement of income and cannot be reversed.

Non financial assets

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

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

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or other constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The Bank also recognises provision in respect of unsettled tax obligations. 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.

Financial guarantees

Financial guarantees are contracts that require the Bank 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 are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

Net assets attributable to participants

Each participant in a Russian limited liability company has the unilateral right to withdraw his capital from the company and receive its share of the company’s net assets within six months after the end of the year of the withdrawal. As a result, charter capital and retained earnings attributable to participants of the Bank are recorded as liabilities.

Distributions to participants

Distributions to participants are recorded in statement of income in the period in which they are declared. The Bank distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Income and expense recognition

Interest income and expenses and fee and commission income

With the exception of securities at fair value through profit or loss, interest income and expense are recognised in the statement of income using the effective interest method. Coupon interest and accrued discount and premium on securities at fair value through profit or loss are recognised in gains less losses from securities at fair value through profit or loss.

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

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

Gains less losses from financial instruments at fair value through profit or loss

Gains less losses from securities at fair value through profit or loss include coupon interest and gains and losses arising from disposals and changes in the fair value of the underlying securities.

Gains less losses from foreign exchange

Gains less losses from foreign exchange include foreign exchange translation gains and losses and gains and losses from trading in foreign currencies, including gains and losses from trading in foreign currency derivative financial instruments.

Dividend income

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly in net assets attributable to participants, in which case it is recognised in net assets attributable to participants.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences related to assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Comparative information

Where necessary, comparative information have been adjusted to conform with changes in the presentation of the current year.

Restatement of financial statements

Subsequent to the issue of the financial statements for the year ended 31 December 2006 which have been approved by the Management Board of the Bank on 20 June 2007, errors were identified in those financial statements and, as a result, the previously issued 2006 and 2005 financial statements have been restated. Refer to Note 31.

Changes in accounting policies

During the current year the Bank changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2006:

- Amendment to IAS 39 “*Financial Instruments: Recognition and Measurement – The Fair Value Option*”, which is effective for annual periods beginning on or after 1 January 2006. Upon application of this amendment, the Bank 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.
- Amendment to IAS 39 “*Financial Instruments: Recognition and Measurement*” and IFRS 4 “*Insurance Contracts – Financial Guarantee Contracts*”, which is effective for annual periods beginning on or after 1 January 2006. 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.

There was no impact on opening retained earnings as at 1 January 2006 from the adoption of any of the above-mentioned standards.

New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank’s operations. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 7 “*Financial Instruments: Disclosures*”, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank’s financial instruments.
- Amendment to IAS 1 “*Presentation of Financial Statements – Capital Disclosures*”, which is effective for annual periods beginning on or after 1 January 2007. The Amendment will require increased disclosure in respect of the Bank’s capital.

The Bank has not yet analysed the likely impact of these new standards on its financial statements.

5. Due from the Central Bank of the Russian Federation

	2006	2005
Nostro accounts	147,637	233,686
Minimum reserve deposit	20,417	8,902
Total due from the Central Bank of the Russian Federation	168,054	242,588

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

6. Placements with banks and other financial institutions

	2006 (restated)	2005
Nostro accounts	579,678	241,528
Loans and deposits	112,122	-
Total placements with banks and other financial institutions	691,800	241,528

Concentration of placements with banks and other financial institutions

As at 31 December 2006, the Bank had placements with two banks (31 December 2005: three banks) with total balances exceeding 10% of total placements with banks and other financial institutions. The total amount of balances placed with these banks as at 31 December 2006 was RUR 557,918 thousand (31 December 2005: RUR 231,187 thousand).

7. Financial instruments at fair value through profit or loss

	2006 (restated)	2005 (restated)
Unpledged		
Promissory notes of Russian banks	67,468	-
Pledged as collateral for deposits from banks and other financial institutions		
Promissory notes of Russian banks	194,157	47,569
Total financial instruments at fair value through profit or loss	261,625	47,569

Financial instruments at fair value through profit or loss as at 31 December 2006 and 31 December 2005 included promissory notes pledged under general deposit agreements with banks and other financial institutions that cannot be sold or re-pledged. The actual amount of term deposits from banks secured by such collateral as at 31 December 2006 and 31 December 2005 is disclosed in Note 13.

8. Amounts receivable under reverse repurchase agreements

	2006 (restated)	2005 (restated)
Amounts receivable from customers	55,944	9,663
Amounts receivable from banks and other financial institutions	18,806	-
Total amounts receivable under reverse repurchase agreements	74,750	9,663

Collateral

As of 31 December 2006 and 2005, the following securities were received as collateral under reverse repurchase agreements:

	Fair value 2006	Fair value 2005
Promissory notes of Russian banks	78,172	9,844
Total collateral	78,172	9,844

9. Loans to customers

	2006 (restated)	2005 (restated)
Corporate customers	2,735,292	1,363,971
Individuals	87,069	42,878
Total gross loans to customers	2,822,361	1,406,849
Provision for impairment	(139,962)	(137,008)
Total net loans to customers	2,682,399	1,269,841

