Established in 1841

SBERBANK

Annual Report
& Accounts

2006

Contents

Letter from the Chairman of the Board and CEO

Sberbank was established in 1841 and opened for business on 13 March 1842, when Nikolai A. Kristofari deposited 10 silver roubles in a savings account in St. Petersburg. Today, Sberbank's retail deposits have grown to unprecedented volumes, reaching a total of RUB 2,046.0 billion in 2006 (including precious metal accounts) under International Financial Reporting Standards (IFRS)*. This represents 53.3% of all retail deposits in Russia under Russian Accounting Regulations (RAR) applicable to banks.

Throughout its 165-year existence, Sberbank has demonstrated the ability to meet an array of challenges and emerge as a stronger institution, better equipped to maximise shareholder value and serve its customers. 2006 was no different. As demand for banking services and products increased both in Russia and internationally, the bank continued to grow its business and to satisfy its customers' needs. The Russian economy, one of the most vibrant in the world, continued to surge ahead, and Sberbank re-confirmed its position as the leading bank in Russia and one of the cornerstones of stability in the country's banking system.

2006 was a year of exceptional financial performance for Sberbank. The bank achieved all the key targets set out in its 2006 business plan.

At year-end Sberbank's assets comprised more than a quarter of the assets of the entire Russian banking system. Total assets grew by 37.9% to RUB 3,466.7 billion, profit before tax increased by 24.4% to RUB 109.0 billion and net profit grew by 25.8% to RUB 82.8 billion. The bank's shareholders' equity increased 33.5% over the previous year to RUB 308.5 billion.

The bank's market capitalisation rose to USD 67.7 billion at the end of 2006. This ranks Sberbank fourth among all Russian companies by market capitalisation. In 2006, the value of ordinary and preference shares grew by 2.6 times, comfortably outpacing the RTS index, which increased 1.7 times during the same period.

The bank will pay a record dividend to its shareholders as a result of its strong performance in 2006.

To sustain this growth, Sberbank has made considerable improvements in its management structure, organisation and corporate governance, along with improved product offerings, geographical expansion and technological innovation.

Our customers determine our success and are a focal point of our long-term strategy. Sberbank is continuously and systematically introducing new products and services to meet the needs of its commercial and retail customers. Our focus on and commitment to our customers has resulted in a steady increase in the size and quality of our client base.

The bank's loan portfolio also grew rapidly, reaching a total of RUB 2,683.8 billion in 2006. The portfolio is notable for its diversity – 72.7% to legal entities, 25.8% to retail clients and 1.5% to credit organisations. The quality of the bank's credit portfolio has remained very high, with only 1.1% of overdue loan payments.

To enhance its domestic operations, Sberbank continued to develop its branch network throughout Russia. The bank has also continued to expand internationally. In 2006, Sberbank established, by acquisition, a subsidiary bank in Kazakhstan.

Sberbank's achievements in 2006 were recognised by leading international organisations. Rating agencies acknowledged its performance with Fitch assigning the bank a BBB+ rating, the highest rating ever given to a Russian company, and Moody's assigning Sberbank's bonds an A2 credit rating, higher than the rating given to Russia's sovereign Eurobonds (Baa2).

International media took note as well. In 2006 The Banker magazine included Sberbank in its list of the world's largest financial institutions, ranking it 82nd. Sberbank appeared for the first time in the Financial Times annual ranking of 500 major global companies, coming 232nd.

* Hereafter, all financials are given according to IFRS, unless otherwise stated.

European financial magazine Euromoney also recognised Sberbank for the first time as the Best Bank in Russia (for 2006).

Our excellent reputation within the international financial community has enabled us to continue to expand our cooperation with the world's leading credit institutions. A prime example from 2006 is the three-year syndicated loan of USD 1.5 billion at an interest rate of LIBOR + 0.3% per year, which it received from a consortium of 30 foreign banks. This is both the most attractive rate for a loan of this term and the largest unsecured syndicated loan ever given to a financial institution in Russia, the CIS, the Middle East or Africa.

Sberbank has built one of the world's most respected financial institutions based on its 165 years of rich history and deep-rooted tradition combined with world-class experience and expertise. The bank has grown from a network of cash savings offices to the largest full-service financial institution in Central and Eastern Europe.

To mark our 165 years of success and development, we erected a statue of Mr. Kristofari, our first ever depositor, in front of our Moscow headquarters. This statue is a daily reminder of the progress we have made and our commitment to providing world-class services to all our customers.

