

Open Joint Stock Company “BANK URALSIB”
Consolidated Financial Statements

Year ended December 31, 2006

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open joint stock company "BANK URALSIB" –

We have audited the accompanying consolidated financial statements of Open joint stock company "BANK URALSIB" (the "Bank"), which comprise the consolidated balance sheet as of December 31, 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 Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

We draw attention to Note 30, which describes that the Bank has significant transactions with related parties, in particular with regard to securities and lending operations.



May 15, 2007

CONSOLIDATED BALANCE SHEET**As of December 31, 2006***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2006</i>	<i>2005 (Restated *)</i>
Assets			
Cash and cash equivalents	5	32,403,564	26,623,311
Precious metals		90,889	103,397
Trading securities	6	63,243,099	31,490,370
Securities pledged under repurchase agreements	6	1,104,850	-
Amounts due from credit institutions	7	15,618,066	16,488,550
Derivative financial assets	8	41,175	138,423
Loans to customers	9	157,465,558	128,984,755
Available-for-sale securities	10	3,666,004	11,217,488
Net investments in finance leases	11	10,029,225	4,051,929
Property and equipment	12	5,798,425	5,618,151
Goodwill	13	4,527,406	4,527,406
Current tax asset	14	410,856	27,176
Deferred tax asset	14	116,575	44,204
Other assets	16	11,077,440	11,502,900
Total assets		305,593,132	240,818,060
Liabilities			
Amounts due to credit institutions	17	54,712,536	37,449,021
Derivative financial liabilities	8	38,155	42,450
Amounts due to customers	18	182,948,280	133,287,921
Promissory notes and certificates of deposit issued	19	10,967,529	13,740,209
Other borrowed funds	20	5,027,021	8,199,908
Current tax liability	14	29,146	662,173
Deferred tax liability	14	2,716,755	2,112,070
Other liabilities	16	3,033,713	3,103,208
Minority interest in limited liability companies and unit investment funds	2	263,490	487,245
Total liabilities		259,736,625	199,084,205
Equity			
Share capital	21	32,606,703	32,606,703
Additional paid-in capital		7,681,009	7,681,009
Unrealised gains on available-for-sale securities		280,703	1,069,792
Revaluation reserve for property and equipment		737,743	238,820
Retained earnings (accumulated deficit)		3,908,207	(444,001)
Total equity attributable to shareholders of the Bank		45,214,365	41,152,323
Minority interest		642,142	581,532
Total equity		45,856,507	41,733,855
Total equity and liabilities		305,593,132	240,818,060

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control") for the reason of the restatement.

Signed and authorised for release on behalf of the Management Board of the Bank

Andrey M. Donskikh

Chairman of the Board

Yury V. Petukhov

Chief Accountant

May 15, 2007

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME**For the year ended December 31, 2006***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2006</i>	<i>2005 (Restated *)</i>
Interest income			
Loans to customers		17,658,913	14,356,314
Securities		1,656,821	862,035
Finance leasing		1,357,869	570,294
Amounts due from credit institutions		1,001,824	879,522
Factoring		22,336	31,909
		21,697,763	16,700,074
Interest expense			
Amounts due from customers		6,422,959	4,603,115
Amounts due to credit institutions		2,637,848	1,565,149
Promissory notes and certificates of deposit issued		663,250	779,195
Other borrowed funds		566,652	770,140
		10,290,709	7,717,599
Net interest income			
		11,407,054	8,982,475
Impairment of interest earning assets	15	(4,298,153)	(571,573)
Net interest income after impairment of interest earning assets		7,108,901	8,410,902
Fee and commission income			
		4,697,912	3,453,618
Fee and commission expense			
		866,706	660,891
Net fee and commission income	23	3,831,206	2,792,727
Trading gains less losses from securities			
	24	5,750,268	8,389,449
Gains less losses from available-for-sale securities			
	24	1,227,760	4,220,770
Gains less losses from foreign currencies			
	25	95,268	739,781
Gains less losses from operations with precious metals			
		124,728	48,838
Dividend income			
		396,188	200,966
Other income			
		669,517	503,484
Other non interest income		8,263,729	14,103,288
Salaries and benefits			
	26	7,724,313	6,321,169
Administrative and operating expenses			
	26	4,789,461	3,425,935
Depreciation and amortisation			
		655,476	567,849
Loss on revaluation of property			
		185,873	-
Impairment of other assets and provisions			
	15	143,868	468,520
Minority interest in limited liability companies and unit investment funds			
	2	1,108	145,718
Other non interest expense		13,500,099	10,929,191
Profit before income tax expense			
		5,703,737	14,377,726
Income tax expense			
	14	1,524,365	3,202,625
Profit for the year		4,179,372	11,175,101
Attributable to:			
- shareholders of the Bank		4,160,612	11,073,270
- minority interest		18,760	101,831
		4,179,372	11,175,101

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control") for the reason of the restatement.

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended December 31, 2006***(Thousands of Russian Rubles)*

	<i>Attributable to shareholders of the Bank</i>							<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Unrealized gains/(losses) on available-for-sale securities</i>	<i>Revaluation reserve for buildings</i>	<i>Retained earnings (Accumulated deficit)</i>	<i>Total equity attributable to shareholders of the Bank</i>	<i>Minority interest</i>	
December 31, 2004 (Note 2) (Restated *)	31,042,318	8,186,826	(71,285)	238,820	(8,948,823)	30,447,856	485,425	30,933,281
Net unrealised gains on available-for-sale securities	–	–	5,722,187	–	–	5,722,187	–	5,722,187
Realised gains on available-for-sale securities reclassified to the statement of income	–	–	(4,220,770)	–	–	(4,220,770)	–	(4,220,770)
Tax effect of net gains on available-for-sale securities	–	–	(360,340)	–	–	(360,340)	–	(360,340)
Total income and expense recognized directly in equity	–	–	1,141,077	–	–	1,141,077	–	1,141,077
Profit for the year	–	–	–	–	11,073,270	11,073,270	101,831	11,175,101
Total income and expense for the year	–	–	1,141,077	–	11,073,270	12,214,347	101,831	12,316,178
Purchase of minority stakes in subsidiaries	–	–	–	–	328	328	–	328
Redemption of shares before reorganization by legal merger	(20,515)	–	–	–	11,909	(8,606)	–	(8,606)
Effect of reorganization by legal merger (Note 21)	1,584,900	(505,817)	–	–	(1,079,083)	–	–	–
Dividends to shareholders of the Bank (Note 21)	–	–	–	–	(1,501,602)	(1,501,602)	–	(1,501,602)
Dividends of subsidiaries to minority shareholders	–	–	–	–	–	–	(5,724)	(5,724)
December 31, 2005 (Restated *)	32,606,703	7,681,009	1,069,792	238,820	(444,001)	41,152,323	581,532	41,733,855
Net unrealised gains on available-for-sale securities	–	–	189,485	–	–	189,485	–	189,485
Realised (gains)/ losses on available-for-sale securities reclassified to the statement of income	–	–	(1,227,760)	–	–	(1,227,760)	15,872	(1,211,888)
Tax effect of net gains on available-for-sale securities	–	–	249,186	–	–	249,186	–	249,186
Disposal of property previously revalued	–	–	–	(99,819)	99,819	–	–	–
Revaluation of property, net of tax	–	–	–	598,742	–	598,742	–	598,742
Total income and expense recognized directly in equity	–	–	(789,089)	498,923	99,819	(190,347)	15,872	(174,475)
Profit for the year	–	–	–	–	4,160,612	4,160,612	18,760	4,179,372
Total income and expense for the year	–	–	(789,089)	498,923	4,260,431	3,970,265	34,632	4,004,897
Change of minority share in subsidiaries	–	–	–	–	91,777	91,777	25,978	117,755
December 31, 2006	32,606,703	7,681,009	280,703	737,743	3,908,207	45,214,365	642,142	45,856,507

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control") for the reason of the restatement.

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended December 31, 2006***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i> <i>(Restated *)</i>
Cash flows from operating activities			
Interest received		21,878,542	16,131,923
Interest paid		(9,536,912)	(6,756,353)
Fees and commissions received		4,693,972	3,750,430
Fees and commissions paid		(857,161)	(868,564)
Gains less losses from securities		1,005,848	4,346,607
Realised gains less losses from dealing in foreign currencies		1,034,155	973,212
Realised gains less losses from dealing in precious metals		372,830	53,203
Dividends received		361,400	200,966
Other income received		545,476	490,656
Salaries and benefits paid		(7,262,405)	(5,271,487)
Operating and administrative expenses paid		(4,740,427)	(3,277,520)
Cash flows from operating activities before changes in operating assets and liabilities		7,495,318	9,773,073
<i>Net (increase)/decrease in operating assets</i>			
Precious metals		12,514	(101,841)
Trading securities		(20,281,426)	(14,375,481)
Securities pledged under repurchase agreements		(1,057,758)	-
Derivative financial assets		-	(10,374)
Amounts due from credit institutions		204,644	(8,749,149)
Loans to customers		(36,416,848)	(42,771,104)
Net investments in leases		(5,764,236)	(2,003,629)
Other assets		130,607	(1,116,279)
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to credit institutions		10,094,048	10,629,222
Amounts due to customers		51,535,816	45,769,391
Promissory notes and certificates of deposit issued		(2,659,278)	(3,319,699)
Other liabilities		(1,043,341)	509,383
Net cash flows from operating activities before income tax		2,250,060	(5,766,487)
Income tax paid		(1,917,127)	(1,130,112)
Net cash (used in)/from operating activities		332,933	(6,896,599)
Cash flows from investing activities			
Purchase of available-for-sale securities		(1,605,357)	(15,430,517)
Proceeds from sale of available-for-sale securities		1,295,856	14,709,216
Purchase of investment property		(119,481)	(329,064)
Purchase of property and equipment		(701,429)	(946,201)
Proceeds from sale of property and equipment		653,977	760,601
Net cash used in investing activities		(476,434)	(1,235,965)
Cash flows from financing activities			
Proceeds from syndicated loans		22,305,593	13,355,080
Syndicated loans repaid		(12,444,416)	(3,118,428)
Redemption of Eurobonds		(3,759,826)	-
Redemption of shares before reorganisation		-	(8,606)
Dividends paid to shareholders of the Bank		-	(1,499,008)
Purchase of minority stakes in subsidiaries		-	(201,439)
Sale of minority stakes in subsidiaries		229,081	-
Dividends paid by subsidiaries to minority shareholders		(106,867)	(5,724)
Net cash from financing activities		6,223,565	8,521,875
Effect of exchange rates changes on cash and cash equivalents		(299,811)	(367,400)
Net increase in cash and cash equivalents		5,780,253	21,911
Cash and cash equivalents, beginning		26,623,311	26,601,400
Cash and cash equivalents, ending	5	32,403,564	26,623,311

* - Refer to Note 2 "Basis of preparation" ("Reorganisation under common control") for the reason of the restatement.

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

1. Principal activities

The accompanying consolidated financial statements comprise the accounts of Open joint stock company "BANK URALSIB" and its subsidiaries (together the "Bank"). Open joint stock company "BANK URALSIB" was established in January 1993 by a decree of the Supreme Soviet of the Bashkortostan Republic as an open joint stock company. The Bank previously operated as Republican Investment and Credit Bank "BashCreditBank". In December 2001, the Bank changed its name to Open joint stock company "Uralo - Sibirsky Bank".

On September 20, 2005, the reorganisation in the form of merger with OJSC AKB "AVTOBANK-NIKoil", OJSC AB "IBG NIKoil", OJSC "Bryansky Narodny Bank" and OJSC AKB "Kuzbassugolbank" was completed and the Bank changed its name to Open joint stock company "BANK URALSIB". All merged banks were members of Financial Corporation URALSIB, parent entity of a group of companies (the "Group") whose principal subsidiaries are engaged in the provision of financial services in Russia, UK, Cyprus, and other jurisdictions. As OJSC "BANK URALSIB" has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interest method and, as such, the financial statements have been presented as if the conversion of the shares in merged banks had occurred from the beginning of the earliest period presented.

Open joint stock company "BANK URALSIB" possesses a general banking license from the Central Bank of Russia (the "CBR") granted on September 20, 2005. Furthermore, Open joint stock company "BANK URALSIB" also possesses licenses for securities operations and custody services from the Federal Service for the Securities Market, as well as a license for precious metals operations granted by the CBR.

Open joint stock company "BANK URALSIB" is among the six largest banks in Russia in terms of net assets calculated under local accounting rules as of December 31, 2006. Its main office is in Moscow and it has 42 branches in Ufa, Saint-Petersburg, Krasnoyarsk, Nizhny Novgorod, Omsk and other regions. The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered legal address is Moscow, 119048, Efremova Street, 8.