Contractually overdue loans

Information in relation to loans with contractually overdue principal or interest as at 31 December 2006 and 2005, is summarised as follows:

	2006 (restated)	2005 (restated)
Gross loans with contractually overdue principal or interest	19,938	109,178
Provision for impairment	(8,811)	(76,866)
Net loans with contractually overdue principal or interest	11,127	32,312

Sector and geographical analysis of the loan portfolio

Loans were issued to customers located within the Russian Federation and operating in the following economic sectors:

	2006 (restated)	2005 (restated)
Construction and development	849,142	-
Finance	403,203	52,997
Telecommunications	339,742	19,929
Services	333,008	8,100
Energy	293,244	133,000
Trade	166,810	1,058,695
Manufacturing	124,000	10,770
Individuals	87,069	42,878
Transportation	84,109	17,800
Other	142,034	62,680
Total gross loans to customers	2,822,361	1,406,849
Provision for impairment	(139,962)	(137,008)
Total net loans to customers	2,682,399	1,269,841

As at 31 December 2006, the majority of loans to customers were issued to customers operating primarily in the Krasnodar region.

Analysis of movements in the provision for impairment

	2006 (restated)	2005 (restated)
Balance at the beginning of the year	137,008	106,132
Contribution from participants	(63,080)	-
Net charge for the year	66,034	30,876
Balance at the end of the year	139,962	137,008

In 2006 participants of the Bank made a contribution of RUR 63,080 thousand by purchasing at nominal value an impaired loan of RUR 63,080 thousand against which an impairment provision of RUR 63,080 thousand was recognised as at 31 December 2005.

The Bank has reviewed its customer loan portfolio as at 31 December 2006, and has identified loans with a gross amount of RUR 44,707 thousand (31 December 2005: RUR 125,506 thousand), which have indications of impairment and has recognised loan impairment for these loans of RUR 16,290 thousand (31 December 2005: RUR 79,967 thousand). For the remaining portfolio of customer loans, the Bank has performed a collective impairment assessment and has recognised impairment for these loans of RUR 123,672 thousand (31 December 2005: RUR 57,041 thousand). Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the level of impairment as of 31 December 2006 would be RUR 26,824 thousand (31 December 2005: RUR 12,698 thousand) lower/higher.

Significant credit exposures

As at 31 December 2006, the Bank had two borrowers with total balances exceeding 10% of total loans to customers. The gross value of these exposures as at 31 December 2006 was RUR 773,941

thousand. As at 31 December 2005, the Bank had no borrowers with balances exceeding 10% of loans to customers.

Loan maturities

The maturity analysis of the Bank’s loan portfolio is presented in Note 26 which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

10. Investments in associates

Investments in associates are comprised of:

Name	Country of Incorporation	Main Activity	% Controlled		Carrying Value	
			2006	2005	2006 (restated)	2005 (restated)
OJSC “Nezavisimaya Energosbytovaya Kompania Krasnodarskogo Kraja” (“NESK”)	Russia	Energy	-	50.00%	-	4,000
LLC “NBB Energo”	Russia	Energy	24.10%	-	4,000	-
Total investments in associates					4,000	4,000

In October 2006 share capital of OJSC “NESK” was increased through the issue of additional ordinary shares. As a result the Bank’s share in capital of OJSC “NESK” decreased to 24.57%. In December 2006 the Bank contributed this share in the charter capital of a newly established company “NBB Energo” (LLC).

Associates of the Bank do not prepare financial statements in accordance with IFRSs. As such, investments in associates have not been accounted using the equity method and are recorded at cost as at 31 December 2006 and as at 31 December 2005.

11. Property and equipment

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

	Computers and office equipment	Vehicles	Fixtures and fittings	Total
Book value at cost				
At 1 January 2006	2,197	1,845	3,849	7,891
Additions	1,189	3,152	575	4,916
Disposals	(919)	-	-	(919)
As at 31 December 2006	2,467	4,997	4,424	11,888
Accumulated depreciation				
At 1 January 2006	(1,016)	(542)	(1,052)	(2,610)
Depreciation charge	(602)	(635)	(310)	(1,547)
Disposals	919	-	-	919
As at 31 December 2006	(699)	(1,177)	(1,362)	(3,238)
Net book value as at 31 December 2006	1,768	3,820	3,062	8,650

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

	Computers and office equipment	Vehicles	Fixtures and fittings	Total
Book value at cost				
At 1 January 2005	1,650	1,601	3,905	7,156
Additions	547	1,200	598	2,345
Disposals	-	(956)	(654)	(1,610)
As at 31 December 2005	2,197	1,845	3,849	7,891
Accumulated depreciation				
At 1 January 2005	(600)	(854)	(857)	(2,311)
Depreciation charge	(416)	(253)	(302)	(971)
Disposals	-	565	107	672
As at 31 December 2005	(1,016)	(542)	(1,052)	(2,610)
Net book value as at 31 December 2005	1,181	1,303	2,797	5,281

12. Other assets

	2006 (restated)	2005
Amounts in course of settlement	16,572	16,031
Settlements on brokerage operations	3,267	344
Tax prepayments other than income tax	-	17
Other	1,884	3,233
Total other assets before impairment	21,723	19,625
Impairment	(15,000)	(15,000)
Total other assets	6,723	4,625

Amounts in course of settlement as at 31 December 2006 and as at 31 December 2005 include receivables on a letter of credit of RUR 15,000 thousand against which impairment of RUR 15,000 thousand has been recognised.

