CIT FINANCE INVESTMENT BANK

Unconsolidated Financial Statements
and Independent Auditors' Report

31 December 2006

Contents

KPMG

ZAO KPMG
11 Gogolevsky Boulevard
Moscow 119019
Russia

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

Independent Auditors' Report

To the shareholders of CIT FINANCE INVESTMENT BANK

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of CIT FINANCE INVESTMENT BANK (the "Bank"), which comprise the unconsolidated balance sheet as at 31 December 2006, and the unconsolidated statement of income, unconsolidated statement of changes in shareholders' equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

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

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29 June 2007

(in thousands of Russian Roubles)

	Notes	2006	2005
Assets			
Cash	4	5,429,131	4,632,787
Mandatory cash balances with the Central Bank of the Russian Federation		490,047	394,709
Placements with banks and other financial institutions	5	3,058,771	2,453,216
Financial instruments at fair value through profit or loss	6		
- Unpledged		12,827,611	3,451,640
- Pledged under reverse repurchase agreements		90,214	706,893
Amounts receivable under reverse repurchase agreements	7	84,755	-
Loans to customers	8	26,786,809	6,962,048
Available-for-sale assets	9	9,929	72,851
Investment in subsidiaries		75,000	75,000
Property and equipment	10	368,320	89,504
Other assets	11	4,439,592	2,218,295
Total assets		**53,660,179**	**21,056,943**
Liabilities			
Financial instruments at fair value through profit or loss	6	95,442	-
Deposits and balances from banks and other financial institutions	12	6,400,749	970,394
Amounts payable under repurchase agreements	13	83,016	-
Current accounts and deposits from customers	14	28,218,684	12,181,398
Debt securities issued	15	5,241,055	2,533,577
Other liabilities	16	501,147	234,725
Deferred tax liability	24	747,608	331,887
Total liabilities		**41,287,701**	**16,251,981**
Shareholders' equity			
Share capital	17	3,000,000	2,100,000
Share premium		180,000	-
Retained earnings		9,192,478	2,704,962
Total shareholders' equity		**12,372,478**	**4,804,962**
Total liabilities and shareholders' equity		**53,660,179**	**21,056,943**
Commitments and Contingencies	26-28		

Signed and authorized for release on behalf of the Board of the Bank

A.I. Vinokurov — General Director

N.V. Ustinova — Chief Accountant

29 June 2007

The accompanying notes on pages 8 to 42 form an integral part of these unconsolidated financial statements.

(in thousands of Russian Roubles)

	Notes	2006	2005
Interest income		1,893,635	1,185,155
Interest expense		(1,518,996)	(1,695,862)
Net interest income/(expense)	18	**374,639**	**(510,707)**
Fee and commission income	19	148,355	29,924
Fee and commission expense	20	(20,268)	(2,418)
Net fee and commission income		**128,087**	**27,506**
Net gain on financial instruments at fair value through profit or loss	22	9,123,018	3,458,183
Net (loss)/gain from transactions with foreign currency		(1,445)	215,153
Net loss from foreign exchange translation		(44,671)	(118,973)
Other income		882,552	124,021
		10,462,180	**3,195,183**
General administrative expenses	23	(1,610,389)	(631,858)
(Impairment losses)/recovery of impairment losses	21	(57,337)	315,984
Income before taxes		**8,794,454**	**2,879,309**
Income tax expense	24	(2,254,438)	(680,586)
Net income for the period		**6,540,016**	**2,198,723**
Earnings per share (expressed in Russian Roubles per share)	35	**27.7**	**10.5**

The accompanying notes on pages 8 to 42 form an integral part of these unconsolidated financial statements.

(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		2,086,161	1,184,399
Interest paid		(1,895,785)	(1,664,485)
Net receipts for financial instruments at fair value through profit or loss		5,096,103	3,241,033
Net receipts from foreign exchange		(1,445)	213,774
Net fees and commissions received		173,373	27,506
Other net operating income received		814,433	107,202
Operating expenses paid		(1,618,472)	(613,576)
Income tax paid		(1,799,344)	(331,635)
Cash flows from operating activities before changes in operating assets and liabilities		**2,855,024**	**2,164,218**
(Increase)/decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(95,338)	(188,363)
Placements with banks and other financial institutions		(943,050)	(1,178,310)
Financial instruments at fair value through profit or loss		(4,950,406)	(2,632,644)
Amounts receivable under reverse repurchase agreements		(86,366)	-
Loans to customers		(21,487,225)	(3,548,106)
Available-for-sale assets		(53,361)	(215,254)
Other assets		(2,214,670)	(788,465)
Increase/(decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		133,800	-
Amounts payable under repurchase agreements		114,165	-
Deposits and balances from banks and other financial institutions		6,097,266	(643,444)
Current accounts and deposits from customers		16,944,831	10,185,813
Debt securities issued		3,496,176	316,984
Other liabilities		321,266	138,378
Net cash generated by operating activities		**132,112**	**3,610,807**
Cash flows from investing activities			
Purchase of subsidiaries		-	(74,970)
Net purchases of property and equipment		(316,145)	(54,913)
Net cash used in investing activities		**(316,145)**	**(129,883)**
Cash flows from financing activities			
Dividends paid		(52,500)	(30,000)
Issue of share capital		1,080,000	-
Net cash generated by (used in) financing activities		**1,027,500**	**(30,000)**
Net increase in cash and cash equivalents		**843,467**	**3,450,924**
Effect of exchange rate changes on cash and cash equivalents		(47,123)	(118,973)
Cash and cash equivalents at the beginning of the year		4,632,787	1,300,836
Cash and cash equivalents at the end of the year	4	**5,429,131**	**4,632,787**

The accompanying notes on pages 8 to 42 form an integral part of these unconsolidated financial statements.