I would like to express the sincere gratitude of Sberbank's Board to our shareholders, clients and partners for their trust and long-standing cooperation. I would also like to thank our employees, whose professionalism and dedication are instrumental in the bank's achievements. We should all be proud to be associated with Sberbank, and work together to maintain the pace and quality of our development.

ANDREI I. KAZMIN
Chairman of the Board & CEO

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Sberbank celebrated its 165th anniversary in 2006, with another year of tremendous growth and outstanding success.

2006 Sberbank Highlights

2006 Sberbank Highlights

In 2006 Sberbank continued to lead the Russian banking sector, which experienced significant growth fuelled by increasing demand for financial services.

37.9%
Total asset growth

BBB+
2006 Fitch rating

With more than one quarter of all domestic banking assets and a 53.3% market share of retail deposits in Russia under RAR, Sberbank's total assets grew by 37.9% to RUB 3,466.7 billion, while its market capitalisation grew to USD 67.7 billion. But it wasn't just a year of strong growth. Sberbank posted a net profit of RUB 82.8 billion and paid record dividends to its shareholders.

Sberbank shares performed exceptionally well in 2006, growing by 160% against the RTS's 70%. The shares had the highest growth rate of Russia's 10 largest companies. Sberbank's financial results, greater transparency and upgraded ratings, along with favourable macroeconomic conditions and the ongoing development of Russian banking sector infrastructure, facilitated this impressive growth. In 2006 Fitch raised Sberbank's rating to BBB+, the highest rating ever assigned to a Russian company.

2.8%
Return on average assets

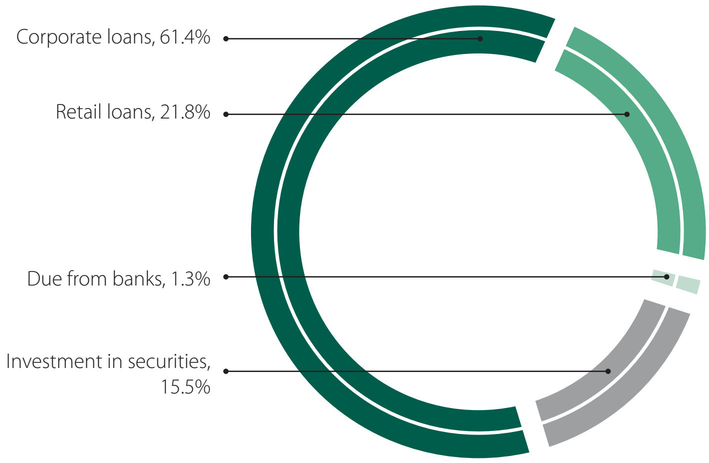
30.7%

Return on average equity

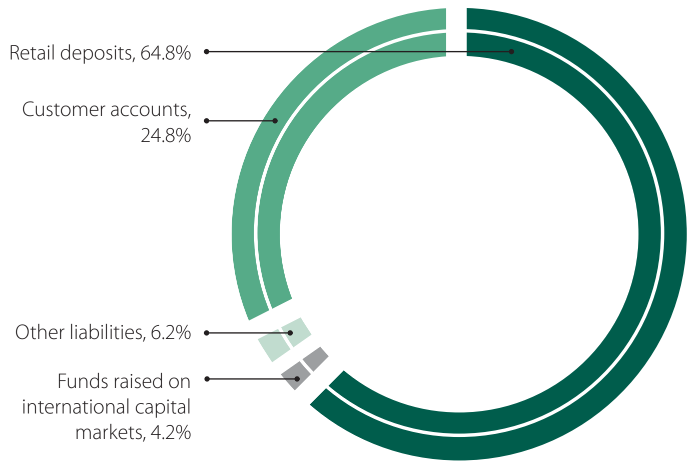
Other key 2006 highlights include:

- The total balance of retail deposits reached more than RUB 2,046 billion, with 34.7% of deposits having remaining contractual maturity of more than one year.
- Return on average assets (ROAA) for 2006 reached 2.8%, while return on average equity (ROAE) amounted to 30.7%.
- For the first time, Sberbank entered the top-100 list of the world's leading financial organisations in the ranking tables of industry journal The Banker. The European financial publication Euromoney awarded Sberbank the title of "The Best Bank in Russia for 2006."
- Sberbank's loan portfolio totalled RUB 2,683.8 billion in 2006. The breakdown of the bank's portfolio was RUB 1,949.8 billion to non-financial organisations, RUB 692.7 billion to individuals and RUB 41.3 billion to credit organisations. Meanwhile the quality of the credit portfolio remained high; the share of overdue loan payments was 1.1% of the total loan portfolio.