Analysis of movements in other assets impairment

	2006 (restated)	2005
Balance at the beginning of the year	15,000	15,000
Net charge for the year	-	-
Balance at the end of the year	15,000	15,000

13. Deposits and balances from banks and other financial institutions

	2006 (restated)	2005
Vostro accounts	27,913	27,007
Term deposits	-	153,300
Total deposits and balances from banks and other financial institutions	27,913	180,307

As at 31 December 2006 there were no balances included in total deposits and balances from banks and other financial institutions that were secured by promissory notes of Russian banks pledged under general deposit agreements with counterparties (as at 31 December 2005: RUR 25,500 thousand). Refer to Note 7.

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2006, the Bank had one counterparty (31 December 2005: three counterparties) with total balances exceeding 10% of total deposits and balances from banks and other financial institutions. The gross amount of deposits and balances of these counterparties as at 31 December 2006 was RUR 27,911 thousand (31 December 2005: RUR 154,783 thousand).

14. Current accounts and deposits from customers

	2006	2005
Legal entities		
- Current/settlement accounts	1,054,212	353,239
- Term deposits	50,507	-
Individuals		
- Current/settlement accounts	56,386	6,417
- Term deposits	11,393	7,963
Total current accounts and deposits from customers	1,172,498	367,619

Economic sector concentrations of current accounts and deposits from customers are as follows:

	2006	2005
Trade	562,799	149,758
Energy	410,374	115,409
Individuals	67,779	14,380
Advertising	46,900	10,579
Construction	35,175	7,582
Other	49,471	69,911
Total current accounts and deposits from customers	1,172,498	367,619

Concentrations of current accounts and customer deposits

As at 31 December 2006, the Bank had three customers (31 December 2005: one customer) with balances exceeding 10% of total current accounts and deposits from customers. The gross amount of balances on current accounts and deposits of these customers as at 31 December 2006 was RUR 556,930 thousand (31 December 2005: RUR 105,531 thousand).

15. Debt securities issued

	2006	2005
Promissory notes	432,863	142,650
Total debt securities issued	432,863	142,650

Concentration of debt securities issued

As at 31 December 2006, the Bank had four initial counterparties (31 December 2005: one customer) with balances exceeding 10% of total promissory notes issued. Total amount of promissory notes issued to these initial counterparties as at 31 December 2006 was RUR 331,795 thousand (31 December 2005: RUR 127,655 thousand).

16. Other liabilities

	2006 (restated)	2005 (restated)
Liabilities under financial guarantees	2,223	1,034
Provision for impairment under credit related commitments (Note 27)	2,613	-
Taxes payable other than income tax	133	53
Other	1,964	633
Total other liabilities	6,933	1,720

17. Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2006 and 2005.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the year ended 31 December 2006 are as follows:

	1 January 2006 (restated)	Recognised in the statement of income	31 December 2006 (restated)
Placements with banks and other financial institutions	490	(470)	20
Financial instruments at fair value through profit or loss	170	30	200
Loans to customers	29,294	48,177	77,471
Property and equipment	58	34	92
Other assets	(385)	184	(201)
Other liabilities	(539)	(1,218)	(1,757)
Net deferred tax liability	29,088	46,737	75,825

Movements in temporary differences during the year ended 31 December 2005 are as follows:

	1 January 2005 (restated)	Recognised in the statement of income	31 December 2005 (restated)
Placements with banks and other financial institutions	-	490	490
Financial instruments at fair value through profit or loss	2,163	(1,993)	170
Loans to customers	4,695	24,599	29,294
Property and equipment	-	58	58
Other assets	100	(485)	(385)
Other liabilities	-	(539)	(539)
Net deferred tax liability	6,958	22,130	29,088

18. Net assets attributable to participants

	Charter capital	Additional paid in capital	Retained earnings	Total
Balance at 31 December 2004 (restated)	971,168	-	58,801	1,029,969
Net profit for the year (restated)	-	-	95,965	95,965
Balance at 31 December 2005 (restated)	971,168	-	154,766	1,125,934
Net profit for the year (restated)	-	-	144,479	144,479
Share issue	900,000	-	-	900,000
Contribution from participants	-	47,941	-	47,941
Balance at 31 December 2006 (restated)	1,871,168	47,941	299,245	2,218,354

Contribution from participants comprises of a contribution of RUR 63,080 thousand made in 2006 less current income tax of RUR 15,139 thousand. Refer to Note 9 and Note 25.

Charter capital represents contributions made by the participants of the Bank. The participants of the Bank are entitled to vote at annual and general meetings of the Bank’s participants proportionately to their contributions.