(in thousands of Russian Roubles)

	Share capital	**Share premium**	**Retained earnings**	**Total shareholders' equity**
31 December 2004	**2,100,000**	-	**536,239**	**2,636,239**
Net profit	-	-	2,198,723	**2,198,723**
Dividends	-	-	(30,000)	**(30,000)**
31 December 2005	**2,100,000**	**-**	**2,704,962**	**4,804,962**
Issue of share capital	900,000	180,000	-	**1,080,000**
Net profit	-	-	6,540,016	**6,540,016**
Dividends	-	-	(52,500)	**(52,500)**
31 December 2006	**3,000,000**	**180,000**	**9,192,478**	**12,372,478**

The accompanying notes on pages 8 to 42 form an integral part of these unconsolidated financial statements.

1 Principal Activities

CIT Finance Investment Bank ("the Bank") registered with the Central Bank of the Russian Federation ("CBR") under the name "Palmira Bank" on 11 June 1992 and commenced operations as a commercial bank at the end of that year. In 2001 the Bank was renamed "Web-Invest Bank" and on 7 September 2005 changed its name to CIT Finance Investment Bank.

The Bank has a CBR licence to conduct banking operations in Russian Roubles ("RUR") and in foreign currency, and a licence to conduct banking operations with individuals in RUR and foreign currency. The Bank is a member of the State Deposits Insurance system. The Bank also has licenses from the Federal Commission for the Securities Market allowing it to carry out depositary functions, act as a broker and dealer and provide services in managing securities.

The Bank conducts investment banking, commercial banking and mortgage lending activities. Investment banking activity is focused on bookrunning and underwriting in respect of bond issues for Russian corporations and regional governments. It also trades in bonds, shares, derivative financial instruments and provides advisory and other investment banking services.

The main shareholders of the Bank are members of Management of the Bank: A.I. Vinokurov, N.V. Kuracheva, K.V. Yakovlev, M.Y. Tsyganov and O.A. Byaloshisckiy who collectively hold over 50% of the Bank's share capital.

The Bank's registered address and principal place of business is 38/4 "A", Nevsky Prospect, Saint-Petersburg, Russian Federation, 191011.

The Bank heads a group of companies involved in different activities within the financial market. Group companies and their major activities are disclosed in Note 36.

Russian business environment

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

2 Basis of preparation

General

The Bank, as a parent company, prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements of the Bank for the year ended 31 December 2006 were issued on 29 June 2007.

These financial statements of the Bank are unconsolidated and have been prepared to comply with CBR Instruction No 1363-U "Preparation and presentation of financial statement by credit organizations" dated 25 December 2003 (amended 7 October 2005). In accordance with this instruction, credit organizations that are parent companies should prepare and present both unconsolidated and consolidated financial statements for year ended 31 December 2006.

The unconsolidated financial statements meet the requirements of IFRSs with respect of a parent's separate financial statements.

Investments in unconsolidated subsidiaries and associates are reflected in the financial statements at cost.

Statement of compliance

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

Basis of measurement

The unconsolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

Functional and presentation currency

The Russian Rouble ("RUR") has been selected as the functional currency for the Bank, where it reflects the economic substance of the underlying events and circumstances. The RUR is also the Bank's presentation currency for the purpose of these unconsolidated financial statements.

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

Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments made by Management in the application of IFRSs that have significant effect on these unconsolidated financial statements are described in Note 8 *"Loans to customers"* in respect of the loan impairment allowance.

3 Significant accounting policies

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

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

Inflation accounting

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

Cash and cash equivalents

The Bank considers cash and nostro accounts with the CBR to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- a derivative (except for a derivative that is a designated and effective hedging instrument); or,

- upon initial recognition, designated by the entity as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

- the Bank upon initial recognition designates as at fair value through profit or loss;

- those that the Bank designates as available-for-sale; or

- those that meet the definition of loans and receivables.

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

Recognition

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

Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;

- held to maturity investments which are measured at amortized cost using the effective interest method; and

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement; and

- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

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

Derecognition

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

Repurchase and reverse repurchase agreements

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

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

Financial guarantees

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

Operating leases

Where the Bank is the lessee, the total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation

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

Office and computer equipment	5 years
Motor vehicles	5- 6 years

Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	4 years

Impairment

Financial assets carried at amortized cost

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

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable or, in the case of loans and receivables that are not individually significant, the group of loans or receivables and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

Financial Assets Carried at Cost

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

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

Non financial assets

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

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

Provisions

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share capital

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Interest income and expenses and fee and commission income

Except for interest income on financial instruments at fair value through profit or loss, interest income and expense are recognized in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial instruments at fair value through profit or loss comprises coupon interest only. Accrued discounts or premiums on financial instruments at fair value through profit or loss are recognized in net gain on financial instruments at fair value through profit or loss.