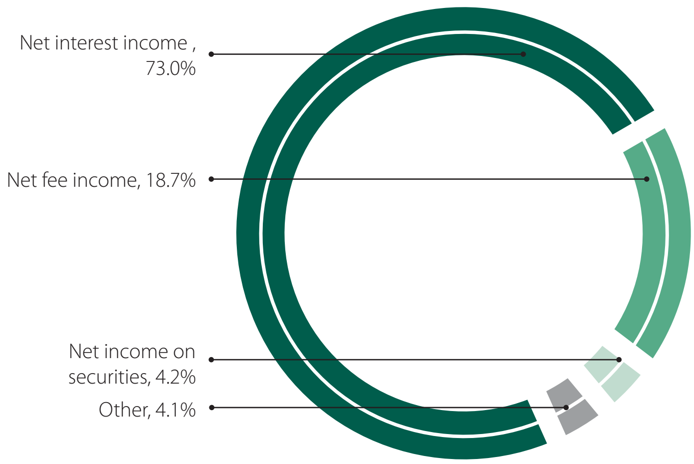
WORKING ASSETS BREAKDOWN



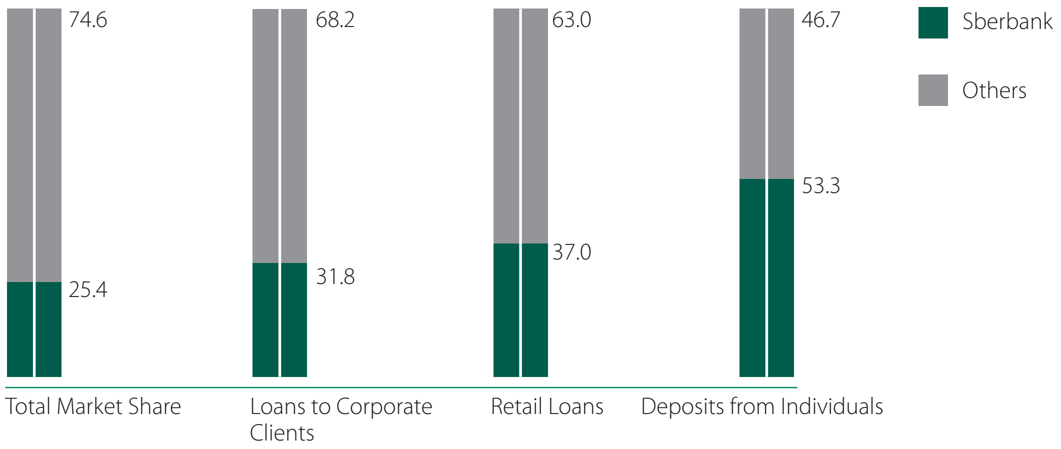
FUNDING BASE BREAKDOWN



STRUCTURE OF NET OPERATING INCOME BEFORE PROVISIONS



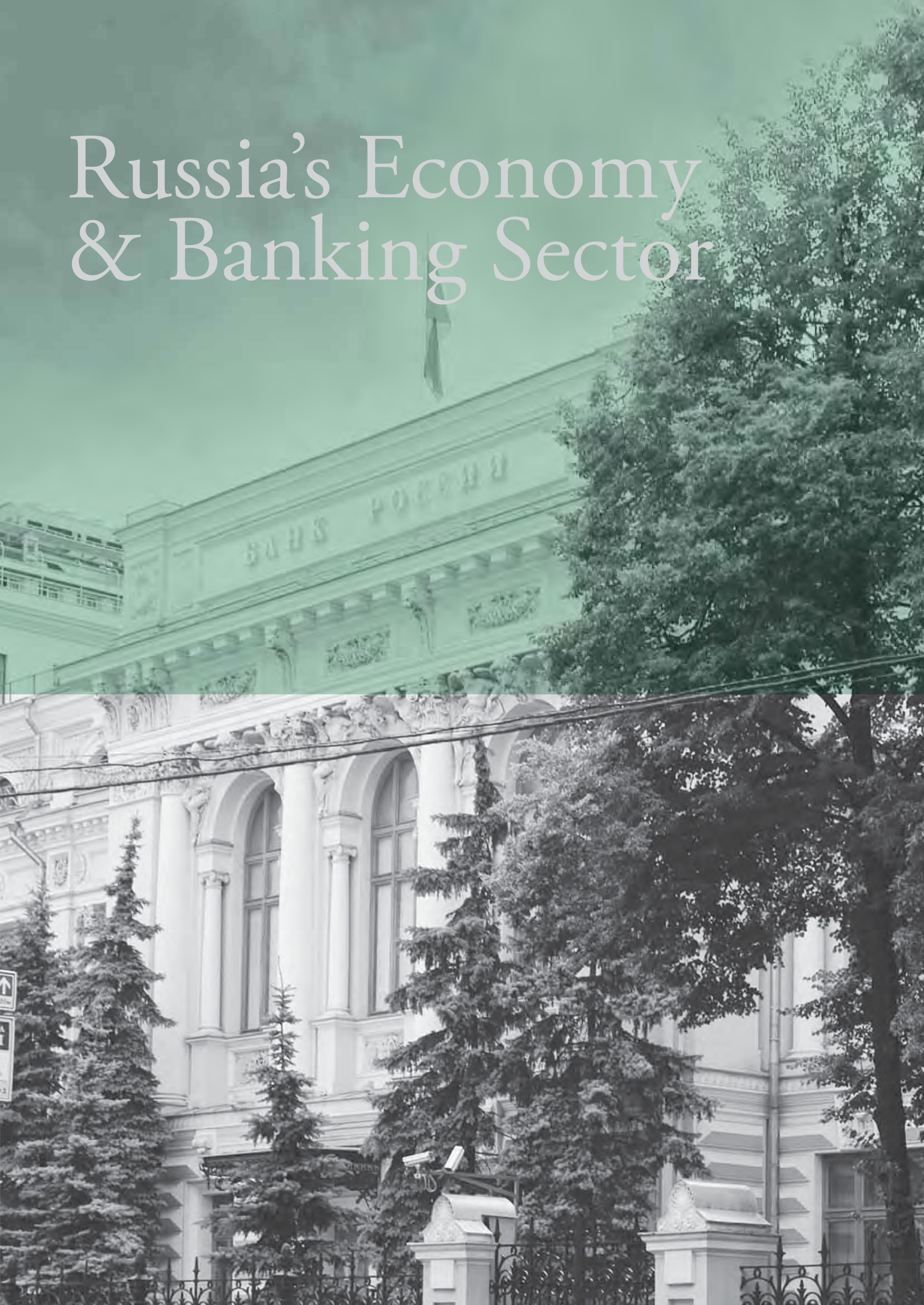
SHARES OF SBERBANK BY MARKET SEGMENT UNDER RAR, %



FINANCIAL HIGHLIGHTS

	MEASUREMENT UNIT	2006	2005	2004	2003	2002
		01 Jan 07	01 Jan 06	01 Jan 05	01 Jan 04	01 Jan 03
Assets	Billion RUB	3,466.7	2,513.1	1,922.2	1,477.5	1,087.0
Russian market share by assets	%	25.4	26.5	28.0	26.9	27.0
Corporate loans (gross)	Billion RUB	1,949.8	1,412.5	1,111.6	713.3	502.6
Retail loans (gross)	Billion RUB	692.7	467.8	265.8	145.6	65.9
Equity	Billion RUB	308.5	231.1	153.3	134.9	123.1
Corporate funds raised	Billion RUB	782.8	546.8	454.4	211.6	187.7
Retail funds raised	Billion RUB	2,046.0	1,514.3	1,199.9	978.6	708.0
PROFIT AND LOSS ITEMS						
Net profit	Billion RUB	82.8	65.8	18.2	13.9	20.3
Fee income (gross)	Billion RUB	51.7	36.9	26.2	18.5	16.9
CAPITALISATION						
Year-end shareprice of ordinary shares	USD	3,420	1,307	495	261	191
Year-end shareprice of preference shares	USD	55.0	21.5	4.95	3.47	2.2
Market capitalisation	Billion USD	67.7	25.9	9.7	5.1	3.7
BRANCH NETWORK, STAFF						
Head offices, branches and sub-branches		20,101	20,270	20,222	20,188	20,142
Average number of employees		243,620	235,116	228,531	219,048	205,477
EFFICIENCY RATIOS						
Return on average equity (ROAE)	%	30.7	34.2	12.6	10.8	17.8
Return on average assets (ROAA)	%	2.8	3.0	1.1	1.1	2.0
Capital adequacy ratio	%	11.2	12.5	10.1	13.8	16.0
Net interest margin	%	7.4	8.1	5.6	4.9	9.1
Net fee income share in net operating income	%	18.7	16.1	19.7	16.0	14.0