As at 31 December 2006, the Bank’s charter capital consists of registered units with a total value of RUR 1,871,168 thousand (31 December 2005: RUR 971,168 thousand).

The Bank’s charter capital consists of the following contributions:

Name	2006		2005	
	Amount	%	Amount	%
LLC “Alsinta”	343,000	18.3%	193,000	19.9%
LLC “Vistoun Garant”	340,000	18.2%	190,000	19.6%
LLC “Sibinvestproekt”	335,000	17.9%	185,000	19.0%
LLC “Industria Invest”	298,000	15.9%	148,000	15.2%
LLC “But Trading”	284,000	15.2%	134,000	13.8%
LLC “Trait”	271,168	14.5%	121,168	12.5%
Charter capital	1,871,168	100.0%	971,168	100.0%

Under the Russian legislation, each participant in a Russian limited liability company has the unilateral right to withdraw from the company, in which case the company would be obliged to pay such withdrawing participant's share of the net assets no later than six months after the end of the year of withdrawal.

19. Distribution to participants

In accordance with the Russian legislation, the Bank distributes profits as payments to participants or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank’s reserves available for distribution as at 31 December 2006 amount to RUR 60,709 thousand (31 December 2005: RUR 15,307 thousand).

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20. Interest income and interest expense

	2006 (restated)	2005 (restated)
Interest income		
Loans and advances to customers	289,512	131,925
Due from banks and other financial institutions	14,389	15,061
Reverse repurchase agreements	10,262	19,453
Total interest income	314,163	166,439
Interest expense		
Due to banks and other financial institutions	(23,625)	(7,510)
Debt securities issued	(16,308)	(10,329)
Customer accounts	(3,969)	(1,414)
Total interest expense	(43,902)	(19,253)
Net interest income	270,261	147,186

21. Gains less losses from financial instruments at fair value through profit or loss

	2006 (restated)	2005 (restated)
Interest income and net gain from disposals and changes in the fair value of promissory notes	27,646	22,278
Total gains less losses from financial instruments at fair value through profit or loss	27,646	22,278

22. Gains less losses from foreign exchange

	2006 (restated)	2005 (restated)
Gain on spot transactions and derivatives	9,359	9,997
Gain from revaluation of financial assets and liabilities	8,957	1,231
Total gains less losses from foreign exchange	18,316	11,228

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23. Fee and commission income and Fee and commission expense

	2006 (restated)	2005 (restated)
Fee and commission income		
Commissions on settlement transactions	7,668	7,118
Commissions on cash transactions	2,130	548
Commissions on guarantees	1,576	211
Other	945	904
Total fee and commission income	12,319	8,781
Fee and commission expense		
Commissions on settlement transactions	(1,880)	(1,783)
Other	(52)	(18)
Total fee and commission expense	(1,932)	(1,801)
Net fee and commission income	10,387	6,980

24. Operating expenses

	2006 (restated)	2005 (restated)
Employee compensation	25,957	11,922
Occupancy	11,120	10,529
Payroll related taxes	4,824	2,773
Taxes other than on income	4,530	3,180
Repairs and maintenance	3,549	2,701
Advertising and marketing	2,693	33
Communications and information services	2,144	1,524
Security	1,985	1,230
Depreciation	1,547	971
Professional services	836	29
Other expenses	8,725	5,986
Total operating expenses	67,910	40,878

25. Income tax expense

Income tax expense comprises the following:

	2006 (restated)	2005 (restated)
Current income tax expense	16,681	7,601
Contribution from participants (Note 18)	(15,139)	-
Current income tax expense recorded in the statement of income	1,542	7,601
Deferred taxation movement due to origination and reversal of temporary differences	46,737	22,130
Income tax expense for the year	48,279	29,731

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

Reconciliation between the expected and the actual taxation charge is provided below:

	2006 (restated)		2005 (restated)	
	Amount	%	Amount	%
Profit before tax	192,758		125,696	
Income tax at the applicable tax rate	46,262	24.00%	30,167	24.00%
Non-deductible costs/(non-taxable income)	2,017	1.05%	(436)	(0.35%)
Income tax expense for the year	48,279	25.05%	29,731	23.65%

26. Risk Management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations.

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

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies and procedures of the Bank.

The Management Board of the Bank implements the Bank’s risk management strategy approved by the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Bank’s organisational structure.

The Bank’s risk assessment, reporting and control procedures vary by risk type, but share a common methodology developed and updated periodically by the Bank.

(a) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis.

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

The Bank’s maximum exposure to credit risk is primary 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 Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

(b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Finance Committee sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(c) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank manages its currency risk by complying with open position limits set by CBRF in relation to currency positions which are calculated on daily basis along with regular monitoring of the Bank’s operations in foreign currency.