Starting January 20, 2004, the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". From March 26, 2007, insurance covers the Bank's liabilities to individual depositors for the amount up to RUB 400 for each individual in case of business failure and revocation of the CBR banking license.

As of December 31, the following shareholders held the issued shares of Open joint stock company "BANK URALSIB":

Shareholder	<i>2006</i> %	<i>2005</i> %
LLC "Financial Corporation URALSIB" (former LLC "Complex investments")	48.92	48.92*
LLC "Aktiv-Holding"	32.32	32.32
Government of Republic of Bashkortostan	7.41	7.41
OJSC "Uralsib – Capital Management"	5.06	5.06
CJSC "Business Centre Uralsib"	2.57	2.57
LLC "Arienta-MV"	1.61	1.61
Other	2.11	2.11
Total	100.00	100.00

* As of December 31, 2005, the share of 48.92% was owned by five companies, which have been merged during 2006 with LLC "Financial Corporation URALSIB".

The Bank is ultimately controlled by Mr. Nickolai A. Tsvetkov.

(Thousands of Russian Rubles)

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments and buildings have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUB"), unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Bank's consolidated financial statements.

IFRSs and IFRIC interpretations not yet effective

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

IFRS 7 "Financial Instruments: Disclosures";
IFRS 8 "Operating Segments";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
Amendment to IAS 23 "Borrowing Costs";
IFRIC 8 "Scope of IFRS 2";
IFRIC 9 "Reassessment of Embedded Derivatives";
IFRIC 10 "Interim Financial Reporting and Impairment";
IFRIC 11 "IFRS 2 – and Treasury Share Transactions";
IFRIC 12 "Service Concession Arrangements".

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Bank's financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank's objectives, policies and processes for managing capital.

(Thousands of Russian Rubles)

2. Basis of preparation (continued)**Reorganisations under common control**

The Bank's policy with respect to accounting for reorganisations under common control is pooling of interest using predecessor basis. Predecessor basis is the cost of the merged banks for Financial Corporation URALSIB. Therefore, the cost of each of the merged banks for Financial Corporation URALSIB was pushed down to the Bank including goodwill. Opening balances and comparative information in the Bank's consolidated financial statements were presented as if the merging banks have been acquired by the Bank at the date of their acquisition by Financial Corporation URALSIB. Consideration paid by Financial Corporation URALSIB to third parties at the dates of acquisition of each of the merging banks was presented in the Bank's consolidated financial statements as additional paid-in-capital.

	<i>AVTOBANK- NIKOIL</i>	<i>URALSIB Banking Group</i>	<i>Total</i>
Consideration paid	2,078,049	5,284,383	7,362,432
Less - share in fair value of net assets acquired	(986,548)	3,265,126	2,278,578
Goodwill at acquisition	3,064,597	2,019,257	5,083,854

Pooling of interest method was also applied to acquisition of LLC "Uralsib Leasing Company". Under this method the comparative information for 2005 was restated to reflect the acquisition and presented as combination of 2005 consolidated financial statements of the Bank and LLC "Uralsib Leasing Company" with elimination of transactions among them.

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at December 31, 2002 by applying the relevant inflation indices to the historical cost or revalued amount, and that these restated values were used as a basis for accounting in subsequent periods.

Subsidiaries

The consolidated financial statements include the following incorporated subsidiaries:

<i>2006</i>					
<i>Subsidiary</i>	<i>Ownership, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of receiving control</i>
OJSC "Bashprombank"	48.5%	Russia	November 28, 1990	Banking	June 6, 2002
OJSC "Bank Dorozhnik"	91.87%	Russia	April 6, 1990	Banking	September 24, 2001
OJSC AKB "Evrazia"	53.0%	Russia	October 24, 1990	Banking	February 5, 2002
OJSC AKB "Stroyvestbank"	84.4%	Russia	January 24, 1992	Banking	September 28, 2001
OJSC "Tumenprofbank"	19.2%	Russia	October 4, 1990	Banking	January 23, 2003
OJSC "Volgoinvestbank"	19.3%	Russia	October 20, 1994	Banking	March 6, 2003
CJSC "Stock Agency"	100%	Russia	June 6, 1996	Investment	June 6, 1996
LLC "Operating Factoring Company URALSIB-NIKoil"	100%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "Uralsib Electronic Tehnologies"	100%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100%	Russia	April 29, 2002	Construction	May 13, 2002
LLC "Inzhtorgstroy"	99%	Russia	June 15, 2001	Factoring	August 21, 2003
Members of Leasing Group Uralsib					
LLC "Uralsib Leasing Company"	87.61%	Russia	October 9, 1990	Leasing	December 22, 2006
LLC "St-Petersburg Uralsib Leasing Company"	87.61%	Russia	December 29, 1999	Leasing	December 22, 2006
LLC "Ufa Uralsib Leasing Company"	87.61%	Russia	November 25, 1999	Leasing	December 22, 2006
LLC "Uralsib Avto Leasing Company"	87.61%	Russia	January 14, 2001	Leasing	December 22, 2006
LLC "Region Leasing Ufa"	86.73%	Russia	November 10, 2000	Leasing	December 22, 2006
LLC "Region Leasing Consult"	86.73%	Russia	November 12, 2001	Leasing	December 22, 2006
LLC TPK "YUG"	87.61%	Russia	October 21, 1997	Leasing	December 22, 2006

(Thousands of Russian Rubles)

2. Basis of preparation (continued)**Subsidiaries (continued)**

<i>2005</i>					
<i>Subsidiary</i>	<i>Ownership, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of receiving control</i>
OJSC "Bashprombank"	48.5%	Russia	November 28, 1990	Banking	June 6, 2002
OJSC Bank "Dorozhnik"	96.0%	Russia	April 6, 1990	Banking	September 24, 2001
OJSC AKB "Evrazia"	75.0%	Russia	October 24, 1990	Banking	February 5, 2002
OJSC AKB "Stroyvestbank"	84.4%	Russia	January 24, 1992	Banking	September 28, 2001
OJSC "Tumenprofbank"	19.2%	Russia	October 4, 1990	Banking	January 23, 2003
OJSC "Volgoinvestbank"	19.3%	Russia	October 20, 1994	Banking	March 6, 2003
CJSC "Stock Agency"	100.0%	Russia	June 6, 1996	Investment	June 6, 1996
LLC "Operating Factoring Company URALSIB-NIKoil"	100.0%	Russia	February 27, 2002	Factoring	February 27, 2002
LLC "Nov-Trans-Group"	100.0%	Russia	April 5, 2001	Logistics	April 5, 2001
LLC "Electronnie Tehnologii UralSib"	100.0%	Russia	March 4, 2003	Consulting	March 4, 2003
LLC "Ufa-City"	100.0%	Russia	April 29, 2002	Construction	May 13, 2002
LLC "Inzhtorgstroy"	99.0%	Russia	June 15, 2001	Factoring	August 21, 2003
Members of Leasing Group Uralsib					
LLC "Leasing Company Uralsib"	19.04%	Russia	November 28, 1990	Leasing	December 22, 2006*
LLC "St-Petersburg Uralsib Leasing Company"	19.04%	Russia	December 29, 1999	Leasing	December 22, 2006*
LLC "Ufa Uralsib Leasing Company"	19.04%	Russia	November 25, 1999	Leasing	December 22, 2006*
LLC "Uralsib Avto Leasing Company"	19.04%	Russia	January 14, 2001	Leasing	December 22, 2006*
LLC "Region Leasing Ufa"	18.85%	Russia	November 10, 2000	Leasing	December 22, 2006*
LLC "Region Leasing Consult"	18.85%	Russia	November 12, 2001	Leasing	December 22, 2006*
LLC TPK "YUG"	19.04%	Russia	October 21, 1997	Leasing	December 22, 2006*

* These entities represent subsidiaries under common control acquired in 2006. They have been included in consolidated comparative information in accordance with the pooling of interest method.

The consolidated financial statements include also the following unincorporated subsidiaries:

<i>2006</i>					
<i>Subsidiary</i>	<i>Ownership, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
Closed Unit Investment Fund "Strategy I"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Strategy II"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Strategy III"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Construction Investments"	85.29%	Russia	October 13, 2004	Investment	October 13, 2004
2005					
<i>Subsidiary</i>	<i>Ownership, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
Closed Unit Investment Fund "Strategy I"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Strategy II"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Strategy III"	100%	Russia	December 22, 2003	Investment	December 22, 2003
Closed Unit Investment Fund "Construction Investments"	100%	Russia	October 13, 2004	Investment	October 13, 2004

(Thousands of Russian Rubles)

2. Basis of preparation (continued)**Subsidiaries (continued)**

In accordance with the Russian legislation, participants in limited liability companies may unilaterally withdraw their contributions from the entities. In such cases the company will be obliged to pay the withdrawing participant's share of net assets of the company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to the consent of the participant, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of the withdrawal. Participants in closed unit investment funds may withdraw from the funds in case of change in the fund's rules or change of the management company. Thus, minority interest in limited liability companies and closed unit investment funds is presented within liabilities in the consolidated balance sheet.

Movements in minority interest in limited liability companies and closed unit investment funds were as follows:

December 31, 2004	245,371
Share of minority in profit	145,718
Change in minority share	96,156
December 31, 2005	487,245
Share of minority in profit	1,108
Change in minority share	(117,996)
Dividends to minority	(106,867)
December 31, 2006	263,490

Reconciliation of RAL and IFRS equity and profit for the year

Equity and profit for the year is reconciled between RAL and IFRS as follows:

	<i>2006</i>		<i>2005</i> <i>(Restated)</i>	
	<i>Equity</i>	<i>Profit for the year</i>	<i>Equity</i>	<i>Profit for the year</i>
Russian Accounting Legislation	46,288,060	5,819,162	38,319,037	9,889,426
Goodwill	4,527,406	–	4,527,406	–
Effect of consolidation of subsidiaries	2,183,111	1,289,454	2,615,015	3,939,684
Inflation impact on non-monetary capital items	2,211,960	(220,390)	2,432,350	–
Revaluation of property	(2,193,786)	13,503	(2,358,403)	–
Deferred tax, excluding effect of available-for-sale securities and property revaluation	(2,278,565)	(623,946)	(1,654,620)	(1,555,082)
Accelerated depreciation	(1,611,339)	(170,203)	(1,441,136)	(94,442)
Effect of accrued interest	(2,243,379)	(934,576)	(1,308,803)	(395,131)
Salary and administrative expenses accrued	(1,866,984)	(750,592)	(1,116,392)	(1,098,271)
Available-for-sale securities revaluation, net of deferred tax	280,703	–	1,069,792	–
Minority interest	642,142	18,760	581,532	101,831
Allowances for impairment	103,672	(20,668)	124,340	2,473,579
Fair value re-measurement of derivatives	(3,020)	(98,993)	95,973	(621,015)
Fair value re-measurement of securities	(38,189)	(31,238)	(6,951)	(201,974)
Expenses recorded directly in equity	–	(110,901)	–	(763,090)
Group administrative expenses	–	–	–	(495,586)
Other	(145,285)	–	(145,285)	(4,828)
International Financial Reporting Standards	45,856,507	4,179,372	41,733,855	11,175,101

(Thousands of Russian Rubles)

3. Summary of accounting policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between consolidated entities are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. 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.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Bank on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the consolidated statement of income, and its share of movements in reserves is recognised in equity. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 to realise the asset and settle the liability simultaneously.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

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

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

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Borrowings, which include amounts due to credit institutions, amounts due to customers and debt securities issued are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of income.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Leases

i. Finance - Bank as lessee

The Bank recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance - Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. Net investment in the lease consists of the sum of the minimum lease term payments, and unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income consists of the amortization of unearned finance lease income.

The Bank records capital expenditures related to acquisition of equipment subject to finance lease together with equipment purchased for leasing purposes. These expenditures are being accumulated until the equipment is ready for use and being transferred to the lessee.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct cost are included in the initial measurement of the lease receivables.

Current lease payments due at the balance sheet date are classified as lease payments receivable in the consolidated balance sheet.

iii. Operating - Bank as lessee

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

iv. Operating - Bank as lessor

The Bank presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Investment property

Following initial recognition at cost, investment property is carried at a revalued amount, which is the fair value at the date of the revaluation. The gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises.

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Accumulated depreciation as of the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and fixtures	7
Computers and office equipment	4-6
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the parent's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Bank are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Bank's primary or the Bank's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

Other intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other employee benefit obligations

The Bank has pension arrangements separate from the State pension system of the Russian Federation. The Bank has a defined contribution plan with a Non-state Pension Fund "URALSIB", a related party, which covers part of Bank's employees. The Bank's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefits received by an employee is determined by the amount of contributions paid by the Bank to a post-employment benefit plan together with investment returns arising from the contributions. Actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on employees. A plan benefit formula is linked solely to the amount of contributions. There is no guarantee, either indirectly through a plan or directly, by the Bank of a specified return on contributions. The Bank's contributions are determined based on aggregate agreement for employees.