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

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

Dividend income

Dividend income from investments in other companies is recognized in the income statement on the date that the dividend is declared.

(in thousands of Russian Roubles)

Early adoption of Standards and interpretations

In preparing these financial statements the Bank has early adopted *IFRS 8 "Operating Segments"*, which is effective for annual periods beginning on or after 1 January 2009, before it effective date. Under this standard the Bank has no operating segments.

Comparative information

The presentation of certain items relating to balance sheet was changed in 2006 in order to better present the substance of the underlying transactions. For consistency of presentation, 2005 year figures have been reclassified. The effect of this change in presentation is as follows:

	2005
Reclassification of correspondent and other accounts, overnight deposits and other market placements from cash to placements with banks and other financial institutions	
Cash	(1,127,891)
Placements with banks and other financial institutions	1,127,891
Reclassification of amounts reserved on foreign currency transactions from mandatory cash balances with the Central Bank of the Russian Federation to cash	
Mandatory cash balances with the Central Bank of the Russian Federation	(113,900)
Cash	113,900
Reclassification of accrued interest income to placements with banks and other financial institution, loans to customers and financial instruments at fair value through profit or loss	
Accrued interest income	(48,298)
Placements with banks and other financial institutions	20,249
Financial instruments at fair value through profit or loss	27,708
Loans to customers	341
Reclassification of derivative financial asset from other assets to financial instruments at fair value through profit and loss	
Other assets	(1,379)
Financial instruments at fair value through profit or loss	1,379
Reclassification of accrued interest expense to deposits and balances from banks and other financial institutions, current accounts and deposits from customers and debt securities issued	
Accrued interest expense	(68,741)
Deposits and balances from banks and other financial institutions	41,042
Current accounts and deposits from customers	7,148
Debt securities issued	20,551
Reclassification of mortgage loan notes from available-for-sale assets to loans to customers	
Available-for-sale assets	(135,807)
Loans to customers	135,807

Changes in accounting policies

As mentioned above the accounting policies have been consistently applied by the Bank, except for changes resulting from the amendments to IFRS, as described below.

(in thousands of Russian Roubles)

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

As at 1 January 2006, the Bank adopted the amendment to International Financial Reporting Standard *IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option*". Upon application of this amendment, the Bank may designate a financial instrument as at fair value through profit or loss only if certain conditions are met.

Application of the above amendment did not have an impact on income and retained earnings of the Bank.

New Standards and Interpretations not yet adopted

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

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

IFRIC 9 "Reassessment of embedded derivatives", which is effective for annual periods beginning on or after 1 November 2006, clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract, i.e. in the terms of either the host contract or the embedded derivative or both.

Amendment to *IAS 1* "*Presentation of Financial Statements – Capital Disclosures"*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.

4 Cash

	2006	2005
Cash in hand	292,864	129,182
Cash balances with the CBR (other than mandatory reserve deposits)	5,136,267	4,503,605
	5,429,131	**4,632,787**

(in thousands of Russian Roubles)

5 Placements with banks and other financial institutions

	2006	**2005**
Nostro accounts	1,445,385	1,127,939
Loans and deposits	877,939	1,325,277
Promissory notes of other banks	745,219	-
Provision for impairment	(9,772)	-
	3,058,771	**2,453,216**

Analysis of movements in the provision for impairment

	2006	**2005**
Balance at the beginning of the year	-	21,452
Write offs	-	1,582
Net charge/(recovery) for the year	9,772	(23,034)
Balance at the end of the year	**9,772**	**-**

As at 31 December 2006 the Bank had two banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions (31 December 2005: 1). The gross value of these balances as of 31 December 2006 was RUR 2,570,359 thousand (31 December 2005: RUR 1,000,000 thousand).

(in thousands of Russian Roubles)

6 Financial instruments at fair value through profit or loss

	2006	2005
Assets		
Unpledged		
Corporate equity securities	10,367,776	1,374,412
Corporate bonds	1,340,285	841,596
Government and municipal bonds	664,230	660,786
Investments in mutual funds	394,279	573,467
Derivative financial instruments		
Securities option contracts	55,241	-
Foreign currency contracts	3,957	1,379
Securities forward contracts	1,843	-
	12,827,611	**3,451,640**
Pledged under reverse repurchase agreements		
Corporate equity securities	35,242	706,893
Corporate bonds	54,972	-
	90,214	**706,893**
	12,917,825	4,158,533
Liabilities		
Derivative financial instruments		
Securities option contracts	95,423	-
Securities forward contracts	19	-
	95,442	-

All of the above financial instruments at fair value thought profit or loss are classified as trading.

As at 31 December 2006 the major equity investment that comprised 66.57% of total financial assets at fair value through profit and loss was Rostelecom ordinary shares (31 December 2005: 29.25% of total financial assets at fair value through profit and loss were RAO EES, GMK Norilsk Nikel and OAO Mosenergo ordinary shares).