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As at 31 December 2006, the Bank had the following positions in currencies:

(restated)	RUR	USD	Other	Total
ASSETS				
Cash	23,749	9,193	572	33,514
Due from the Central Bank of the Russian Federation	168,054	-	-	168,054
Placements with banks and other financial institutions	124,130	389,466	178,204	691,800
Financial instruments at fair value through profit or loss	261,625	-	-	261,625
Amounts receivable under reverse repurchase agreements	74,750	-	-	74,750
Loans to customers	2,670,108	12,291	-	2,682,399
Investments in associates	4,000	-	-	4,000
Current income tax prepayments	2,871	-	-	2,871
Property and equipment	8,650	-	-	8,650
Other assets	6,723	-	-	6,723
Total assets	3,344,660	410,950	178,776	3,934,386
LIABILITIES				
Deposits and balances from banks and other financial institutions	27,912	1	-	27,913
Current accounts and deposits from customers	1,002,147	166,983	3,368	1,172,498
Debt securities issued	432,863	-	-	432,863
Other liabilities	6,933	-	-	6,933
Deferred tax liability	75,825	-	-	75,825
Total liabilities excluding net assets attributable to participants	1,545,680	166,984	3,368	1,716,032
Net on balance sheet position as at 31 December 2006	1,798,980	243,966	175,408	2,218,354
Net off balance sheet position as at 31 December 2006	59,218	(324,441)	(86,741)	(351,964)
Net on and off balance sheet positions as at 31 December 2006	1,858,198	(80,475)	88,667	1,866,390

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

(restated)	RUR	USD	Other	Total
ASSETS				
Cash	14,763	3,760	46	18,569
Due from the Central Bank of the Russian Federation	242,588	-	-	242,588
Placements with banks and other financial institutions	33,320	20,022	188,186	241,528
Financial instruments at fair value through profit or loss	47,569	-	-	47,569
Amounts receivable under reverse repurchase agreements	9,663	-	-	9,663
Loans to customers	1,240,534	29,307	-	1,269,841
Investments in associates	4,000	-	-	4,000
Current income tax prepayments	3,704	-	-	3,704
Property and equipment	5,281	-	-	5,281
Other assets	4,625	-	-	4,625
Total assets	1,606,047	53,089	188,232	1,847,368
LIABILITIES				
Deposits and balances from banks and other financial institutions	151,516	28,791	-	180,307
Current accounts and deposits from customers	254,940	84,811	27,868	367,619
Debt securities issued	15,000	127,650	-	142,650
Current income tax	50	-	-	50
Other liabilities	1,720	-	-	1,720
Deferred tax liability	29,088	-	-	29,088
Total liabilities excluding net assets attributable to participants	452,314	241,252	27,868	721,434
Net on balance sheet position as at 31 December 2005	1,153,733	(188,163)	160,364	1,125,934
Net off balance sheet position as at 31 December 2005	(135,415)	152,213	(102,521)	(85,723)
Net on and off balance sheet positions as at 31 December 2005	1,018,318	(35,950)	57,843	1,040,211

(d) Interest rate risk

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

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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

(restated)	2006			2005		
	RUR	USD	Other	RUR	USD	Other
Interest Bearing Assets						
Placements with banks and other financial institutions	3.60%	0.03%	5.93%	-	0.27%	5.54%
Financial instruments at fair value through profit or loss	5.94%	-	-	6.60%	-	-
Amounts receivable under reverse repurchase agreements	9.77%	-	-	12.22%	-	-
Loans to customers	14.98%	21.05%	-	16.90%	19.53%	-
Interest Bearing Liabilities						
Deposits and balances from banks and other financial institutions						
<i>Term deposits</i>	-	-	-	6.28%	5.85%	-
Current accounts and deposits from customers						
<i>Term deposits</i>	9.09%	5.00%	3.00%	11.48%	8.50%	-
Debt securities issued	8.46%	-	-	-	6.12%	-

Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, the remaining contractual maturity dates in Note 26(e) also represent the contractual interest rate repricing dates.

(e) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising 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 a 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 Bank’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 Bank’s reputation.

The table which follows shows carrying amounts of assets and liabilities of the Bank by their remaining contractual maturity.

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(in thousands of Russian Roubles)

(restated)	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No stated maturity	Total
ASSETS								
Cash	33,514	-	-	-	-	-	-	33,514
Due from the Central Bank of the Russian Federation	166,974	2	25	169	884	-	-	168,054
Placements with banks and other financial institutions	197,877	473,867	-	20,056	-	-	-	691,800
Financial instruments at fair value through profit or loss	-	-	-	233,515	28,110	-	-	261,625
Amounts receivable under reverse repurchase agreements	-	-	-	74,750	-	-	-	74,750
Loans to customers	-	258,844	56,592	533,811	1,791,045	30,981	11,126	2,682,399
Investments in associates	-	-	-	-	-	-	4,000	4,000
Current income tax prepayments	-	-	-	-	-	-	2,871	2,871
Property and equipment	-	-	-	-	-	-	8,650	8,650
Other assets	-	660	330	832	-	-	4,901	6,723
Total assets	398,365	733,373	56,947	863,133	1,820,039	30,981	31,548	3,934,386
LIABILITIES								
Deposits and balances from banks and other financial institutions	27,913	-	-	-	-	-	-	27,913
Current accounts and deposits from customers	1,110,597	81	1,395	9,713	50,712	-	-	1,172,498
Debt securities issued	-	155,164	15,662	139,396	122,641	-	-	432,863
Other liabilities	-	53	80	6,800	-	-	-	6,933
Deferred tax liability	-	-	-	-	-	-	75,825	75,825
Total liabilities excluding net assets attributable to participants	1,138,510	155,298	17,137	155,909	173,353	-	75,825	1,716,032
Net position as at 31 December 2006	(740,145)	578,075	39,810	707,224	1,646,686	30,981	(44,277)	2,218,354