In addition, the Bank has pension arrangements with State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. Other than the above, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued or received are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded 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.

Foreign currency translation

The consolidated financial statements are presented in Russian Rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at December 31, 2006 and 2005, were 26.33 Rubles and 28.78 Rubles to 1 USD, respectively.

(Thousands of Russian Rubles)

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of regional banks

Three banks in which the Bank owns less than 50% of the voting rights (OJSC Bashprombank, OJSC Tumenprofbank and OJSC Volgoinvestbank) were consolidated in these financial statements as the Bank exercises control over their operations by controlling Boards of Directors of these banks, which consist of the Bank's management.

Consolidation of closed unit investment funds

As the Bank owns majority of units in closed unit investment funds "Strategy Invest I", "Strategy Invest II", "Strategy Invest III" and "Construction investments", it exercises control over them by the means of appointing a management company and having a right not to approve investment declaration suggested by the management company. Therefore the funds were consolidated in these financial statements, however, the Bank is not involved in day-to-day operating and investing activities of these funds.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Bank determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Bank to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2006 and 2005, was RUB 4,527,406. More details are provided in Note 13.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Cash on hand	8,705,940	6,428,381
Current accounts with the Central Bank	11,193,468	8,466,721
Current accounts with other credit institutions	3,020,387	3,359,818
Time deposits with credit institutions up to 90 days	6,902,933	6,775,800
Reverse repurchase agreements with credit institutions up to 90 days	2,580,836	1,592,591
Cash and cash equivalents	32,403,564	26,623,311

(Thousands of Russian Rubles)

5. Cash and cash equivalents (continued)

The Bank had entered into reverse repurchase agreements with a number of credit institutions. The subject of these agreements are shares and bonds issued by Russian companies and banks with a fair value of RUB 1,614,429 (2005 – RUB 1,061,348) and Russian State bonds (OFZ) with a fair value of RUB 1,302,003 (2005 – 747,870).

6. Trading securities and securities pledged under repurchase agreements

Trading securities owned comprise:

	<i>2006</i>	<i>2005</i>
Corporate shares	21,189,143	2,922,137
OJSC "LUKOIL" ordinary shares	13,195,773	14,675,300
Corporate bonds	9,275,968	2,214,637
US Treasury bills	8,823,881	2,555,319
Promissory notes	4,079,818	3,791,384
Russian Federation Eurobonds	3,877,639	4,699,512
Units in LUKoil equity investment funds	1,106,807	–
Russian State bonds (OFZ)	932,823	454,525
Municipal and government bonds	761,247	177,556
Trading securities	63,243,099	31,490,370

As of December 31, 2006 and 2005, the corporate shares represented shares of blue-chip Russian companies; corporate bonds represented bonds of various Russian companies, including blue-chip; promissory notes included notes of top Russian banks and blue-chip Russian companies.

Securities pledged under repurchase agreements comprise:

	<i>2006</i>	<i>2005</i>
Russian State bonds (OFZ)	1,053,116	–
Municipal and government bonds	51,734	–
Securities pledged under repurchase agreements	1,104,850	–

Nominal interest rates and maturities of these securities are as follows:

	<i>2006</i>		<i>2005</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds	5.5%-16.0%	2007-2016	1.0%-18.8%	2006-2015
US Treasury bills	4.7%-6.2%	2007-2017	–	2006-2008
Promissory notes	–	2006-2008	–	2006-2007
Russian Federation Eurobonds	10%-12.8%	2007-2028	3.0%-10.0%	2006-2030
Russian State bonds (OFZ)	5.8%-10.0%	2009-2036	9.5%-10.0%	2010-2021
Municipal and government bonds	7.6%-13.5%	2007-2015	9.5%-13.5%	2007-2014

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>2006</i>	<i>2005</i>
Reverse repurchase agreements for more than 90 days	7,974,248	8,866,994
Obligatory reserve with the Central Bank	6,426,290	4,555,368
Time deposits for more than 90 days or overdue	1,236,229	3,066,188
	15,636,767	16,488,550
Less – Allowances for impairment (Note 15)	(18,701)	–
Amounts due from credit institutions	15,618,066	16,488,550

(Thousands of Russian Rubles)

7. Amounts due from credit institutions (continued)

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

The Bank had entered into reverse repurchase agreements with a number of credit institutions. The subject of these agreements are US Treasury bills with a fair value of RUB 8,113,138 (2005 – 8,703,340 RUB). Reverse repurchase agreements of RUB 7,974,248 with US Treasury bills with a single OECD bank are subject to risks associated with loans granted by this OECD bank.

During 2005, the Bank placed with and received short-term funds from Russian banks in different currencies. At December 31, 2005, the Bank received RUB 223,900, equivalent of RUB 138,449 in EUR and RUB 834,693 in USD as deposits with Russian banks, which relate to deposits granted to the same banks (see Note 17).

8. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments and trading liabilities are as follows:

	2006			2005		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Precious metals contracts						
Forwards and Swaps – foreign	1,777,389	10,879	32,047	1,443,269	130,262	6,596
Foreign exchange contracts						
Forwards and Swaps – foreign	8,262,030	26,403	6,108	4,170,570	426	35,201
Forwards and Swaps – domestic	4,893,195	3,893	–	–	–	–
Equity/Commodity contracts						
Forwards and Swaps – foreign	–	–	–	324,646	–	653
Options – foreign	–	–	–	2,534,974	7,735	–
Total derivative assets/liabilities	14,932,614	41,175	38,155	8,473,459	138,423	42,450

9. Loans to customers

Loans to customers comprise:

	2006	2005 (Restated)
Loans to customers	154,425,065	129,648,368
Loans granted under reverse repurchase agreements	8,888,646	2,069,419
Overdrafts	3,812,405	2,818,800
Factoring	102,607	66,557
Promissory notes	11,810	53,544
	167,240,533	134,656,688
Less – Allowance for loan impairment (Note 15)	(9,774,975)	(5,671,933)
Loans to customers	157,465,558	128,984,755

The Bank has entered into reverse repurchase agreements with a number of Russian companies. The subject of these agreements are bonds, shares and global depository receipts issued by Russian companies with a fair value of RUB 10,961,900 (2005 – RUB 2,287,589). At December 31, 2006, loans granted under reverse repurchase agreements include RUB 7,106,724 (2005 – RUB nil) placed with related parties.

As of December 31, 2006, the Bank had a concentration of loans represented by RUB 13,563,321 due from the ten largest third party borrowers (8% of gross loan portfolio) (2005 – RUB 14,480,665 or 11%). An allowance of RUB 238,404 (2005 – RUB 241,838) was recognised against these loans.

(Thousands of Russian Rubles)

9. Loans to customers (continued)

Loans and advances to customers include loans granted under the EBRD Small and Medium Enterprise Support Programme of RUB 2,701,497 (2005 – RUB 1,147,802). An allowance of RUB 48,405 (2005 – RUB 22,649) was recognised against these loans.

Loans have been extended to the following types of customers:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Private companies	127,857,451	105,531,362
Individuals	36,754,910	24,793,441
State companies	2,171,933	3,812,865
State budget or local authorities	456,239	519,020
	167,240,533	134,656,688

Loans are made principally within Russia in the following industry sectors:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Trading enterprises	45,505,255	38,859,553
Individuals	36,754,910	24,793,441
Financial services, other than credit institutions	28,365,955	11,339,865
Real estate construction	10,864,317	9,843,236
Food processing	8,764,655	5,643,562
Manufacturing	4,933,315	4,598,269
Oil and gas	4,229,296	3,172,301
Machine-building	3,304,575	3,172,021
Gold mining	2,969,809	2,587,825
Agriculture	2,813,018	2,249,408
Metal mining and refinery	2,578,940	3,190,051
Metallurgy	2,548,262	3,916,346
Energy	2,508,236	2,802,268
Transport	2,247,846	5,269,956
Leasing	1,524,512	1,138,610
Forestry	1,179,498	880,760
Chemical	1,166,625	991,037
Light industry	619,802	639,269
Government and municipal bodies	456,239	519,020
Telecommunication	340,719	911,530
Services	102,771	114,795
Other	3,461,978	8,023,565
	167,240,533	134,656,688

Interest income accrued on loans, for which individual impairment allowances have been recognized, as of December 31, 2006, comprised RUB nil (2005 – RUB nil).

10. Available-for-sale securities

Available-for-sale securities comprise:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Corporate bonds	1,586,362	1,310,565
Corporate shares	1,085,217	2,118,030
LUKoil shares	857,528	7,649,367
Participation in limited liability companies	131,838	101,403
Equity investments	5,059	37,716
Promissory notes	–	407
Available-for-sale securities	3,666,004	11,217,488

*(Thousands of Russian Rubles)***10. Available-for-sale securities (continued)**

Nominal interest rates and maturities of these securities are as follows:

	<i>2006</i>		<i>2005</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds	7.1%-14.5%	2009-2013	9%-14%	2007 - 2009

11. Net investments in finance leases

Net investments in finance leases comprise:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Gross investments in finance leases	14,060,803	5,493,149
Less – Unearned finance lease income	(3,759,740)	(1,345,728)
	10,301,063	4,147,421
Less – Allowance for impairment	(271,838)	(95,492)
Net investments in finance leases	10,029,225	4,051,929

At December 31, 2006 and 2005, the Bank owned most of the leased equipment in accordance with statutory legislation.

There is no residual value related to lease contracts existing as of December 31, 2006 and 2005. Future minimum lease payments to be received following December 31, 2006 and 2005, are disclosed below:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Within 1 year	4,997,601	2,462,814
From 1 to 5 years	8,849,481	2,960,637
More than 5 years	213,721	69,698
Minimum lease payments receivable	14,060,803	5,493,149

Gross investment in leases as of December 31, 2006 and 2005, is payable in the following currencies:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
RUB	5,368,168	2,203,387
USD	3,898,020	2,402,088
EUR	4,794,615	887,674
Gross investments in finance leases	14,060,803	5,493,149

(Thousands of Russian Rubles)

12. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Assets under construction</i>	<i>Total</i>
Cost or valued amount				
31 December 2004 (Restated)	4,172,907	1,830,167	577,267	6,580,341
Additions	112,459	756,649	88,620	957,728
Disposals	(420,784)	(293,670)	(109,521)	(823,975)
31 December 2005 (Restated)	3,864,582	2,293,146	556,366	6,714,094
Additions	54,969	559,687	86,773	701,429
Disposals	(319,229)	(278,273)	(183,249)	(780,751)
Netting of accumulated depreciation due to revaluation	(156,178)	–	–	(156,178)
Revaluation	608,858	–	–	608,858
31 December 2006	4,053,002	2,574,560	459,890	7,087,452
Accumulated depreciation				
31 December 2004 (Restated)	119,650	509,954	–	629,604
Charge for the year	89,352	441,228	–	530,580
Disposals	(28,364)	(35,877)	–	(64,241)
31 December 2005 (Restated)	180,638	915,305	–	1,095,943
Charge for the year	100,052	499,276	–	599,328
Disposals	(40,646)	(209,420)	–	(250,066)
Netting of accumulated depreciation due to revaluation	(156,178)	–	–	(156,178)
31 December 2006	83,866	1,205,161	–	1,289,027
Net book value				
31 December 2004 (Restated)	4,053,257	1,320,213	577,267	5,950,737
31 December 2005 (Restated)	3,683,944	1,377,841	556,366	5,618,151
31 December 2006	3,969,136	1,369,399	459,890	5,798,425

The Bank engaged independent appraisers to determine the fair value of its buildings. Fair value was determined by reference to market-based evidence. The dates of the revaluation were June 30, 2006 and December 31, 2006. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	<i>2006</i>	<i>2005</i>
Cost	3,479,443	3,483,576
Accumulated depreciation and impairment	402,688	278,127
Net carrying amount	3,076,755	3,205,449

13. Goodwill

The movements in goodwill were as follows:

	<i>URALSIB Banking Group</i>	<i>AVTOBANK- NIKOIL</i>	<i>Total</i>
Cost			
December 31, 2004	2,002,436	3,024,177	5,026,613
Elimination of accumulated amortisation of goodwill on adoption of IFRS 3	(104,588)	(394,619)	(499,207)
December 31, 2005 and 2006	1,897,848	2,629,558	4,527,406
Accumulated amortization and impairment			
December 31, 2004	104,588	394,619	499,207
Elimination of accumulated amortisation of goodwill on adoption of IFRS 3	(104,588)	(394,619)	(499,207)
December 31, 2005 and 2006	–	–	–
Net book value:			
December 31, 2004, 2005 and 2006	1,897,848	2,629,558	4,527,406

(Thousands of Russian Rubles)

13. Goodwill (continued)

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- corporate banking – RUB 3,607,218,
- retail banking – RUB 920,188.