As at 31 December 2006 corporate bonds were comprised of medium-term marketable bonds maturing in 2007-2013 (31 December 2005: 2006-2015) and coupon rates from 3 to 14.01% (31 December 2005: from 3 to 16%). As at 31 December 2006 the major investments that comprised 5.88% of total financial assets at fair value through profit and loss were Aladushkin-02, AIZK-02 and Central Telegraph-02 bonds (31 December 2005: 5.76% of total financial assets at fair value through profit and loss were Gazprom, SZTelecom and Aladushkin-finance).

Investments in mutual funds refer to units in funds or investment pools managed by the Bank's subsidiary OAO CIT Finance and UC "AK Bars-Capital".

(in thousands of Russian Roubles)

Derivative financial instruments

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

31 December 2006

	Notional principal		**Fair values**	
	Buy	**Sell**	**Asset**	**Liability**
Foreign exchange contracts				
Forwards	1,978,087 thousand RUR	75,000 thousand USD	3,254	-
	16,500 thousand EUR	571,790 thousand RUR	703	-
			3,957	**-**
Securities contracts	**Number of contracts**	**Notional principal**		
Forwards – purchase	20,000 equity securities	38,707 thousand RUR	1,843	-
	4,000 corporate bonds	105,069 thousand RUR	-	-
Forwards – sale	935 corporate bonds	94,778 thousand RUR	-	19
	173 mutual fund shares	244 thousand RUR	-	-
Options call buy	1,365,604 equity securities	5,135,518 thousand RUR	50,279	-
	6,367 forwards on index	1,266,400 thousand RUR	-	-
Options call sell	9,709 equity securities	232,358 thousand RUR	-	30,480
	6,397 forwards on index	1,202,305 thousand RUR	-	63,381
Options put buy	23,623 equity securities	671,457 thousand RUR	4,962	-
	2,330 forwards on index	424,145 thousand RUR	-	-
Options put sell	55,138 equity securities	1,540,556 thousand RUR	-	1,562
	800 forwards on index	152,000 thousand RUR	-	-
			57,084	**95,442**
Derivative financial instruments			**61,041**	**95,442**

31 December 2005

	Notional principal		**Fair values**	
	Buy	**Sell**	**Asset**	**Liability**
Foreign exchange contracts				
Forwards – domestic counterparties	1,581,659 thousand RUR	55,000 thousand USD	1,379	-
Derivative financial instruments			**1,379**	**-**

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

(in thousands of Russian Roubles)

7 Amounts receivable under reverse repurchase agreements

	2006	2005
Amounts receivable from customers	84,755	-
	84,755	**-**

Amounts receivable under reverse repurchase agreements are loans to customers secured by corporate bonds and equity with a fair value of RUR 108,796 thousand as at 31 December 2006.

8 Loans to customers

Loans to customers comprise:

	2006	2005
Current loans	26,842,477	7,086,606
Overdue loans	12,744	5,493
	26,855,221	**7,092,099**
Less: Allowance for impairment on loans and advances to customers	(68,412)	(130,051)
	26,786,809	**6,962,048**

As at 31 December 2006 the Bank had no borrowers, whose balances exceeded 10% of total loans to customers (31 December 2005: none).

An analysis of the loan portfolio by industry sectors is presented below:

	2006	2005
Financial organisations	13,835,596	5,033,957
Mortgage loans	10,796,875	259,958
Leasing	817,813	1,256,931
Trading	803,848	4,372
Individuals	253,114	194,655
Construction	172,272	21,566
Timber	53,711	53,841
Other	53,580	136,768
Total loans and advances to customers (net)	**26,786,809**	**6,962,048**

Analysis of movements in the provision for impairment

	2006	2005
Balance at the beginning of the year	130,051	247,994
Net recovery for the year	(61,639)	(117,943)
Balance at the end of the year	**68,412**	**130,051**

(in thousands of Russian Roubles)

The Bank has estimated the provision for impairment on loans to commercial and retail customers in accordance with the accounting policy described in Note 3.

The Bank has reviewed its loan portfolio and has identified loans totaling RUR 12,744 thousand which display indicators of impairment, as at 31 December 2006, and has created provisions for these loans of RUR 12,744 thousand, as at 31 December 2006.

In addition, as at 31 December 2006 the Bank has created collective provisions for impairment in respect of remaining loans of RUR 55,668 thousand. Changes in these estimates could effect the loan impairment provision.

The Bank only commenced its mortgage lending in the fourth quarter of 2005 and thus has very limited own historical data on which to make a collective impairment provision. Management consider that the Bank`s mortgage portfolio is representative of that of the Russian mortgage market and on a portfolio basis would have the same inherent impairment experience. Accordingly they have based their collective provision of 0.3% on the expected market losses. As the Bank’s portfolio develops, management will review this and adjust to the Bank’s individual characteristics as necessary. For all other categories of the loan portfolio the Bank made its collective provision based on historical loss experience.

Changes in collection estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as of 31 December 2006 would be RUR 267,868 thousand higher/lower.

Should actual repayments be less than management estimates, the Bank would be required to record additional loan impairment.

Included in loans to financial organizations at 31 December 2006 are loans of RUR 13,532,873 thousand secured by Rostelecom shares with a value of RUR 24,998,617 thousand. RUR 10,942,000 thousand of this amount is to related parties.