Russia's Economy & Banking Sector



The Economy in 2006: Continued Growth

"Sberbank's dominant position in the under-penetrated banking market puts it in an excellent position to take advantage of rapid growth in demand for financial services."
— Citigroup

$28.4 bln
FDI

9.0%
Inflation

Russia continued to experience strong economic growth in 2006, exceeding expectations and outpacing the growth levels of previous years. The Russian economy's strong performance in 2006 was marked by another year-on-year increase in GDP, a surge of foreign and domestic investment, rises in personal income and consumer spending and lower inflation. 2006 was also significant in terms of economic transition and development: Russia repaid its external debts, including debt owed to the member countries of the Paris Club, and completed nearly all the requisite bilateral negotiations for WTO entry, which is expected to take place in early 2008.

The Russian government's budget surplus totalled RUB 2,000 billion, or 7.5% of GDP, at the end of 2006. Federal budget expenditures for 2006 amounted to 16.1% of GDP. The Russian Stabilisation Fund, a fund established by the Russian government for oil and gas revenues, continued to grow; on 1 January 2007, the fund totalled RUB 2,300 billion. Domestic public debt increased by 20.8% and totalled RUB 1,000 billion, equivalent to 3.8% of GDP.

On the currency markets the Russian rouble continued to strengthen against both the US dollar and the euro. In 2006, the rouble grew by 16.7% against the dollar (year-end exchange rate of 26.3 roubles to the dollar) and 5.6% against the euro (year-end rate of 34.7 roubles to the euro). The Central Bank of the Russian Federation (Bank of Russia) continued to exercise control over exchange rate fluctuations in line with economic indicators to mitigate volatility and domestic inflation.

Real incomes increased by 10.2% during 2006 and consumer spending increased by 10.8%, the latter being fuelled by the growth of consumer banking services.

Investment Climate: Surpassing the Mark

In 2006, Russian companies witnessed considerable investor interest amid high energy prices, major restructuring in the power generation sector, strengthening of the rouble, major expansion in construction, retail, and other major industries, and greater stability.

The Russian stock market was also one of the world's top growth markets for investment, driven by a large increase in the number of IPOs on both domestic and international exchanges and the growth of Russian stock liquidity on the global market. The benchmark Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) indices grew by 70% and 60% respectively, and the total value of Russian stocks surpassed USD 1,000 billion. Greater stability and improved sovereign ratings also accompanied the increased growth rates.

2006 ECONOMIC INDICATORS	
GDP	6.7% (+.3%)
FDI	$28.4 bln
Inflation	9.0% (-2%)
RUB / USD	26.3 (+16.7%)
Exports	$304.5 bln (+25%)
Trade Balance	+$104.7 bln (+18.9%)
Urals Crude	avg. $60.9 barrel
Stab. Fund	$90 bln (01.01.07)

"We see Sberbank as a main beneficiary of strong banking sector growth."

— UBS

SBERBANK

CREDIT RATINGS	LONG-TERM CREDIT / ROUBLES	LONG-TERM CREDIT / FOREIGN CURRENCY
Standard and Poor's	A-	BBB+
Fitch Ratings	BBB+	BBB+
Moody's	Baa2	Baa2

RUSSIAN FEDERATION

CREDIT RATINGS	LONG-TERM CREDIT / ROUBLES	LONG-TERM CREDIT / FOREIGN CURRENCY
Standard and Poor's	A-	BBB+
Fitch Ratings	BBB+	BBB+
Moody's	Baa2	Baa2

Russian Banking: Growth in Lending

Russia's economic growth and favourable macroeconomic factors, together with increased domestic demand for banking services, stimulated rapid development in the banking sector in 2006. Russian banks continued to modernise and expand client services, which significantly intensified competition in the industry. Increased currency liberalisation facilitated cross-border transactions and promoted greater involvement of foreign banks in the sector. Foreign banks were also attracted by the rapid rise of consumer lending in the Russian market, which increased by 75% to RUB 2,100 billion in 2006. The total banking sector assets increased by 44% in 2006 to a total of RUB 14,000 billion.

The savings held by individual customers in Russian banks also grew in 2006, increasing by 37.7 % to a total of RUB 3,800 billion. The RUB 1,000 billion increase in total individual deposits for the year slightly exceeded total loans of RUB 900 billion.