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(in thousands of Russian Roubles)

(restated)	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No stated maturity	Total
ASSETS								
Cash	18,569	-	-	-	-	-	-	18,569
Due from the Central Bank of the Russian Federation	242,266	-	-	295	27	-	-	242,588
Placements with banks and other financial institutions	68,049	173,479	-	-	-	-	-	241,528
Financial instruments at fair value through profit or loss	-	-	9,927	37,642	-	-	-	47,569
Amounts receivable under reverse repurchase agreements	-	-	9,663	-	-	-	-	9,663
Loans to customers	-	127,538	425,350	678,801	3,158	2,918	32,076	1,269,841
Investments in associates	-	-	-	-	-	-	4,000	4,000
Current income tax prepayments	-	-	-	-	-	-	3,704	3,704
Property and equipment	-	-	-	-	-	-	5,281	5,281
Other assets	-	1,617	175	205	23	128	2,477	4,625
Total assets	328,884	302,634	445,115	716,943	3,208	3,046	47,538	1,847,368
LIABILITIES								
Deposits and balances from banks and other financial institutions	27,007	153,300	-	-	-	-	-	180,307
Current accounts and deposits from customers	354,321	-	-	12,198	1,100	-	-	367,619
Debt securities issued	-	5,000	-	127,650	10,000	-	-	142,650
Current income tax payable	-	-	-	-	-	-	50	50
Other liabilities	-	25	28	1,667	-	-	-	1,720
Deferred tax liability	-	-	-	-	-	-	29,088	29,088
Total liabilities excluding net assets attributable to participants	381,328	158,325	28	141,515	11,100	-	29,138	721,434
Net position as at 31 December 2005	(52,444)	144,309	445,087	575,428	(7,892)	3,046	18,400	1,125,934

27. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal professional advice the management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Insurance

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

Tax contingencies

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

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

Credit related commitments

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

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	2006	2005
Contracted amount		
Commitments to extend credit	299,352	65,579
Guarantees	55,831	20,527
Provision for losses under guarantees issued	(2,613)	-
Total credit related commitments	352,570	86,106

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

	2006	2005
Balance at the beginning of the year	-	-
Net charge for the year	2,613	-
Balance at the end of the year	2,613	-

Provision for losses under credit related commitments is recorded within other liabilities. Refer to Note 16.

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.

Operating lease commitments

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

	2006	2005
Not later than 1 year	11,936	9,653
Later than 1 year and not later than 5 years	43,008	37,356
Later than 5 years	21,504	9,339
Total operating lease commitments	76,448	56,348

During the current year 11,120 RUR thousand was recognised as an expense in the statement of income in respect of operating leases (2005: RUR 10,529 thousand).

Fiduciary assets

The Bank 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 Bank and are not recognized in the balance sheet.

Derivative financial instruments

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank’s exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table.

	31 December 2006			31 December 2005		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivative contracts						
- currency spot transactions	52,045	172	-	172,740	348	-
- currency forwards	534,186	434	-	102,555	34	-
Written put options						
- promissory notes	-	-	-	40,170	-	-
Total recognised derivative assets		606			382	

28. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair value of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial market. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Cash and cash equivalents, financial instruments at fair value through profit and loss. Cash and cash equivalents, as well as financial instruments at fair value through profit and loss are carried on the balance sheet at their fair value.

Due from banks and other financial institutions, loans and advances to customers. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair values of due from banks and other financial institutions and loans and advances to customers approximate their carrying values.

Due to banks and other financial institutions, customer accounts and debt securities issued. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar remaining maturity. The estimated fair values of due to banks and other financial institutions, customer accounts and debt securities issued approximate their carrying values.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 27.

29. Cash and cash equivalents

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

	2006	2005
Cash	33,514	18,569
Due from the Central Bank – nostro accounts	147,637	233,686
Balance at the end of the year	181,151	252,255

30. Related party transactions

Transactions with the key management personnel

Key management personnel comprise members of the Board of Directors and members of the Management Board.

Total remuneration included in employee compensation is as follows:

	2006 (restated)	2005 (restated)
Members of the Board of Directors	2,978	-
Members of the Management Board	6,005	1,406
	8,983	1,406

The above amounts include non-cash benefits in respect of members of the Board of Directors and the Management Board.