9 Available-for-sale assets

	2006	2005
Promissory notes of companies	-	70,579
Corporate equity securities	10,034	13,360
	10,034	**83,939**
Provision for impairment	(105)	(11,088)
	9,929	**72,851**

Analysis of movements in the provision for impairment

	2006	2005
Balance at the beginning of the year	11,088	-
Net (recovery)/charge for the year	116,283	11,088
Write-off for the year	(127,266)	
Balance at the end of the year	**105**	**11,088**

(in thousands of Russian Roubles)

10 Property and equipment

The movements of property and equipment during 2006 were as follows:

	Office and computer equipment	Motor vehicles	Construction in progress	Total
Cost				
31 December 2004	**47,184**	**11,884**	**70**	**59,138**
Additions	50,051	4,504	59,233	**113,788**
Disposals	(7,743)	-	(52,396)	**(60,139)**
31 December 2005	**89,492**	**16,388**	**6,907**	**112,787**
Additions	221,449	1,370	101,676	**324,495**
Disposals	(607)	(1,556)	(6,907)	**(9,070)**
31 December 2006	**310,334**	**16,202**	**101,676**	**428,212**
Depreciation				
31 December 2004	**(7,622)**	**(1,584)**	**-**	**(9,206)**
Charge for the year	(14,414)	(927)	-	**(15,341)**
Disposals	1,264	-	-	**1,264**
31 December 2005	**(20,772)**	**(2,511)**	**-**	**(23,283)**
Charge for the year	(31,115)	(6,214)	-	**(37,329)**
Disposals	427	293	-	**720**
31 December 2006	**(51,460)**	**(8,432)**	**-**	**(59,892)**
Net book value				
At 31 December 2006	**258,874**	**7,770**	**101,676**	**368,320**
At 31 December 2005	**68,720**	**13,877**	**6,907**	**89,504**

(in thousands of Russian Roubles)

11 Other Assets

	2006	2005
Securities and foreign exchange settlements balances	4,089,764	2,182,497
Prepaid administrative expenses	238,012	39,190
Accrued consulting income	68,121	-
Prepaid taxes	43,103	3,096
Other	592	591
	4,439,592	**2,225,374**
Less – Allowance for impairment of other assets	-	(7,079)
	4,439,592	**2,218,295**

Analysis of movements in the provision for impairment

	2006	2005
Balance at the beginning of the year	7,079	16,000
Net recovery for the year	(7,079)	(8,921)
Balance at the end of the year	**-**	**7,079**

12 Deposits and balances from banks and other financial institutions

	2006	2005
Term deposits	6,399,350	970,082
Vostro accounts	1,399	312
	6,400,749	**970,394**

As at 31 December 2006, the Bank had three banks (31 December 2005: one bank), whose aggregated balances exceeded more than 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as at 31 December 2006 was RUR 2,414,662 thousand (31 December 2005: RUR 300,000 thousand).

13 Amounts payable under repurchase agreements

	2006	2005
Amounts due to banks and other financial institutions	54,980	-
Amounts due to customers	28,036	-
	83,016	**-**

(in thousands of Russian Roubles)

14 Current accounts and deposits from customers

	2006	2005
Corporate		
Current accounts	9,105,105	4,766,170
Term deposits	17,955,389	7,057,232
	27,060,494	**11,823,402**
Individuals		
Current accounts and accounts on demand	378,828	101,930
Term deposits	779,362	256,066
	1,158,190	**357,996**
	28,218,684	**12,181,398**

As of 31 December 2006, the Bank had five customers (31 December 2005: four customers), respectively, whose balances exceeded 10% of total customer accounts. These balances as of 31 December 2006 were RUR 18,789,898 thousand (31 December 2005: RUR 8,813,854 thousand).

15 Debt securities issued

	2006	2005
Bonds issued	2,220,734	2,000,000
Promissory notes issued	3,020,321	533,577
	5,241,055	**2,533,577**

Bonds issued comprise one issue of Rouble bonds of the Bank traded on MICEX (2,000,000 bonds par value RUR 1,000 each). These bonds were issued on 16 December 2005 with a maturity of three years with a coupon of 10.5% payable every six months up to 17 December 2006 and 10% coupon payable every 6 months thereafter up to the bonds maturity.

As at 31 December 2006 the Bank had two counterparties, whose balances exceeded 10% of total debt securities issued (31 December 2005: 1). The gross value of these balances as of 31 December 2006 was RUR 1,731,383 thousand (31 December 2005: RUR 277,735 thousand).

16 Other liabilities

	2006	2005
Settlement balances on securities and currency operations	258,934	140,094
Accrued administrative expenses and advances received	134,224	41,690
Foreign currency settlement balances	22,792	27,129
Taxes payable	8,483	12,659
Other	76,714	13,153
	501,147	**234,725**

(in thousands of Russian Roubles)

17 Shareholders' equity

Issued capital and share premium

All ordinary shares have a nominal value of RUR 10 per share, rank equally and carry one vote.

On 14 March 2006 the shareholders elected to increase the authorized, issued and fully paid share capital of the Bank by RUR 900,000 thousand to RUR 3,000,000 thousand by issuing 90,000,000 ordinary shares of nominal value RUR 10.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, reserves available for distribution amount to RUR 6,043,656 thousand (2005: RUR 1,210,423 thousand).