The recoverable amounts of each of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 14% (2005 – 16%) and cash flows beyond the five-year period are not extrapolated and based on the profit earned during the fifth year.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Increase in interest margin of 25-33% annually,
- The US Dollar will remain almost at the same level over the next five years.

14. Taxation

The corporate income tax expense comprises:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Current tax charge	900,420	1,647,543
Deferred tax expense		
<i>Movement in net deferred tax liabilities</i>	<i>532,314</i>	<i>1,915,422</i>
<i>Recognized directly in equity</i>	<i>91,631</i>	<i>(360,340)</i>
	<u>623,945</u>	<u>1,555,082</u>
Income tax expense	<u>1,524,365</u>	<u>3,202,625</u>

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2006 and 2005. The tax rate for companies other than banks was also 24% for 2006 and 2005. The tax rate for interest income on state securities was 15% for Federal taxes.

Tax assets and liabilities comprised the following:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Current tax assets	410,856	27,176
Deferred tax assets	116,575	44,204
Tax assets	<u>527,431</u>	<u>71,380</u>
Current tax liability	29,146	662,173
Deferred tax liability recognized through income statement	2,395,140	1,698,824
Deferred tax liability relating to property revaluation	232,972	75,417
Deferred tax liability relating to investment revaluation reserve	88,643	337,829
Tax liabilities	<u>2,745,901</u>	<u>2,774,243</u>

(Thousands of Russian Rubles)

14. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Profit before tax	5,703,737	14,377,726
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	1,368,897	3,450,654
State securities taxed at different rates	(11,297)	(6,255)
Transfer pricing adjustment on dealing gain	3,300	3,377
Dividend income taxed at different rate	(54,539)	(48,232)
Non-deductible administrative expenditures	178,031	83,553
Change in unrecognised deferred tax assets	–	(327,682)
Other	39,973	47,210
Income tax expense	1,524,365	3,202,625

Deferred tax assets and liabilities at December 31 and their movements for the respective years comprise:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Tax effect of deductible temporary differences:		
Loans to customers	693,947	588,161
Bonuses and compensation accrued	293,654	269,309
Allowance for net investments in finance leases	106,226	21,162
Administrative expenses accrued	99,739	51,116
Allowance for other assets	55,803	22,184
Intangible assets	36,066	–
Deferred tax asset	1,285,435	951,932
Less part of deferred tax asset which can not be offset against deferred tax liability	116,575	44,204
Deferred tax asset eligible to decrease deferred tax liability	1,168,860	907,728
Tax effect of taxable temporary differences:		
Securities	3,365,380	2,569,518
Property and equipment	447,930	376,933
Borrowed funds	62,243	15,200
Net investments in finance lease	9,337	35,113
Derivative financial instruments	725	23,034
Deferred tax liability	3,885,615	3,019,798
Deferred tax liability, net	2,716,755	2,112,070

15. Allowances for impairment and provisions

The movements in allowances for impairment of interest earning assets were as follows:

	<i>Due from credit institutions</i>	<i>Loans to customers</i>	<i>Net investments in finance leases</i>	<i>Total</i>
December 31, 2004 (Restated)	14,172	5,276,857	110,749	5,401,778
Charge (reversal)	(14,172)	601,002	(15,257)	571,573
Write-offs	–	(205,926)	–	(205,926)
December 31, 2005 (Restated)	–	5,671,933	95,492	5,767,425
Charge	18,701	4,103,106	176,346	4,298,153
Write-offs	–	(64)	–	(64)
December 31, 2006	18,701	9,774,975	271,838	10,065,514

*(Thousands of Russian Rubles)***15. Allowances for impairment and provisions (continued)**

The movements in allowances for other assets and provisions were as follows:

	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Total</i>
December 31, 2004 (Restated)	39,452	82,800	122,252
Charge (reversal)	551,320	(82,800)	468,520
Write-offs	(497,338)	–	(497,338)
December 31, 2005 (Restated)	93,434	–	93,434
Charge	143,868	–	143,868
Write-offs	(1,576)	–	(1,576)
December 31, 2006	235,726	–	235,726

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Russian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

16. Other assets and liabilities

Other assets comprise:

	<i>2006</i>	<i>2005 (Restated)</i>
Trade debtors on operations with securities	6,682,604	8,743,887
Prepaid operating taxes	1,449,094	386,263
Intangible assets, net	998,335	321,417
Investment property	801,680	562,364
Prepayments	688,226	680,080
Inventory in transit	222,185	253,661
Settlements under finance lease contracts	219,460	225,487
Receivables on plastic cards	43,609	348,483
Other	207,973	74,692
	11,313,166	11,596,334
Less – Allowance for impairment of other assets (Note 15)	(235,726)	(93,434)
Other assets	11,077,440	11,502,900

Other liabilities comprise:

	<i>2006</i>	<i>2005 (Restated)</i>
Accrued compensation and bonuses	1,468,454	1,028,233
Settlements under finance lease contracts	528,212	85,413
Trade creditors	401,043	1,432,367
Operating taxes	291,477	197,159
Settlements under sale-purchase agreements	127,624	10,411
Settlements on operations with precious metals	126,701	84,079
Settlements on conversion operations	26,413	1,571
Deferred commission income	12,284	10,717
Settlements on plastic cards	8,371	87,566
Dividend settlements	3,187	3,723
Accrued contribution under obligatory deposit insurance system	–	70,000
Other	39,947	91,969
Other liabilities	3,033,713	3,103,208

(Thousands of Russian Rubles)

17. Amounts due to credit institutions

The amounts due to credit institutions comprise:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Current accounts	3,334,753	3,495,566
Time deposits and loans	29,620,732	20,736,293
Repurchase agreements	1,000,634	–
Syndicated loans	20,756,417	13,217,162
Amounts due to credit institutions	54,712,536	37,449,021

During 2005, the Bank placed with and received short-term funds from Russian banks in different currencies. At December 31, 2005, the Bank received RUB 223,900, equivalent of RUB 138,449 in EUR and RUB 834,693 in USD as deposits with Russian banks, which relate to deposits granted to the same banks (see Note 7).

The Bank had entered into repurchase agreements with a number of credit institutions. The subject of these agreements are Russian State bonds (OFZ) with a fair value of RUB 1,053,118 (2005 – RUB nil).

During 2006 the Bank received three syndicated loans in total nominal amount of USD 833,000,000 (RUB 22,305,593) from Russian, OECD and non-OECD banks and companies. The amount received from a non-credit institution is recognized in other borrowed funds. The contractual maturity of syndicated loans is 2007-2008, and the interest rate is tied to six-month LIBOR.

18. Amounts due to customers

The amounts due to customers include the following:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Current accounts	74,489,233	63,424,004
Time deposits	108,402,139	69,863,917
Repurchase agreements	56,908	–
Amounts due to customers	182,948,280	133,287,921

At December 31, 2006, amounts due to customers of RUB 27,529,587 or 15% were due to the ten largest third party customers (2005 - RUB 34,785,394 or 26%).

The Bank had entered into repurchase agreements with a number of customers. The subject of these agreements are government bonds with a fair value of RUB 51,732 (2005 – RUB nil).

Included in time deposits are deposits of individuals in the amount of RUB 45,087,530 (2005 – RUB 37,867,912). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Private enterprises	84,475,040	68,080,475
Individuals	61,605,475	48,429,810
State and budgetary organisations	35,943,703	15,766,173
Employees	924,062	1,011,463
Amounts due to customers	182,948,280	133,287,921

*(Thousands of Russian Rubles)***18. Amounts due to customers (continued)**

An analysis of customer accounts by economic sector follows:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Individuals	62,529,537	49,441,273
Government bodies	35,611,463	15,086,059
Investment and finance	25,995,426	36,670,961
Trade and food processing	14,176,041	7,461,364
Energy	12,104,090	4,666,975
Real estate construction	7,615,923	4,144,489
Production and manufacturing	6,437,516	4,837,239
Chemical	3,690,308	1,322,691
Services	2,357,257	1,818,176
Transport and communication	2,023,548	3,233,105
City and municipal bodies	200,198	407,178
Non-budget funds	132,042	272,936
Leasing	50,721	70,884
Other	10,024,210	3,854,591
Amounts due to customers	182,948,280	133,287,921

19. Promissory notes and certificates of deposit issued

Promissory notes and certificates of deposit issued consisted of the following:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Promissory notes	10,967,527	13,534,011
Certificates of deposit	2	206,198
Promissory notes and certificates of deposit issued	10,967,529	13,740,209

As of December 31, 2006, the Bank had issued non-interest-bearing promissory notes, and deposit certificates having an aggregate nominal value of RUB 1,896,642 (2005 - 2,464,911). Other promissory notes and certificates of deposit issued by the Bank as of December 31, 2006, bear annual interest rates ranging from 2.0% to 13.0% (2005 - from 2.0% to 13.5%).

20. Other borrowed funds

Other borrowed funds comprised the following:

	<i>2006</i>	<i>2005</i>
Eurobonds (Luxembourg company)	3,670,216	4,397,857
Syndicated loans (Note 17)	1,356,805	–
Eurobonds (Commerzbank AG)	–	3,802,051
Other borrowed funds	5,027,021	8,199,908

In March 2004, the Bank (represented by OJSC AB "IBG NIKoil") completed the issue of Eurobonds totaling USD 150,000 thousand (RUB equivalent of 4,317,375) maturing in 2007 with 9% fixed interest paid semi-annually. The issue was structured as Loan Participation Notes issued by a Luxembourg company for the purpose of financing a loan to the Bank. The cost of issue was USD 2,349 thousand (RUB equivalent of 67,610) and is treated as a part of effective interest rate for the instrument.

In 2006 the Bank redeemed the first issue of Eurobonds in the total amount of USD 140,000,000 structured as debt securities issued by Commerzbank AG.

(Thousands of Russian Rubles)

21. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	<i>Number of shares</i>		<i>Nominal amount</i>		<i>Inflation adjustment</i>	<i>Total</i>
	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>		
December 31, 2004						
OJSC "Bryansky Narodny Bank"	–	23,500,000	–	235,000	90,144	325,144
OJSC "Uralo-Sibirsky Bank"	–	76,000,000,000	–	7,600,000	7,299,404	14,899,404
OJSC AKB "AVTOBANK-NIKOIL"	–	53,770,000,000	–	5,377,000	2,345,215	7,722,215
OJSC "Kuzbassugolbank"	3,200	6,926,580	16	346,329	388,288	734,633
OJSC AB "IBG NIKoil"	2,000	528,298,000	20	5,282,980	2,077,922	7,360,922
December 31, 2004	5,200	130,328,724,580	36	18,841,309	12,200,973	31,042,318
Redemption of shares before reorganisation	(65)	(15,939,228)	–	(7,823)	(12,692)	(20,515)
Increase in number of shares due to conversion of shares of OJSC "Kuzbassugolbank"	(3,135)	3,394,230,998	(16)	16	–	–
Increase in number of shares and share capital due to conversion of shares of OJSC AB "IBG NIKoil"	(2,000)	68,150,702,000	(20)	1,584,920	–	1,584,900
Increase in number of shares due to conversion of shares of OJSC "Bryansky Narodny Bank"	–	2,326,500,000	–	–	–	–
December 31, 2005 and 2006	–	204,184,218,350	–	20,418,422	12,188,281	32,606,703

The number of authorized ordinary shares is 275,984,185,600 (2005: – 275,984,185,600) with a nominal value per share of Ruble 0.1.

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

In November 2004 the shareholders of OJSC AB "IBG NIKoil", OJSC AKB "AVTOBANK-NIKOIL", OJSC "Bryansky Narodny Bank", OJSC "Kuzbassugolbank" and OJSC "Uralo-Sibirsky Bank" approved a reorganization in the form of a combination with OJSC "Uralo-Sibirsky Bank", which was completed and registered by the CBR in September 2005. Following decision about reorganization, some minority shareholders, who were not present at the shareholders meetings or voted against the reorganization, requested the Bank to redeem their shares. As a result, 15,814,400 ordinary shares of OJSC "Uralo-Sibirsky Bank" and 124,828 ordinary shares and 65 preferred shares of OJSC "Kuzbassugolbank" were redeemed by the respective banks.