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The outstanding balances and average interest rates as at 31 December 2006 and as at 31 December 2005 with key management personnel are as follows:

	2006		2005	
	(restated)		(restated)	
	Amount	Average Interest Rate	Amount	Average Interest Rate
Balance Sheet				
Liabilities				
Current accounts and deposits from customers	8,759	9,9%	8,156	8,5%

Amounts included in the statement of income in relation to transactions with members of the key management personnel are as follows:

	2006	2005
	(restated)	(restated)
Statement of income		
Interest income	85	-
Interest expense	(867)	(906)
Gains less losses from foreign exchange	34	-
Fee and commission income	129	6
Operating expenses	(27)	-

Transactions with other related parties

Other related parties comprise mainly participants, which are not members of the Board of Directors and the Management Board of the Bank, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank’s participants, members of the Board of Directors and the Management Board of the Bank.

Commercial Bank “National Business Development Bank” (LLC)**Notes to the Financial Statements – 31 December 2006***(in thousands of Russian Roubles)*

The outstanding balances and average interest rates as of 31 December 2006 and related statement of income amounts with participants, associate and other related parties are as follows:

(restated)	Participants		Associates		Other	Total	
	Amount	Average Interest Rate	Amount	Average Interest Rate	Amount	Average Interest Rate	
Balance Sheet							
Assets							
Loans to customers							
- Principal balance	-	-	92,000	13.00%	1,382,027	14.80%	1,474,027
- Provision for impairment	-	-	(4,096)	-	(61,530)	-	(65,626)
Liabilities							
Current accounts and deposits from customers							
- Demand deposits	24,663	0.00%	2,386	0.00%	228,893	0.00%	255,942
Off-balance sheet							
Undrawn loan commitments	-	-	-	-	255,900	0.00%	255,900
Statement of income							
Interest income	-		20,618		68,856		89,474
Interest expense	(255)		-		-		(255)
Fee and commission income	4		119		180		303
Gains less losses from financial instruments at fair value through profit or loss	723		2,604		486		3,813
Other operating income	5		3		-		8

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Notes to the Financial Statements – 31 December 2006

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The outstanding balances and the related average interest rates as of 31 December 2005 and related statement of income amounts with participants, associates and other related parties are as follows:

	(restated) Participants		Associates		Other		Total
	Amount	Average Interest Rate	Amount	Average Interest Rate	Amount	Average Interest Rate	
Balance Sheet							
Assets							
Loans to customers							
- Principal balance	-	-	133,000	15.00%	8,100	18.00%	141,100
- Provision for impairment	-	-	(5,922)	-	(359)	-	(6,281)
Liabilities							
Current accounts and deposits from customers							
- Demand deposits	1,200	0.00%	9,093	0.00%	17,016	0.00%	27,309
Off-balance sheet							
Undrawn loan commitments	-	-	57,000	0.00%	5,900	0.00%	62,900
Statement of income							
Interest income	-		879		16,225		17,104
Fee and commission income	6		9		16		31
Fee and commission expense	-		-		(306)		(306)
Gains less losses from financial instruments at fair value through profit or loss	(251)		-		(41)		(292)
Other operating income	-		42		1		43

Commercial Bank "National Business Development Bank" (LLC)**Notes to the Financial Statements – 31 December 2006***(in thousands of Russian Roubles)***31. Restatement of financial statements**

Subsequent to the issue of the financial statements for the year ended 31 December 2006 which were approved by the Management Board of the Bank on 20 June 2007, errors were identified in those financial statements and, as a result, the previously issued 2006 and 2005 financial statements have been restated.

	Notes	31 December 2006 (as reported earlier)	Adjustments	31 December 2006 (restated)
ASSETS				
Cash and cash equivalents		33,514	-	33,514
Due from the Central Bank of the Russian Federation		168,054	-	168,054
Placements with banks and other financial institutions	(e)	674,800	17,000	691,800
Financial instruments at fair value through profit and loss	(a)	335,273	(73,648)	261,625
Amounts receivable under reverse repurchase agreements	(a)	-	74,750	74,750
Loans to customers	(a), (b)	2,332,369	350,030	2,682,399
Financial instruments available for sale	(a)	51,267	(51,267)	-
Investments in associates	(c)	-	4,000	4,000
Current income tax prepayments		2,871	-	2,871
Property and equipment		8,650	-	8,650
Other assets	(c)	41,163	(34,440)	6,723
Total assets		3,647,961	286,425	3,934,386
LIABILITIES				
Deposits and balances from banks and other financial institutions	(e)	10,913	17,000	27,913
Current accounts and deposits from customers		1,172,498	-	1,172,498
Debt securities issued		432,863	-	432,863
Other liabilities	(b)	25,327	(18,394)	6,933
Deferred tax liability	(f)	1,239	74,586	75,825
Net assets attributable to participants		2,005,121	213,233	2,218,354
Total liabilities		3,647,961	286,425	3,934,386

Commercial Bank "National Business Development Bank" (LLC)**Notes to the Financial Statements – 31 December 2006***(in thousands of Russian Roubles)*