18 Net interest income/(expense)

	2006	2005
Interest income		
Loans to customers	1,518,220	882,175
Financial instruments at fair value through profit or loss	281,071	256,007
Placements with banks and other financial institutions	94,344	46,973
	1,893,635	**1,185,155**
Interest expense		
Current accounts and deposits from customers	(748,878)	(1,425,355)
Debt securities issued	(604,657)	(117,171)
Deposits and balances from banks and other financial institutions	(165,461)	(153,336)
	(1,518,996)	**(1,695,862)**
Net interest income/(expense)	**374,639**	**(510,707)**

19 Fee and commission income

	2006	2005
Commission for foreign exchange deals	109,049	1,347
Settlement fees	3,777	1,495
Other	35,529	27,082
	148,355	**29,924**

(in thousands of Russian Roubles)

20 Fee and commission expense

	2006	2005
Commission on cash operations and collection fees	14,355	194
Settlement fees	397	1,239
Other	5,516	985
	20,268	**2,418**

21 Impairment losses

The movements in provision for impairment of assets were as follows:

31 December 2006

	2006	2005
	(Charge)/ recovery of provision for impairment	**(Charge)/ recovery of provision for impairment**
Placements with banks and other financial institutions	(9,772)	23,034
Loans to customers	61,639	117,943
Financial instruments at fair value through profit or loss	-	177,174
Available-for-sale assets	(116,283)	(11,088)
Other assets	7,079	8,921
Net impairment (loss) recovery	**(57,337)**	**315,984**

During 2006 the Bank wrote off overdue bonds with the carrying value of RUR 127,266 thousand, collectability of which was considered to be unlikely.

Provision for impairment is deducted from the related assets.

(in thousands of Russian Roubles)

22 Financial instruments at fair value through profit and loss

	2006	2005
Realised sales and redemptions	5,096,103	2,466,911
Fair value adjustments	4,026,915	995,402
Other transactions with securities	-	(4,130)
	9,123,018	**3,458,183**

23 General administrative expenses

	2006	2005
Salaries and other staff expenses	607,797	206,872
Rent, repairs and maintenance	297,263	66,647
Taxes other than on income	155,585	58,198
Professional services	144,359	2,108
Advertising and marketing	141,486	50,347
Depreciation	37,329	15,341
Travel expenses	33,055	14,860
Other	193,515	217,485
	1,610,389	**631,858**

24 Income tax

Income tax expenses include the following:

	2006	2005
Current tax expense	1,839,184	339,714
Deferred tax expense	415,254	340,872
Total income tax expense	**2,254,438**	**680,586**

(in thousands of Russian Roubles)

The current income tax rate applicable to the majority of the Bank's income is 24%. Reconciliation between the expected and the actual taxation charge is provided below.

	2006 RUR '000	2005 RUR '000
Income before taxes	**8,794,454**	**2,879,309**
Income tax at the applicable tax rate	2,110,669	691,034
- Expenses not deductible for tax purposes, not taxable income, income taxable at lower rate	143,769	(10,448)
Income tax expense	**2,254,438**	**680,586**

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

The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Placements with banks and other financial institutions	-	-	-	(97)	-	(97)
Financial instruments at fair value through profit or loss	8,823	-	-	(98,638)	8,823	(98,638)
Amounts receivable under reverse repurchase agreements	-	-	(387)	-	(387)	-
Loans to customers	-	-	(717,218)	(267,749)	(717,218)	(267,749)
Property and equipment	-	-	(10,054)	-	(10,054)	-
Other assets	-	22,918	(106,640)	-	(106,640)	22,918
Amounts payable under repurchase agreements	2	-	-	-	2	-
Current accounts and deposits from customers	-	11,679	-	-	-	11,679
Debt securities issued	60,931	-	-	-	60,931	-
Other liabilities	16,935	-	-	-	16,935	-
Recognized net deferred tax assets/(liabilities)	**86,691**	**34,597**	**(834,299)**	**(366,484)**	**(747,608)**	**(331,887)**

25 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk (which includes price, fair value interest rate and currency risks), credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to Note 32 and 33.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 34.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Executive Board.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Executive Board.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Executive Board. Implementation of this policy is monitored by the Asset-liability committee. For further information on the Bank's exposure to liquidity risk at year end refer to Note 33.

(in thousands of Russian Roubles)

26 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

Credit related commitments comprise:

	2006	2005
Undrawn loan commitments	909,763	3,595,158
Guarantees issued	475,974	258,317
Letters of credit issued	15,743	-
Total credit related commitments	**1,401,480**	**3,853,475**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006	2005
Less than one year	187,903	57,522
Between one and five years	340,382	31,319
More than five years	-	230
	528,285	**89,071**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. None of the leases include contingent rentals.

During the current year RUR 157,716 thousand was recognized as an expense in the income statement in respect of operating leases (2005: RUR 53,062 thousand).

28 Contingencies

Insurance

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

Court litigations

Bank's Management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

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

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

29 Trust and custody activities

Trust activities

The Bank provides trust services to individuals, trusts and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the unconsolidated balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2006 the total assets held by the Bank under trust management were RUR 39,827 thousand (2005: RUR 77,713 thousand).