At September 20, 2005, the ordinary and preferred shares of OJSC AB "IBG NIKoil", OJSC AKB "AVTOBANK-NIKOIL", OJSC "Bryansky Narodny Bank" and OJSC "Kuzbassugolbank" were converted into ordinary shares of OJSC "Uralo-Sibirsky Bank". The additional emission of shares of OJSC "Uralo-Sibirsky Bank" for the purposes of conversion of share capitals of the merged banks was made on September 20, 2005 and comprised 128,200,032,750 ordinary shares. The shares of merged banks were converted into shares of the Bank in accordance with following conversion ratios, approved by the shareholders of the banks:

- OJSC AB "IBG NIKoil" – 1 ordinary share of Ruble 10 par value to 130 ordinary shares of Ruble 0.1 par value, 1 preferred share of Ruble 10 par value to 130 ordinary shares of Ruble 0.1 par value;
- OJSC "AVTOBANK-NIKOIL" – 1 ordinary share of Ruble 0.1 par value to 1 ordinary share of Ruble 0.1 par value;
- OJSC "Bryansky Narodny Bank" – 1 ordinary share of Ruble 10 par value to 100 ordinary shares of Ruble 0.1 par value;
- OJSC "Kuzbassugolbank" – 1 ordinary share of Ruble 50 par value to 500 ordinary shares of Ruble 0.1 par value, 1 preferred share of Ruble 5 par value to 50 ordinary shares of Ruble 0.1 par value.

Increase in share capital in amount of RUB 1,584,900 due to conversion of OJSC AB "IBG NIKoil" shares was sourced from additional paid-in capital (RUB 505,817) and retained earnings (RUB 1,079,083) of the Bank.

(Thousands of Russian Rubles)

21. Equity (continued)

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. The Bank had approximately RUB 5,840,283 of undistributed and unreserved earnings as of December 31, 2006 (2005 – RUB 10,540,591). In addition, the Bank's share in the undistributed and unreserved earnings of its subsidiaries was approximately RUB 528,491 as of December 31, 2006 (2005 – RUB 87,119). No dividends were declared by the Bank in respect of the year ended December 31, 2005.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains(losses) on investment securities available for sale

This reserve records fair value changes of available-for-sale investments.

22. Commitments and contingencies

Operating environment

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal

In the ordinary course of business, the Bank 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 Bank.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

*(Thousands of Russian Rubles)***22. Commitments and contingencies (continued)****Financial commitments and contingencies**

As of December 31, the Bank's financial commitments and contingencies comprised the following:

	<i>2006</i>	<i>2005</i>
Credit related commitments		
Undrawn loan commitments	39,542,475	37,792,863
Import letters of credit	11,534,507	9,124,521
Guarantees issued	7,334,455	5,884,374
Letters of credit on settlements in Russian Federation	66,540	25,262
	58,477,977	52,827,020
Operating lease commitments		
Not later than 1 year	870,403	856,139
Later than 1 year but not later than 5 years	1,159,397	233,390
Later than 5 years	506,276	210,665
	2,536,076	1,300,194
Capital expenditure commitments	525,873	207,767
	61,539,926	54,334,981
Less – Cash held as security against letters of credit	(1,544)	(40,409)
Less – Bank's promissory notes held as security against guarantees	(5,821)	(81,334)
Financial commitments and contingencies	61,532,561	54,213,238

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

23. Net fee and commission income

Net fee and commission income comprises:

	<i>2006</i>	<i>2005</i> <i>(Restated)</i>
Settlements operations	2,594,608	1,799,988
Cash operations	1,587,987	1,193,318
Foreign exchange operations	211,850	112,424
Guarantees and letters of credit	118,733	108,140
Underwriting	90,924	109,478
Consulting	15,457	35,683
Agent fees for insurance	11,113	22,977
Securities operations	10,810	10,456
Other	56,430	61,154
Fee and commission income	4,697,912	3,453,618
Settlements operations	641,403	473,476
Cash operations	143,099	132,295
Securities operations	20,186	14,763
Guarantees	19,708	16,407
Currency conversion operations	18,258	2,624
Other	24,052	21,326
Fee and commission expense	866,706	660,891
Net fee and commission income	3,831,206	2,792,727

*(Thousands of Russian Rubles)***24. Gains less losses from trading and available-for-sale securities**

Trading gains less losses from securities comprise:

	<u>2006</u>	<u>2005</u>
Debt and equity securities	5,464,664	8,400,573
Derivatives	285,604	(11,124)
Trading gains less losses from securities	<u>5,750,268</u>	<u>8,389,449</u>

Trading gains from securities include RUB 3,206,736 (2005 – RUB 7,820,332) of gains from trading operations and revaluation of OJSC "LUKoil" shares.

Gains from available-for-sale securities

Gains less losses from available-for-sale securities include RUB 1,086,597 (2005 – RUB 2,994,003) of realized gains from sale of OJSC "LUKoil" shares.

25. Gains less losses from foreign currencies

Gains less losses from foreign currencies comprise:

	<u>2006</u>	<u>2005</u>
Dealing gains	1,034,161	989,043
Translation differences	(938,893)	(249,262)
Gains less losses from foreign currencies	<u>95,268</u>	<u>739,781</u>

26. Salaries, administrative and operating expenses

Salaries and benefits, administrative and operating expenses comprise:

	<u>2006</u>	<u>2005</u> <i>(Restated)</i>
Salaries and bonuses	6,709,440	5,354,944
Social security costs	1,014,873	966,225
Salaries and benefits	<u>7,724,313</u>	<u>6,321,169</u>
Rent expenses	1,000,991	787,723
Operating taxes	919,427	510,516
Repairs and maintenance of property and equipment	522,051	385,865
Marketing and advertising	334,589	249,230
Office materials	267,731	184,665
Communications	230,886	219,723
Obligatory deposit insurance system contributions	228,200	249,577
Data processing	197,086	36,636
Business development	152,465	245,609
Business travel and related expenses	145,432	155,421
Charity	141,494	60,042
Personnel training	81,411	39,026
Insurance	43,111	56,929
Professional services	41,576	56,199
Penalties incurred	4,183	4,297
Other	478,828	184,477
Administrative and operating expenses	<u>4,789,461</u>	<u>3,425,935</u>

(Thousands of Russian Rubles)

27. Segment analysis

In accordance with the requirements of IAS 14 "Reporting Financial Information by Segment", the Bank defined business segments as primary format for reporting segment information. The secondary format for reporting segment information is geographical segments within the territory of the Russian Federation.

Business Segments. The Bank is organized on a basis of four main business segments:

- Corporate banking – represents corporate banking direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Retail banking – represents retail banking, private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Brokerage and treasury activities – represents financial instruments trading, structured financing, merger and acquisition advice.
- Leasing activities – represents finance leasing operations provided by the group of Bank's subsidiaries "Leasing Group URALSIB".

There are no material items of income or expense between the business segments, apart from those disclosed below. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments reflected in the performance of each business segment are based on officially approved rates taken from Bank's internal funding system.

(Thousands of Russian Rubles)

27. Segment analysis (continued)

Segment analysis of the Bank's activities by business sectors for the years ended December 31, 2006 and 2005, is as follows:

<i>December 31, 2006</i>	<i>Corporate banking</i>	<i>Retail banking</i>	<i>Brokerage and treasury operations</i>	<i>Leasing</i>	<i>Unallocated</i>	<i>Total</i>
Interest income	12,474,811	5,154,299	2,655,903	1,412,750	–	21,697,763
Trading gains less losses from securities	–	–	5,750,711	(443)	–	5,750,268
Gains less losses from available-for-sale securities	–	–	1,227,760	–	–	1,227,760
Gains less losses from foreign currencies - dealing	–	–	1,055,471	(21,310)	–	1,034,161
Gains less losses from operation with precious metals	–	–	124,728	–	–	124,728
Fee and commission income	3,362,177	1,262,997	66,915	5,823	–	4,697,912
Dividend income	–	–	396,188	–	–	396,188
Other income	342,114	69,466	–	46,018	211,919	669,517
Inter-segment revenues	679,843	1,558,323	3,967,266	49,891	–	6,255,323
Total income	16,858,945	8,045,085	15,244,942	1,492,729	211,919	41,853,620
Interest expense	(3,035,507)	(3,387,452)	(3,651,210)	(216,540)	–	(10,290,709)
Fee and commission expenses	(612,394)	(121,895)	(126,792)	(5,625)	–	(866,706)
Salaries and benefits	(3,305,614)	(3,575,241)	(709,452)	(134,006)	–	(7,724,313)
Administrative and operating expenses	(2,236,218)	(1,914,990)	(255,533)	(234,735)	(147,985)	(4,789,461)
Inter-segment expenses	(5,575,480)	–	–	(679,843)	–	(6,255,323)
Total expenses	(14,765,213)	(8,999,578)	(4,742,987)	(1,270,749)	(147,985)	(29,926,512)
Segment income/(losses) before impairment, translation and non-cash administrative expenses	2,093,732	(954,493)	10,501,955	221,980	63,934	11,927,108
Impairment of interest earning assets	(1,227,065)	(2,876,041)	(18,701)	(176,346)	–	(4,298,153)
Gains less losses from foreign currencies - translation differences	–	–	–	1,302	(940,195)	(938,893)
Depreciation and amortisation	(284,975)	(308,220)	(61,162)	(1,119)	–	(655,476)
Impairment of other assets and provisions	(140,656)	–	–	(3,212)	–	(143,868)
Loss on revaluation of property	(80,949)	(87,551)	(17,373)	–	–	(185,873)
Minority interest in limited liability companies and unit investment funds	–	–	3,210	(4,318)	–	(1,108)
Impairment, translation and non-cash administrative expenses	(1,733,645)	(3,271,812)	(94,026)	(183,693)	(940,195)	(6,223,371)
Profit before income tax expense	360,087	(4,226,305)	10,407,929	38,287	(876,261)	5,703,737
Income tax expense	–	–	–	(7,767)	(1,516,598)	(1,524,365)
Profit for the year	360,087	(4,226,305)	10,407,929	30,520	(2,392,859)	4,179,372
Segment assets	137,132,106	46,792,276	103,801,637	12,422,828	5,444,285	305,593,132
Segment liabilities	128,024,062	63,294,555	60,405,955	4,947,628	3,064,425	259,736,625
Capital expenditures	(292,830)	(316,715)	(62,847)	(29,037)	–	(701,429)

*(Thousands of Russian Rubles)***27. Segment analysis (continued)***Business Segments (continued)*

<i>December 31, 2005 (Restated)</i>	<i>Corporate banking</i>	<i>Retail banking</i>	<i>Brokerage and treasury operations</i>	<i>Leasing</i>	<i>Unallocated</i>	<i>Total</i>
Interest income	11,814,545	2,523,412	1,740,941	621,176	–	16,700,074
Trading gains less losses from securities	–	–	8,389,449	–	–	8,389,449
Gains less losses from available-for-sale securities	–	–	4,220,770	–	–	4,220,770
Gains less losses from foreign currencies - dealing	–	–	989,043	–	–	989,043
Gains less losses from operation with precious metals	–	–	48,838	–	–	48,838
Fee and commission income	2,430,933	1,017,491	2,201	2,993	–	3,453,618
Dividend income	–	–	200,966	–	–	200,966
Other income	318,849	27,549	–	15,821	141,265	503,484
Inter-segment revenues	341,911	2,389,000	2,310,542	55,534	–	5,096,987
Total income	14,906,238	5,957,452	17,902,750	695,524	141,265	39,603,229
Interest expense	(1,481,433)	(3,121,682)	(3,051,660)	(62,824)	–	(7,717,599)
Fee and commission expenses	(585,648)	(65,690)	(9,389)	(164)	–	(660,891)
Salaries and benefits	(2,239,588)	(2,642,486)	(681,947)	(38,361)	(718,787)	(6,321,169)
Administrative and operating expenses	(1,609,080)	(1,492,127)	(185,562)	(34,906)	(104,260)	(3,425,935)
Inter-segment expenses	(4,755,076)	–	–	(341,911)	–	(5,096,987)
Total expenses	(10,670,825)	(7,321,985)	(3,928,558)	(478,166)	(823,047)	(23,222,581)
Segment income/(losses) before impairment, translation and non-cash administrative expenses	4,235,413	(1,364,533)	13,974,192	217,358	(681,782)	16,380,648
Impairment of interest earning assets	(527,004)	(95,689)	14,172	36,948	–	(571,573)
Gains less losses from foreign currencies - translation differences	–	–	–	(4,786)	(244,476)	(249,262)
Depreciation and amortisation	(246,408)	(266,506)	(52,884)	(2,051)	–	(567,849)
Impairment of other assets and provisions	(473,303)	–	–	4,783	–	(468,520)
Minority interest in limited liability companies and unit investment funds	–	–	–	(145,718)	–	(145,718)
Impairment, translation and non-cash administrative expenses	(1,246,715)	(362,195)	(38,712)	(110,824)	(244,476)	(2,002,922)
Profit before income tax expense	2,988,698	(1,726,728)	13,935,480	106,534	(926,258)	14,377,726
Income tax expense	–	–	–	(71,709)	(3,130,916)	(3,202,625)
Profit for the year	2,988,698	(1,726,728)	13,935,480	34,825	(4,057,174)	11,175,101
Segment assets	125,010,332	32,971,841	72,740,304	5,224,145	4,871,438	240,818,060
Segment liabilities	95,601,922	50,123,189	48,468,027	1,736,189	3,154,878	199,084,205
Capital expenditures	(414,883)	(448,724)	(89,042)	(5,079)	–	(957,728)