	Notes	31 December 2006 (as reported earlier)	Adjustments	31 December 2006 (restated)
Interest income	(a), (d)	340,628	(26,465)	314,163
Interest expense		(43,902)	-	(43,902)
Net interest income		296,726	(26,465)	270,261
Net loan impairment losses	(b), (h)	(257,670)	191,636	(66,034)
Net interest income after loan impairment losses		39,056	165,171	204,227
Gains less losses from financial instruments at fair value through profit and loss	(a)	27,086	560	27,646
Gains less losses from foreign exchange	(d), (g)	18,388	(72)	18,316
Fee and commission income	(d)	13,215	(896)	12,319
Fee and commission expense	(d)	(1,639)	(293)	(1,932)
Provision for impairment other than loan impairment	(b)	(38,302)	35,689	(2,613)
Other operating income	(c)	39,485	(36,780)	2,705
Operating income		97,289	163,379	260,668
Operating expenses	(d)	(71,874)	3,964	(67,910)
Profit before taxes		25,415	167,343	192,758
Income tax expense	(f), (h)	(22,556)	(25,723)	(48,279)
Profit for the year		2,859	141,620	144,479

Commercial Bank "National Business Development Bank" (LLC)**Notes to the Financial Statements – 31 December 2006***(in thousands of Russian Roubles)*

	Notes	31 December 2005 (as reported earlier)	Adjustments	31 December 2005 (restated)
ASSETS				
Cash and cash equivalents		18,569	-	18,569
Due from the Central Bank of the Russian Federation		242,588	-	242,588
Placements with banks and other financial institutions		241,528	-	241,528
Financial instruments at fair value through profit and loss	(a)	57,232	(9,663)	47,569
Amounts receivable under reverse repurchase agreements	(a)	-	9,663	9,663
Loans to customers	(b)	1,197,644	72,197	1,269,841
Investments in associates	(c)	17,767	(13,767)	4,000
Current income tax prepayments		3,704	-	3,704
Property and equipment		5,281	-	5,281
Deferred tax asset	(f)	4,636	(4,636)	-
Other assets		4,625	-	4,625
Total assets		1,793,574	53,794	1,847,368
LIABILITIES				
Deposits and balances from banks and other financial institutions		180,307	-	180,307
Current accounts and deposits from customers		367,619	-	367,619
Debt securities issued		142,650	-	142,650
Current income tax payable		50	-	50
Other liabilities	(b),(d)	686	1,034	1,720
Deferred tax liability	(f)	-	29,088	29,088
Net assets attributable to participants		1,102,262	23,672	1,125,934
Total liabilities		1,793,574	53,794	1,847,368

Commercial Bank “National Business Development Bank” (LLC)

Notes to the Financial Statements – 31 December 2006

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	Notes	31 December 2005 (as reported earlier)	Adjustments	31 December 2005 (restated)
Interest income	(a)	150,234	16,205	166,439
Interest expense	(d)	(20,340)	1,087	(19,253)
Net interest income		129,894	17,292	147,186
Net loan impairment losses	(b)	(103,073)	72,197	(30,876)
Net interest income after loan impairment losses		26,821	89,489	116,310
Gains less losses from financial instruments at fair value through profit and loss	(a)	41,368	(19,090)	22,278
Gains less losses from foreign exchange	(g)	9,430	1,798	11,228
Fee and commission income	(d)	9,815	(1,034)	8,781
Fee and commission expense		(1,801)	-	(1,801)
Provision for impairment other than loan impairment	(b)	(49)	49	-
Other operating income		9,778	-	9,778
Operating income		95,362	71,212	166,574
Operating expenses	(d)	(40,829)	(49)	(40,878)
Goodwill	(c)	6,905	(6,905)	-
Share in associates' profit after tax	(c)	6,862	(6,862)	-
Profit before taxes		68,300	57,396	125,696
Income tax expense	(f)	(14,972)	(14,759)	(29,731)
Profit for the year		53,328	42,637	95,965

The most significant errors are as follows.

a) The Bank incorrectly applied IAS 39 “*Financial Instruments: Recognition and Measurement*” and classified certain loans to customers and amounts receivable under reverse repurchase agreements as financial instruments at fair value through profit and loss and available-for-sale assets.

b) The Bank incorrectly applied IAS 39 “*Financial Instruments: Recognition and Measurement*”, IAS 36 “*Impairment of Assets*” and IAS 37 “*Provisions, Contingent liabilities and Contingent Assets*” in estimating the amount of loan impairment losses, other impairment losses and provisions for losses under credit related commitments.

c) The Bank incorrectly applied equity accounting under IAS 28 “*Investments in associates*”.

- d) The Bank made certain errors in interest income and expense accruals and other accruals. This resulted in misstatements in the amount of interest income, interest expense, fee and commission income, general administrative expenses and the related balance sheet line items.
- e) The Bank incorrectly applied IAS 32 “Financial Instruments: Disclosure and Presentation” and offset certain placements with banks and other financial institutions with deposits from banks and other financial institutions.
- f) The Bank incorrectly applied IAS 12 “Income Taxes” in respect of calculations of deferred taxation that resulted in misstatement of the amount of deferred tax asset and income tax expense.
- g) The Bank incorrectly included foreign exchange gains in other operating income.
- h) The Bank incorrectly accounted for a contribution from participants.