Custody activities

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

As at 31 December 2006 the total assets held by the Bank on behalf of customers were 4,669,030 securities (2005: 59,731,387 securities).

30 Related party transactions

The Bank has no ultimate controlling shareholder, as none of the ultimate shareholders owns more than 50% of the voting share capital of the Bank.

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

(in thousands of Russian Roubles)

The outstanding balances and the related average interest rates as of 31 December 2006 and related income statement amounts of transactions for the year ended 31 December 2006 with related parties are as follows:

	Entities with significant influence over the Bank		Key management personnel		The Bank's subsidiaries		Other related parties	
	RUR' 000	Average Interest Rate	RUR' 000	Average Interest Rate	RUR'000	Average Interest Rate	RUR'000	Average Interest Rate
Balance Sheet								
Assets								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	202,603	-
Loans to customers	3,150,823	9.50%	73,614	12.20%	432,035	10.1%	7,589,601	9.64%
Other assets	-	-	-	-	789,348	-	40	-
Liabilities								
Current accounts and deposits from customers	39,569	-	29,247	6.22%	5,772,729	0.91%	1,380,393	6.89%
Debt securities issued	-	-	-	-	-	-	1,102,396	9.00%
Other liabilities	82	-	29	-	-	-	-	-
Off balance sheet items								
Guarantees received for customer loans	-	-	9,295	-	-	-	12,290	-
Income statement								
Interest income	188,475	-	15,217	-	31,184	-	445,268	-
Interest expense	-	-	1,489	-	2,625	-	11,094	-
Fee and commission income	1,860	-	99	-	1,126	-	3,904	-
Other income	-	-	21	-	-	-	5	-
Management compensation	-	-	75,260	-	-	-	59	-

(in thousands of Russian Roubles)

The outstanding balances and the related average interest rates as of 31 December 2005 and related income statement amounts of transactions for the year ended 31 December 2005 with related parties are as follows:

	Entities with significant influence over the Bank		**Key management personnel**		**The Bank's subsidiaries**		**Other related parties**	
	RUR' 000	**Average Interest Rate**	**RUR' 000**	**Average Interest Rate**	**RUR'000**	**Average Interest Rate**	**RUR'000**	**Average Interest Rate**
Balance Sheet								
Assets								
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	573,467	-
Loans to customers	1,060,000	11.50%	125,546	14.60%	675,000	12.00%	1,324,138	11.50%
Liabilities								
Current accounts and deposits from customers	-	-	-	-	248,628	-	19,440	-
Debt securities issued	-	-	-	-	-	-	94,945	11.50%
Off balance sheet items								
Guarantees received for customer loans	-	-	7,154	-	-	-	4,691	-
Income statement								
Interest income	5,478	-	8,866	-	72,814	-	199,794	-
Interest expense	-	-	65	-	2,060	-	11,918	-
Fee and commission income	849	-	45	-	2,757	-	1,150	-
Other income	-	-	12	-	-	-	-	-
Management compensation	-	-	15,430	-	-	-	-	-

31 Fair value of financial instruments

The estimated fair values of financial instruments at fair value through profit or loss are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of bonds issued are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

Management of the Bank believes that fair value of financial instruments does not differ significantly from their carrying value.

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

(in thousands of Russian Roubles)

32 Average effective interest rates

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

	2006			2005		
	RUR	**USD**	**Other**	**RUR**	**USD**	**Other**
Interest earning assets						
Placements with banks and other financial institutions	5.50%	12.38%	-	10.10%	6.50%	-
Financial instruments at fair value through profit or loss	9.66%	6.70%		9.80%	7.40%	-
Amounts receivable under reverse repurchase agreements	12.31%	-	-	-	-	-
Loans to customers	12.21%	11.08%	7.05%	11.90%	10.30%	6.50%
Available-for-sale assets	-	-	-	9.40%	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions	7.65%	9.50%	6.66%	8.20%	5.50%	5.50%
Amounts payable under repurchase agreements	5.68%	-	-	-	-	-
Current accounts and deposits from customers	8.00%	8.21%	8.10%	10.20%	8.70%	7.00%
Debt securities issued						
- bonds issued	10.20%	-	-	10.50%	-	-
- promissory notes issued	9.90%	12.25%	-	9.20%	8.50%	-

(in thousands of Russian Roubles)

33 Maturity analysis

The following table show assets and liabilities of the Bank by their remaining contractual maturity as at 31 December 2006 and 31 December 2005:

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	No maturity	Total
Assets						
Cash	5,429,131	-	-	-	-	**5,429,131**
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	490,047	**490,047**
Placements with banks and other financial institutions	2,323,804	734,967	-	-	-	**3,058,771**
Financial instruments at fair value through profit or loss						
- Unpledged	6,199	155,533	198,592	1,705,234	10,762,053	**12,827,611**
- Pledged under sale and repurchase agreements	-	54,972	-	-	35,242	**90,214**
Amounts receivable under reverse repurchase agreements	40,895	33,562	10,298	-	-	**84,755**
Loans to customers	8,172,124	6,037,616	1,463,302	11,113,767	-	**26,786,809**
Available-for-sale assets	-	-	-	-	9,929	**9,929**
Investments in subsidiaries	-	-	-	-	75,000	**75,000**
Property and equipment					368,320	**368,320**
Other assets	4,254,786	174,402	9,701	703	-	**4,439,592**
Total assets	**20,226,939**	**7,191,052**	**1,681,893**	**12,819,704**	**11,740,591**	**53,660,179**