*(Thousands of Russian Rubles)***27. Segment analysis (continued)**

Geographical segments. The segment analysis of the Bank by geographical segments is based on the distribution of activity among the Bank’s Directorates. The Bank has identified six geographical segments:

<i>Geographical segment</i>	<i>Name of branch and subsidiary bank</i>	<i>Location of the head office of the branch/subsidiary bank</i>
Central	Central Office OJSC “URALSIB”	Moscow
	Orekhovo-Zuevo Branch of OJSC “URALSIB”	Orekhovo-Zuevo, Moscow region
	Voskresensk Branch of OJSC “URALSIB”	Voskresensk, Moscow region
	Serpukhov Branch of OJSC “URALSIB”	Serpukhov, Moscow region
	Zhukovskiy Branch of OJSC “URALSIB”	Zhukovskiy, Moscow region
	Odintsovo Branch of OJSC “URALSIB”	Odintsovo, Moscow region
	Dubna Branch of OJSC “URALSIB”	Dubna, Moscow region
	Bryansk Branch of OJSC “URALSIB”	Bryansk, Bryansk region
	Tver Branch of OJSC “URALSIB”	Tver, Tver region
	Smolensk Branch of OJSC “URALSIB”	Smolensk, Smolensk region
	Voronezh Branch of OJSC “URALSIB”	Voronezh, Voronezh region
	Vladimir Branch of OJSC “URALSIB”	Vladimir, Vladimir region
	Ryazan Branch of OJSC “URALSIB”	Ryazan, Ryazan region
	Belgorod Branch of OJSC “URALSIB”	Belgorod, Belgorod region
	CJSC Stock Agency	Moscow
	LLC Operating Factoring Company URALSIB-NIKoil	Moscow
	LLC URALSIB Electronnie Tehnologii	Moscow
	LLC Inzhtorgstroy	Moscow
	LLC Leasing Company Uralsib	Moscow
	Closed unit investment fund “Strategy I”	Moscow
Closed unit investment fund “Strategy II”	Moscow	
Closed unit investment fund “Strategy III”	Moscow	
Closed unit investment fund “Construction Investments”	Moscow	
Privolzhskiy	Ufa Branch of OJSC “URALSIB”	Ufa, Bashkortostan Republic
	Nizhniy Novgorod Branch of OJSC “URALSIB”	Nizhniy Novgorod, Nizhniy Novgorod region
	Perm Branch of OJSC “URALSIB”	Perm, Perm region
	Sterlitamak Branch of OJSC “URALSIB”	Strelitamak, Bashkortostan Republic
	Izhevsk Branch of OJSC “URALSIB”	Izhevsk, Udmurt Republic
	Samara Branch of OJSC “URALSIB”	Samara, Samara region
	CJSC AKB “Volgoinvestbank”	Saratov, Saratov region
	OJSC “Bashprombank”	Ufa, Bashkortostan Republic
	OJSC AB “Eurazia”	Izhevsk, Udmurt Republic
	LLC Ufa-City	Ufa, Bashkortostan Republic
	LLC Ufa Uralsib Leasing Company	Ufa, Bashkortostan Republic
	LLC Uralsib Avto Leasing Company	Ufa, Bashkortostan Republic
	LLC Region Leasing Ufa	Ufa, Bashkortostan Republic
LLC Region Leasing Consult	Ufa, Bashkortostan Republic	
South	Krasnodar Branch of OJSC “URALSIB”	Krasnodar, Krasnodar region
	Novorossiysk Branch of OJSC “URALSIB”	Novorossiysk, Krasnodar region
	Stavropol Branch of OJSC “URALSIB”	Stavropol, Stavropol region
	Rostov-na-Donu Branch of OJSC “URALSIB”	Rostov-na-Donu, Rostov-na-Donu region
	LLC TPK “YUG”	Krasnodar, Krasnodar region

*(Thousands of Russian Rubles)***27. Segment analysis (continued)*****Geographical segments (continued)***

<i>Geographical segment</i>	<i>Name of branch and subsidiary bank</i>	<i>Location of the head office of the branch/subsidiary bank</i>
Uralskiy	Ekaterinburg Branch of OJSC "URALSIB"	Ekaterinburg, Sverdlovsk region
	Chelyabinsk Branch of OJSC "URALSIB"	Chelyabinsk, Chelyabinsk region
	Tyumen Branch of OJSC "URALSIB"	Tyumen, Tyumen region
	Nizhneartovsk Branch of OJSC "URALSIB"	Nizhneartovsk, Tyumen region
	Surgut Branch of OJSC "URALSIB"	Surgut, Tyumen region
	Kurgan Branch of OJSC "URALSIB"	Kurgan, Kurgan region
	OJSC Bank Dorozhnik OJSC AKB "Tyumenprofbank"	Chelyabinsk, Chelyabinsk region Tyumen, Tyumen region
North-West	Saint-Petersburg Branch of OJSC "URALSIB"	Sankt-Petersburg
	Petrozavodsk Branch of OJSC "URALSIB"	Petrozavodsk, Karelian Republic
	Arkhangelsk Branch of OJSC "URALSIB"	Arkhangelsk, Arkhangelsk region
	Vologda Branch of OJSC "URALSIB"	Vologda, Vologda region
	Velikiy Novgorod Branch of OJSC "URALSIB"	Velikiy Novgorod, Novgorod region
	Kazan Branch of OJSC "URALSIB"	Kazan, Tatarstan Republic
	OJSC AKB "Stroyvestbank" LLC St-Petersburg Uralsib Leasing Company	Kaliningrad, Kaliningrad region Sankt-Petersburg
Siberia – Far East	Barnaul Branch of OJSC "URALSIB"	Barnaul, Altayskiy region
	Omsk Branch of OJSC "URALSIB"	Omsk, Omsk region
	Irkutsk Branch of OJSC "URALSIB"	Irkutsk, Irkutsk region
	Kuzbas Branch of OJSC "URALSIB"	Kemerovo, Kemerovo region
	Krasnoyarsk Branch of OJSC "URALSIB"	Krasnoyarsk, Krasnoyarsk region
	Novosibirsk Branch of OJSC "URALSIB" Tomsk Branch of OJSC "URALSIB"	Novosibirsk, Novosibirsk region Tomsk, Tomsk region

(Thousands of Russian Rubles)

27. Segment analysis (continued)

Geographical segments (continued). As of December 31, 2006 and 2005, the segment analysis of the Bank by geographical segments is as follows:

<i>Year ended December 31, 2006</i>	<i>South</i>	<i>Privolzhskaya</i>	<i>Central</i>	<i>Uralskaya</i>	<i>North-West</i>	<i>Siberia- Far East</i>	<i>Unallocated</i>	<i>Total</i>
Interest income	567,201	3,983,757	11,132,174	1,478,204	1,683,116	2,853,311	–	21,697,763
Trading gains less losses from securities	–	(1,447)	5,685,439	24,772	41,304	200	–	5,750,268
Gains less losses from available-for-sale securities	–	–	1,227,760	–	–	–	–	1,227,760
Gains less losses from foreign currencies - dealing	14,729	313,147	449,520	29,056	155,062	72,647	–	1,034,161
Gains less losses from operation with precious metals	–	210	124,518	–	–	–	–	124,728
Fee and commission income	67,250	1,106,901	2,185,494	362,152	410,697	565,418	–	4,697,912
Dividend income	–	–	396,188	–	–	–	–	396,188
Other income	1,181	340,726	158,535	112,803	29,011	27,261	–	669,517
Total income	650,361	5,743,294	21,359,628	2,006,987	2,319,190	3,518,837	–	35,598,297
Interest expense	(65,222)	(2,485,751)	(6,101,215)	(707,848)	(554,818)	(375,855)	–	(10,290,709)
Fee and commission expenses	(3,784)	(64,708)	(748,066)	(9,712)	(24,230)	(16,206)	–	(866,706)
Salaries and benefits	(64,870)	(982,424)	(5,384,783)	(367,710)	(372,770)	(534,498)	(17,258)	(7,724,313)
Administrative and operating expenses	(37,447)	(715,761)	(3,193,602)	(263,270)	(253,668)	(325,713)	–	(4,789,461)
Total expenses	(171,323)	(4,248,644)	(15,427,666)	(1,348,540)	(1,205,486)	(1,252,272)	(17,258)	(23,671,189)
Segment income	479,038	1,494,650	5,931,962	658,447	1,113,704	2,266,565	(17,258)	11,927,108
Impairment of interest earning assets (reversal)	(131,240)	(1,275,196)	(1,461,498)	(506,744)	(253,356)	(670,119)	–	(4,298,153)
Gains less losses from foreign currencies - translation differences	(286)	(12,164)	(911,136)	(1,930)	(10,189)	(3,188)	–	(938,893)
Depreciation and amortisation	(4,459)	(186,643)	(345,577)	(33,121)	(34,663)	(51,013)	–	(655,476)
Impairment of other assets and provisions	–	–	(155,238)	11,370	–	–	–	(143,868)
Loss on revaluation of property and equipment	–	(69,332)	(116,541)	–	–	–	–	(185,873)
Minority interest in limited liability companies and unit investment funds	–	–	–	–	–	–	(1,108)	(1,108)
Impairment, translation and non-cash administrative expenses	(135,985)	(1,543,335)	(2,989,990)	(530,425)	(298,208)	(724,320)	(1,108)	(6,223,371)
Profit before income tax expense	343,053	(48,685)	2,941,972	128,022	815,496	1,542,245	(18,366)	5,703,737
Income tax expense	–	–	–	–	–	–	(1,524,365)	(1,524,365)
Profit for the year	343,053	(48,685)	2,941,972	128,022	815,496	1,542,245	(1,542,731)	4,179,372
Segment assets	4,294,643	44,472,619	197,872,893	12,178,494	17,293,953	24,425,693	5,054,837	305,593,132
Segment liabilities	70,887,818	77,102,663	81,077,360	14,418,172	2,125,930	11,378,781	2,745,901	259,736,625
Capital expenditure	(4,594)	(176,034)	(384,897)	(65,157)	(24,398)	(46,349)	–	(701,429)

*(Thousands of Russian Rubles)***27. Segment analysis (continued)***Geographical segments (continued)*

<i>Year ended December 31, 2005 (Restated)</i>	<i>South</i>	<i>Privolzhskaya</i>	<i>Central</i>	<i>Uralskaya</i>	<i>North- West</i>	<i>Siberia- Far East</i>	<i>Unallocated</i>	<i>Total</i>
Interest income	287,384	4,423,396	6,986,172	1,187,015	1,606,114	2,209,993	–	16,700,074
Trading gains less losses from securities	86	4,039,502	4,330,590	9,637	(4,077)	13,711	–	8,389,449
Gains less losses from available-for-sale securities	–	–	4,220,770	–	–	–	–	4,220,770
Gains less losses from foreign currencies - dealing	16,746	396,922	358,899	40,987	112,655	62,834	–	989,043
Gains less losses from operation with precious metals	–	5,919	42,923	(4)	–	–	–	48,838
Fee and commission income	51,892	896,821	1,514,056	237,887	319,844	433,118	–	3,453,618
Dividend income	–	80,135	120,831	–	–	–	–	200,966
Other income	1,160	266,484	113,429	65,984	21,584	34,843	–	503,484
Total income	357,268	10,109,179	17,687,670	1,541,506	2,056,120	2,754,499	–	34,506,242
Interest expense	(48,528)	(2,775,157)	(3,501,558)	(480,050)	(504,624)	(407,682)	–	(7,717,599)
Fee and commission expenses	(4,165)	(242,897)	(342,744)	(13,261)	(23,658)	(34,166)	–	(660,891)
Salaries and benefits	(53,144)	(1,197,672)	(3,970,040)	(313,943)	(328,997)	(457,373)	–	(6,321,169)
Administrative and operating expenses	(25,652)	(979,514)	(1,751,034)	(196,463)	(205,385)	(267,887)	–	(3,425,935)
Total expenses	(131,489)	(5,195,240)	(9,565,376)	(1,003,717)	(1,062,664)	(1,167,108)	–	(18,125,594)
Segment income	225,779	4,913,939	8,122,294	537,789	993,456	1,587,391	–	16,380,648
Impairment of interest earning assets (reversal)	4,834	(596,289)	210,893	(191,646)	(4,476)	5,111	–	(571,573)
Gains less losses from foreign currencies - translation differences	10	(393,171)	132,234	(782)	12,779	(332)	–	(249,262)
Depreciation and amortisation	(3,429)	(181,741)	(287,050)	(27,428)	(28,987)	(39,214)	–	(567,849)
Impairment of other assets and provisions	–	–	(473,303)	–	4,783	–	–	(468,520)
Minority interest in limited liability companies and unit investment funds	–	–	–	–	–	–	(145,718)	(145,718)
Impairment, translation and non-cash administrative expenses	1,415	(1,171,201)	(417,226)	(219,856)	(15,901)	(34,435)	(145,718)	(2,002,922)
Profit before income tax expense	227,194	3,742,738	7,705,068	317,933	977,555	1,552,956	(145,718)	14,377,726
Income tax expense	–	–	–	–	–	–	(3,202,625)	(3,202,625)
Profit for the year	227,194	3,742,738	7,705,068	317,933	977,555	1,552,956	(3,348,343)	11,175,101
Segment assets	2,873,958	38,381,338	151,875,516	10,046,502	13,277,641	19,764,319	4,598,786	240,818,060
Segment liabilities	1,038,385	58,999,946	110,323,195	7,081,359	10,034,589	8,832,488	2,774,243	199,084,205
Capital expenditure	(6,240)	(239,082)	(527,828)	(88,493)	(33,136)	(62,949)	–	(957,728)

(Thousands of Russian Rubles)

28. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main financial risks inherent to the Bank's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Bank's risk management policies in relation to those risks follows.

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay 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 group of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower and product by industry sector, by region are approved monthly by the Management Board. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Thousands of Russian Rubles)

28. Financial risk management (continued)**Geographical concentration**

The geographical concentration of Bank's assets and liabilities is set out below:

	2006				2005 (Restated)			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	29,175,828	3,176,880	50,856	32,403,564	22,737,163	3,877,073	9,075	26,623,311
Precious metals	90,889	–	–	90,889	103,397	–	–	103,397
Trading securities	54,366,158	8,876,941	–	63,243,099	28,823,262	2,667,108	–	31,490,370
Securities pledged under repurchase agreements	1,104,850	–	–	1,104,850	–	–	–	–
Due from credit institutions	7,307,958	7,974,248	335,860	15,618,066	7,025,455	9,251,490	211,605	16,488,550
Derivative financial assets	3,893	36,847	435	41,175	–	138,423	–	138,423
Loans to customers	146,922,862	77,939	10,464,757	157,465,558	126,721,059	1,074,327	1,189,369	128,984,755
Available-for-sale securities	3,662,736	3,268	–	3,666,004	11,216,614	467	407	11,217,488
Net investments in finance leases	10,029,225	–	–	10,029,225	4,051,929	–	–	4,051,929
Property and equipment	5,798,425	–	–	5,798,425	5,618,151	–	–	5,618,151
Goodwill	4,527,406	–	–	4,527,406	4,527,406	–	–	4,527,406
Current tax asset	410,856	–	–	410,856	27,176	–	–	27,176
Deferred tax asset	116,575	–	–	116,575	44,204	–	–	44,204
Other assets	10,297,134	66,139	714,167	11,077,440	7,617,983	176,034	3,708,883	11,502,900
	273,814,795	20,212,262	11,566,075	305,593,132	218,513,799	17,184,922	5,119,339	240,818,060
Liabilities:								
Due to credit institutions	8,477,625	44,564,266	1,670,645	54,712,536	9,058,803	28,105,206	285,012	37,449,021
Derivative financial liabilities	–	38,155	–	38,155	–	41,797	653	42,450
Due to customers	175,634,404	4,182,199	3,131,677	182,948,280	123,487,120	5,562,738	4,238,063	133,287,921
Promissory notes and certificates of deposit issued	10,267,488	638,837	61,204	10,967,529	12,614,411	1,063,420	62,378	13,740,209
Other borrowed funds	–	5,027,021	–	5,027,021	–	8,199,908	–	8,199,908
Current tax liability	29,146	–	–	29,146	662,173	–	–	662,173
Deferred tax liability	2,716,755	–	–	2,716,755	2,112,070	–	–	2,112,070
Other liabilities	3,027,054	5,266	1,393	3,033,713	3,102,279	266	663	3,103,208
Minority interest in limited liability companies and unit investment funds	263,490	–	–	263,490	487,245	–	–	487,245
	200,415,962	54,455,744	4,864,919	259,736,625	151,524,101	42,973,335	4,586,769	199,084,205
Net balance sheet position	73,398,833	(34,243,482)	6,701,156	45,856,507	66,989,698	(25,788,413)	532,570	41,733,855
Net off-balance sheet position	59,632,499	975,533	924,529	61,532,561	47,551,922	6,452,833	208,483	54,213,238

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 Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. All transactions with securities are restricted and managed by value-at-risk methods, and are also limited by types of instruments and issuers.

(Thousands of Russian Rubles)

28. Financial risk management (continued)**Currency risk**

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of Russia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	2006					2005 (Restated)				
	Rubles	USD	EUR	Other	Total	Rubles	USD	EUR	Other	Total
Assets:										
Cash and cash equivalents	26,705,171	4,467,125	1,123,930	107,338	32,403,564	19,942,720	3,714,703	2,923,956	41,932	26,623,311
Precious metals	–	–	–	90,889	90,889	–	–	–	103,397	103,397
Trading securities	49,337,119	13,905,980	–	–	63,243,099	23,753,782	7,736,588	–	–	31,490,370
Securities pledged under repurchase agreements	1,104,850	–	–	–	1,104,850	–	–	–	–	–
Due from credit institutions	6,707,684	8,793,808	116,574	–	15,618,066	5,277,695	11,065,629	145,226	–	16,488,550
Derivative financial assets	5,056	2,855	25,241	8,023	41,175	–	7,735	426	130,262	138,423
Loans to customers	108,669,416	44,313,402	4,474,680	8,060	157,465,558	85,635,779	37,621,734	5,727,242	–	128,984,755
Available-for-sale securities	3,662,736	–	3,268	–	3,666,004	11,026,021	191,000	467	–	11,217,488
Net investments in finance leases	3,828,983	2,780,361	3,419,881	–	10,029,225	1,585,709	1,821,391	644,829	–	4,051,929
Property and equipment	5,798,425	–	–	–	5,798,425	5,618,151	–	–	–	5,618,151
Goodwill	4,527,406	–	–	–	4,527,406	4,527,406	–	–	–	4,527,406
Current tax asset	410,856	–	–	–	410,856	27,176	–	–	–	27,176
Deferred tax asset	116,575	–	–	–	116,575	44,204	–	–	–	44,204
Other assets	9,932,219	1,046,678	96,804	1,739	11,077,440	11,226,084	227,016	48,266	1,534	11,502,900
	220,806,496	75,310,209	9,260,378	216,049	305,593,132	168,664,727	62,385,796	9,490,412	277,125	240,818,060
Liabilities:										
Due to credit institutions	9,278,717	35,299,683	8,419,883	1,714,253	54,712,536	5,413,082	22,864,784	8,041,657	1,129,498	37,449,021
Derivative financial liabilities	–	–	6,108	32,047	38,155	–	653	35,201	6,596	42,450
Due to customers	157,565,244	19,722,776	5,588,714	71,546	182,948,280	102,352,541	27,240,636	3,667,230	27,514	133,287,921
Debt securities issued	9,478,788	1,091,613	397,128	–	10,967,529	11,075,953	1,522,510	1,141,746	–	13,740,209
Other borrowed funds	–	5,027,021	–	–	5,027,021	–	8,199,908	–	–	8,199,908
Current tax liability	29,146	–	–	–	29,146	662,173	–	–	–	662,173
Deferred tax liability	2,716,755	–	–	–	2,716,755	2,112,070	–	–	–	2,112,070
Other liabilities	2,659,586	190,337	182,924	866	3,033,713	2,883,797	110,289	24,665	84,457	3,103,208
Minority interest in limited liability companies and unit investment funds	263,490	–	–	–	263,490	487,245	–	–	–	487,245
	181,991,726	61,331,430	14,594,757	1,818,712	259,736,625	124,986,861	59,938,780	12,910,499	1,248,065	199,084,205
Net balance sheet position	38,814,770	13,978,779	(5,334,379)	(1,602,663)	45,856,507	43,677,866	2,447,016	(3,420,087)	(970,940)	41,733,855
Net off balance sheet position - derivatives	6,300,782	(12,885,447)	4,943,295	1,641,370	–	–	(3,863,596)	3,043,714	819,882	–
Net off balance sheet position – financial commitments and contingencies	37,085,320	18,283,057	6,156,122	8,062	61,532,561	30,141,894	17,302,799	6,768,545	–	54,213,238

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Russian Rubles. As a result, future movements in the exchange rate between the Russian Rubles and USD or Euro will affect the carrying value of the Bank's USD or Euro denominated monetary assets and liabilities. Such changes may also affect the Bank's ability to realise investments in non-monetary assets as measured in USD or Euro in these financial statements.

*(Thousands of Russian Rubles)***28. Financial risk management (continued)****Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

	<i>2006</i>						<i>Total</i>
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	
Assets:							
Cash and cash equivalents	31,322,818	1,080,746	–	–	–	–	32,403,564
Trading securities	35,649,849	1,039,772	16,761,588	8,348,821	1,443,069	–	63,243,099
Securities pledged under repurchase agreements	1,104,850	–	–	–	–	–	1,104,850
Due from credit institutions	3,527,013	5,319,273	6,441,309	327,475	2,996	–	15,618,066
Loans to customers	24,082,906	36,057,006	41,788,790	44,362,794	10,139,414	1,034,648	157,465,558
Available-for-sale securities	2,079,642	–	–	1,566,293	20,069	–	3,666,004
Net investments in finance leases	427,756	682,980	2,453,930	6,312,117	152,442	–	10,029,225
	<u>98,194,834</u>	<u>44,179,777</u>	<u>67,445,617</u>	<u>60,917,500</u>	<u>11,757,990</u>	<u>1,034,648</u>	<u>283,530,366</u>
Liabilities:							
Due to credit institutions	36,521,000	5,184,028	12,185,111	803,531	18,866	–	54,712,536
Due to customers	89,197,958	35,810,216	53,855,380	4,084,726	–	–	182,948,280
Promissory notes and certificates of deposit issued	2,795,344	2,679,154	5,041,151	418,431	33,449	–	10,967,529
Other borrowed funds	1,356,805	3,670,216	–	–	–	–	5,027,021
	<u>129,871,107</u>	<u>47,343,614</u>	<u>71,081,642</u>	<u>5,306,688</u>	<u>52,315</u>	<u>–</u>	<u>253,655,366</u>
Total interest sensitivity gap	<u>(31,676,273)</u>	<u>(3,163,837)</u>	<u>(3,636,025)</u>	<u>55,610,812</u>	<u>11,705,675</u>	<u>1,034,648</u>	<u>29,875,000</u>

(Thousands of Russian Rubles)

28. Financial risk management (continued)**Interest rate risk (continued)**

	<i>2005 (Restated)</i>						
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>Total</i>
Assets:							
Cash and cash equivalents	25,904,523	718,788	–	–	–	–	26,623,311
Trading securities	17,608,149	598,956	6,401,257	6,708,362	173,646	–	31,490,370
Due from credit institutions	2,833,202	3,873,143	9,435,395	346,810	–	–	16,488,550
Loans to customers	22,965,627	19,749,494	46,286,917	35,953,180	3,290,555	738,982	128,984,755
Available-for-sale securities	9,906,891	–	–	1,310,597	–	–	11,217,488
Net investments in finance leases	62,225	240,208	1,510,400	2,187,597	51,499	–	4,051,929
	79,280,617	25,180,589	63,633,969	46,506,546	3,515,700	738,982	218,856,403
Liabilities:							
Due to credit institutions	15,021,630	4,945,796	17,198,504	283,091	–	–	37,449,021
Due to customers	76,500,154	17,547,970	35,287,227	3,952,570	–	–	133,287,921
Promissory notes and certificates of deposit issued	3,847,908	4,865,314	4,150,275	876,685	27	–	13,740,209
Other borrowed funds	–	–	3,957,691	4,242,217	–	–	8,199,908
	95,369,692	27,359,080	60,593,697	9,354,563	27	–	192,677,059
Total interest sensitivity gap	(16,089,075)	(2,178,491)	3,040,272	37,151,983	3,515,673	738,982	26,179,344

As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	<i>2006</i>				<i>2005 (Restated)</i>			
	<i>Rubles</i>	<i>USD</i>	<i>EUR</i>	<i>Other</i>	<i>Rubles</i>	<i>USD</i>	<i>EUR</i>	<i>Other</i>
Cash and cash equivalents, term deposits	6.2%	5.6%	4.4%	–	5.6%	6.0%	2.5%	–
Due from credit institutions, term deposits	8.4%	6.9%	5.1%	–	5.3%	6.5%	2.7%	–
Trading debt securities	8.7%	5.4%	–	–	7.5%	5.4%	–	–
Available-for-sale debt securities	11.1%	–	–	–	11.2%	8.1%	–	–
Loans to customers	12.7%	11.0%	7.6%	–	13.9%	11.8%	7.8%	–
Due to credit institutions	8.7%	7.3%	6.9%	1.7%	5.2%	6.2%	4.3%	–
Customer deposits	8.2%	6.7%	5.7%	–	8.4%	6.7%	7.0%	–
Promissory notes and certificates of deposit issued	7.5%	8.0%	7.4%	–	6.5%	6.9%	9.4%	–
Other borrowed funds	–	9.0%	–	–	–	9.7%	–	–