(in thousands of Russian Roubles)

	On demand or less than 1 month	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**No maturity**	**Total**
Liabilities						
Financial instruments at fair value through profit or loss	95,431	11	-	-	-	**95,442**
Deposits and balances from banks and other financial institutions	6,359,606	16,110	25,033	-	-	**6,400,749**
Amounts payable under repurchase agreements	35,144	47,872	-	-	-	**83,016**
Current accounts and deposits from customers	16,267,894	8,245,709	2,483,268	1,221,813	-	**28,218,684**
Debt securities issued	158,774	966,606	1,426,131	2,689,544	-	**5,241,055**
Other liabilities	425,090	76,057	-	-	-	**501,147**
Deferred tax liability	-	-	-	-	747,608	**747,608**
Total liabilities	**23,341,939**	**9,352,365**	**3,934,432**	**3,911,357**	**747,608**	**41,287,701**
Net liquidity gap at 31 December 2006	**(3,115,000)**	**(2,161,313)**	**(2,252,539)**	**8,908,347**	**10,992,983**	**12,372,478**
Net liquidity gap at 31 December 2005	**5,440,462**	**(507,698)**	**(1,120,154)**	**(1,443,533)**	**2,435,885**	**4,804,962**

(in thousands of Russian Roubles)

34 Currency analysis

The following table shows the currency structure of assets and liabilities as at 31 December 2006 and 31 December 2005:

	RUR	USD	Other currencies	Total
Assets				
Cash	5,311,708	75,429	41,994	**5,429,131**
Mandatory cash balances with the Central Bank of the Russian Federation	490,047	-	-	**490,047**
Placements with banks and other financial institutions	2,198,564	838,361	21,846	**3,058,771**
Financial instruments at fair value through profit or loss				
- Unpledged	12,563,892	263,719	-	**12,827,611**
- Pledged under sale and repurchase agreements	35,242	54,972	-	**90,214**
Amounts receivable under reverse repurchase agreements	84,755	-	-	**84,755**
Loans to customers	22,946,861	3,609,864	230,084	**26,786,809**
Available-for-sale assets	9,929	-	-	**9,929**
Investments in subsidiaries	75,000	-	-	**75,000**
Property and equipment	368,320	-	-	**368,320**
Other assets	4,434,536	1,185	3,871	**4,439,592**
Total assets	**48,518,854**	**4,843,530**	**297,795**	**53,660,179**
Liabilities				
Financial instruments at fair value through profit or loss	95,442	-	-	**95,442**
Deposits and balances from banks and other financial Institutions	5,355,177	806,382	239,190	**6,400,749**
Amounts payable under repurchase agreements	35,144	47,872	-	**83,016**
Current accounts and deposits from customers	26,931,075	500,962	786,647	**28,218,684**
Debt securities issued	4,527,672	713,383	-	**5,241,055**
Other liabilities	493,927	7,218	2	**501,147**
Deferred tax liability	747,608	-	-	**747,608**
Total liabilities	**38,186,045**	**2,075,817**	**1,025,839**	**41,287,701**
Net on balance sheet position as of 31 December 2006	**10,332,809**	**2,767,713**	**(728,044)**	**12,372,478**
Net off balance sheet position as of 31 December 2006	**1,406,297**	**(1,978,087)**	**571,790**	**-**
Net on and off balance sheet positions as of 31 December 2006	**11,739,106**	**789,626**	**(156,254)**	**12,372,478**
Net on and off balance sheet positions as of 31 December 2005	**6,579,759**	**(1,778,458)**	**3,661**	**4,804,962**

(in thousands of Russian Roubles)

35 Earnings per share

Basic earnings per share are calculated by dividing the net loss or profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

	2006	**2005**
Net income attributable to shareholders	6,540,016	2,198,723
Weighted average number of ordinary shares in issue (thousands)	236,384	210,000
	27.7	**10.5**

36 Subsidiaries

As at 31 December 2006 the Bank had the following subsidiaries:

Name	**Percentage held**	**Main activity**
CIT Finance Holding company (OOO)	100%	Holding company
CIT Finance (OOO)	100%	Brokerage
CIT Finance (OAO)	100%	Asset Management
OAO Leasing Company Magistral Finance	100%	Leasing
CIT Finance Life insurance (ZAO)	100%	Insurance
Aurora Access Securities AS	100%	Brokerage
Creative Investment Technologies Limited	100%	Investment
CIT Finance (AO)	100%	Asset Management

37 Events subsequent to the balance sheet date

In May 2007 the composition of the Bank's shareholders changed and the Bank's ultimate controlling party became Mr. Vinokurov A.I. who owns 62.01% of the Bank.

In March 2007 the Bank performed a second issue of bonds on MICEX with a par value of RUR 2 billion. The bonds are nominated in Russian Roubles. The bonds' maturity is 3 years with a coupon of 10% payable every 6 months until maturity.