(Thousands of Russian Rubles)

28. Financial risk management (continued)**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board or the Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2006							Total
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>No stated maturity</i>	
Assets:								
Cash and cash equivalents	31,322,818	1,080,746	—	—	—	—	—	32,403,564
Precious metals	90,889	—	—	—	—	—	—	90,889
Trading securities	63,243,099	—	—	—	—	—	—	63,243,099
Securities pledged under repurchase agreements	1,104,850	—	—	—	—	—	—	1,104,850
Due from credit institutions	3,527,013	5,319,273	6,441,309	327,475	2,996	—	—	15,618,066
Derivative financial assets	34,988	3,740	2,447	—	—	—	—	41,175
Loans to customers	22,787,105	35,858,034	41,788,339	45,858,017	10,139,414	1,034,649	—	157,465,558
Available-for-sale securities	2,079,642	—	—	1,566,293	20,069	—	—	3,666,004
Net investments in finance leases	427,756	682,980	2,453,930	6,312,117	152,442	—	—	10,029,225
Property and equipment	—	—	—	—	—	—	5,798,425	5,798,425
Goodwill	—	—	—	—	—	—	4,527,406	4,527,406
Current tax asset	—	410,856	—	—	—	—	—	410,856
Deferred tax asset	—	—	—	—	116,575	—	—	116,575
Other assets	1,668,559	1,992,513	5,474,650	138,367	3,336	—	1,800,015	11,077,440
	126,286,719	45,348,142	56,160,675	54,202,269	10,434,832	1,034,649	12,125,846	305,593,132
Liabilities:								
Due to credit institutions	28,640,854	4,373,465	14,126,447	7,055,861	515,909	—	—	54,712,536
Derivative financial liabilities	632	5,596	31,927	—	—	—	—	38,155
Due to customers	89,197,958	35,810,216	53,855,380	4,084,726	—	—	—	182,948,280
Promissory notes and certificates of deposit issued	2,795,344	2,679,154	5,041,150	418,432	33,449	—	—	10,967,529
Other borrowed funds	1,356,805	3,670,216	—	—	—	—	—	5,027,021
Current tax liability	—	29,146	—	—	—	—	—	29,146
Deferred tax liability	—	—	—	—	2,716,755	—	—	2,716,755
Other liabilities	1,084,228	354,087	1,254,477	332,892	8,029	—	—	3,033,713
Minority interest in limited liability companies and unit investment funds	—	—	3,632	259,858	—	—	—	263,490
	123,075,821	46,921,880	74,313,013	12,151,769	3,274,142	—	—	259,736,625
Net position	3,210,898	(1,573,738)	(18,152,338)	42,050,500	7,160,690	1,034,649	12,125,846	45,856,507
Accumulated gap	3,210,898	1,637,160	(16,515,178)	25,535,322	32,696,012	33,730,661	45,856,507	

(Thousands of Russian Rubles)

28. Financial risk management (continued)**Liquidity risk (continued)**

	2005 (Restated)							Total
	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	No stated maturity	
Assets:								
Cash and cash equivalents	25,904,523	718,788	–	–	–	–	–	26,623,311
Precious metals	103,397	–	–	–	–	–	–	103,397
Trading securities	31,490,370	–	–	–	–	–	–	31,490,370
Due from credit institutions	2,833,203	3,873,142	9,435,395	346,810	–	–	–	16,488,550
Derivative financial assets	138,423	–	–	–	–	–	–	138,423
Loans to customers	22,965,627	19,749,494	46,286,917	35,953,180	3,290,555	738,982	–	128,984,755
Available-for-sale securities	9,906,891	–	–	1,310,597	–	–	–	11,217,488
Net investments in finance leases	62,225	240,208	1,510,400	2,187,597	51,499	–	–	4,051,929
Property and equipment	–	–	–	–	–	–	5,618,151	5,618,151
Goodwill	–	–	–	–	–	–	4,527,406	4,527,406
Current tax asset	–	27,176	–	–	–	–	–	27,176
Deferred tax asset	–	–	–	–	44,204	–	–	44,204
Other assets	1,919,513	2,409,350	6,407,494	–	–	–	766,543	11,502,900
	95,324,172	27,018,158	63,640,206	39,798,184	3,386,258	738,982	10,912,100	240,818,060
Liabilities:								
Due to credit institutions	10,359,234	2,570,910	18,093,506	6,330,239	95,132	–	–	37,449,021
Derivative financial liabilities	36,466	5,984	–	–	–	–	–	42,450
Due to customers	76,500,154	17,547,969	35,287,228	3,952,570	–	–	–	133,287,921
Promissory notes and certificates of deposit issued	3,847,908	4,865,314	4,150,275	876,685	27	–	–	13,740,209
Other borrowed funds	–	–	3,957,691	4,242,217	–	–	–	8,199,908
Current tax liability	–	662,173	–	–	–	–	–	662,173
Deferred tax liability	–	–	–	–	2,112,070	–	–	2,112,070
Other liabilities	1,542,842	827,065	726,139	7,162	–	–	–	3,103,208
Minority interest in limited liability companies and unit investment funds	–	–	–	487,245	–	–	–	487,245
	92,286,604	26,479,415	62,214,839	15,896,118	2,207,229	–	–	199,084,205
Net position	3,037,568	538,743	1,425,367	23,902,066	1,179,029	738,982	10,912,100	41,733,855
Accumulated gap	3,037,568	3,576,311	5,001,678	28,903,744	30,082,773	30,821,755	41,733,855	

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. However, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in "on demand and less than one month category" in the tables above. While trading securities are shown in "on demand and less than one month" category, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 18.

(Thousands of Russian Rubles)

29. Fair values of financial instruments

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

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2006		2005 (Restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	15,618,066	15,618,066	16,488,550	16,488,550
Loans to customers	157,465,558	157,465,558	128,984,755	128,984,755
Financial liabilities				
Due to credit institutions	54,712,536	54,712,536	37,449,021	37,449,021
Due to customers	182,948,280	182,948,280	133,287,921	133,287,921
Promissory notes and certificates of deposit issued	10,967,529	10,967,529	13,740,209	13,740,209
Other borrowed funds	5,027,021	5,053,969	8,199,908	8,346,316

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts due from and to credit institutions and customers

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Debt securities issued and other borrowed funds

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

30. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Significant volume of related party transactions are carried out by the Bank with other members of Financial Corporation URALSIB as the Bank plays an important role in the Group, providing a full range of financial and banking services. All members of FC Uralsib are regarded as related parties since they represent entities under common control. Additionally, there are also other entities under common control, which are not members of FC Uralsib.

(Thousands of Russian Rubles)

30. Related party transactions (continued)

The Bank enters into transactions with related parties under the following conditions: loans are granted on market conditions, transactions with securities are performed based on current market conditions and prices, the amounts due to related parties are attracted at market conditions. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees received for any related party receivables

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2006				2005 (Restated)		
	<i>Lukoil related companies</i>	<i>Companies of Financial Corporation Uralsib</i>	<i>Other entities under common control</i>	<i>Key management personnel</i>	<i>Lukoil related companies</i>	<i>Entities under common control</i>	<i>Key management personnel</i>
Loans outstanding at January 1, gross	45,884	1,953,144	12,981,211	17,785	77,928	16,560,849	12,037
Loans issued during the year	3,547,450	14,032,392	56,599,869	59,628	1,077,900	64,000,162	41,306
Loan repaid during the year	(2,792,277)	(8,332,885)	(51,144,449)	(58,770)	(1,109,944)	(65,712,020)	(36,134)
Difference from exchange fluctuations	–	(1,110)	52,557	(158)	–	85,364	576
Loans outstanding at December 31, gross	801,057	7,651,541	18,489,188	18,485	45,884	14,934,355	17,785
Less: allowance for impairment at December 31	(10,515)	–	(321,809)	(673)	(1,074)	(284,250)	(707)
Loans outstanding at December 31, net	790,542	7,651,541	18,167,379	17,812	44,810	14,650,105	17,078
Cash and cash equivalents	1,060,128	–	1,139,782	–	345,673	809,441	–
Trading securities	14,601,870	–	470,479	–	14,833,973	–	–
Amounts due from credit institutions, gross	–	347,144	81,212	–	–	2,174,741	–
Available-for-sale securities	897,666	931	–	–	7,649,367	33,933	–
Gross investment in finance leases	–	–	–	–	–	7,553	–
Other assets	–	1,076,129	5,587,149	–	30,788	7,893,003	–
Amounts due to credit institutions	330	1,095,735	144,444	–	12,977	623,778	–
Amounts due to customers	390,545	10,852,896	26,652,719	78,696	3,752,897	7,220,195	–
Derivative financial liabilities	–	–	–	–	–	653	–
Promissory notes and certificates of deposit issued	60,672	1,552	169,888	–	–	89,061	–
Other liabilities	–	121	241,119	–	–	1,919,540	–
Financial commitments and contingencies, gross	3,500	1,129,290	910,067	–	206,630	6,179,104	–
Interest income	58,423	290,776	1,587,332	331	1,604	2,299,519	–
Interest expense	(91,918)	(44,090)	(780,919)	–	40,417	547,941	–
Trading gains less losses							
– Trading gains	–	192,693	1,879,320	–	–	4,058,461	–
– Trading losses	–	(608,987)	(2,601,407)	–	–	(1,014,105)	–
– Gains less losses from revaluation of trading securities	2,583,237	–	–	–	4,775,976	–	–
Trading gains less losses	2,583,237	(416,294)	(722,087)	–	4,775,976	3,044,356	–
Gain less losses from available-for-sale securities	–	–	1,240,298	–	–	4,220,770	–
Foreign exchange gains less losses							
– Foreign exchange gains	19,290	55,488	186,687	–	16,759	269,163	–
– Foreign exchange losses	(18,647)	(18,473)	(123,190)	–	(16,973)	(189,084)	–
Foreign exchange gains less losses	643	37,015	63,497	–	(214)	80,079	–
Net fee and commission income							
– Fees and commissions income	1,265	6,069	1,700	–	230	114,753	–
– Fees and commissions expenses	(11,238)	(40,056)	–	–	(7,822)	(7,048)	–
Net fee and commission income	(9,973)	(33,987)	1,700	–	(7,592)	107,705	–
Dividend income	219,535	–	–	–	197,570	–	–
Administrative and operating expenses							
– Occupancy and rent	–	282,444	–	–	–	277,771	–
Salaries and other short-term benefits	–	–	–	616,551	–	–	421,408
Social security costs	–	–	–	16,270	–	–	8,402

(Thousands of Russian Rubles)

31. Trust activities

The Bank provides custody, trustee and investment management service to third parties that involve the Bank making asset management, purchase and sales decisions in relation to a wide range of financial instruments. The assets that are held in a fiduciary capacity are not included in the Bank's financial statements. The trust assets comprise:

	<u>2006</u>	<u>2005</u>
Marketable securities	7,887,858	9,146,888
Settlement accounts with MICEX and brokerage houses	157,729	425,240
Cash	7,773	152
Trust assets	<u>8,053,360</u>	<u>9,572,280</u>

32. Capital adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of December 31, 2006 and 2005, the Bank's capital adequacy ratio on this basis exceeds the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2006 and 2005, was 13.2% and 15.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

33. Subsequent events

In March 2007 Mr. Nikolai A. Tsvetkov stepped down from the position of the Chairman of the Management Board of OJSC "URALSIB" and these responsibilities have been assumed by Mr. Andrey M. Donskikh. This transition was made for the purpose of strengthening corporate governance standards and improving the management structure of Financial Corporation URALSIB. Mr. Tsvetkov will continue as the President of Financial Corporation URALSIB as well as a member of the Supervisory Board of the Bank.

In mid-2006 shareholders of the Bank's subsidiaries OJSC Bank "Dorozhnik, OJSC AKB "Evrazia", OJSC "Tumenprofbank" and OJSC "Volgoinvestbank" agreed on a reorganisation in the form of a merger with OJSC AKB "Stroyvestbank", also the Bank's subsidiary. On January 25, 2007, a general meeting of shareholders of all five banks took place, it approved changes in the charter of OJSC AKB "Stroyvestbank" relating to the merger and elected candidates for the Management Board and Board Chairman of OJSC AKB "Stroyvestbank".