In line with Russia's economic growth, the rouble continued to strengthen against foreign currencies. Accordingly, foreign currency accounts held in Russia decreased from 24% of total accounts in 2005 to 17% in 2006, indicating growing confidence in the Russian domestic currency.

The legal framework for the Russian banking system improved in 2006, including stronger institutional structure, further integration with the international financial system and adoption of processes and procedures in line with WTO standards ahead of Russia's expected accession.

"The Russian banking sector is moving in the right direction with reforms clearly under way."

— Merrill Lynch

The Russian government passed a number of laws designed to improve the reliability and stability of Russian banks, including an increase in the minimum requirement for shareholders' equity to EUR 5 million; new regulations governing the issue of shares, bonds and other securities by credit organisations; an increase in deposit insurance to RUB 400,000; and, new procedures enabling the Bank of Russia to issue permits allowing Russian banks to open subsidiaries abroad.

Overall, profits for the banking sector in 2006 equalled RUB 371.5 billion, a 41.7% increase over 2005.

"We expect financing to maintain its high growth rate in Russia. Sberbank, being one of the key driving forces in this process, stands to benefit most from such growth."

— Deutsche UFG

Sberbank Business Review

Sberbank had an extremely successful year in 2006, maintaining its dominant position in all key areas of the Russian banking market and building on its international relationships.

The bank's assets comprised 25.4% of the total assets of the Russian banking sector, and the bank's record profit accounted for more than 30% of the profits earned by the entire sector under RAR.

Retail Banking

Deposits

In early 2006, Sberbank streamlined its range of retail deposit products, consolidating its 20 different products into five in order to simplify its offering and provide customers more attractive terms. The change was positively received by the bank's customers: more than 6 million individual accounts with deposits of RUB 635.5 billion were opened. In 2006 the total balance of retail deposits increased 35.1%. At the same time, however, the share of retail deposits fell by 1.1% to 72.3%

25.4%
of total banking assets in Russia under RAR

692.7
bln RUB
Lending to individuals

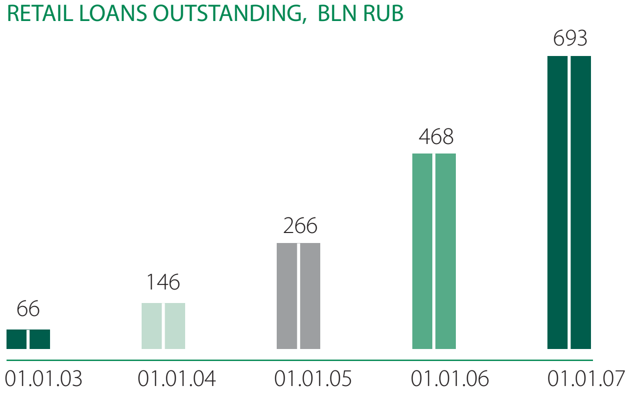
of the bank's total deposit portfolio, reflecting the portfolio's increased diversity. The strong, stable rouble throughout 2006 led to an increase in retail rouble deposits from 81.7% in 2005 to 87.3% in 2006.

Lending

Sberbank made its retail loans more accessible to clients by refining terms and procedures. The bank opened special full-service mortgage centres staffed by bankers, real estate and insurance agents, lawyers and other relevant professionals. It also launched an online application process and equipped self-service units and ATMs to accept loan payments. As a result, the bank's retail lending increased 1.5 times in 2006 to more than RUB 690 billion.

Sberbank is the leader in the mortgage market with its market share exceeding 40% . Having launched a new mortgage programme in 2006 to run in conjunction with the national Affordable Housing for Russian Citizens programme, mortgages became the fastest growing segment in the bank's portfolio. Mortgage loans more than doubled from 2005 to RUB 153.7 billion under RAR. General purpose loans remained the most popular product among retail borrowers representing 70.9% of the bank's retail loan portfolio or RUB 492.5 billion under RAR.

RETAIL LOANS OUTSTANDING, BLN RUB



Other Retail Products and Services

In addition to deposits and loans, Sberbank provides other retail products and services including payments and transfers, currency exchange, bankcards, traveller's checks, mutual funds and precious metal trading and deposits.

The bank implemented several new technologies in 2006, including mobile banking facilities—which served 3 million customers—internet banking, mobile phone payments and a new money transfer service called BLITZ, which allows customers to transfer roubles within Russia in less than 1 hour. It also expanded its self-service network up to nearly 10,000 ATMs, including approximately 1,000 multipurpose machines.

Corporate Banking

Deposits

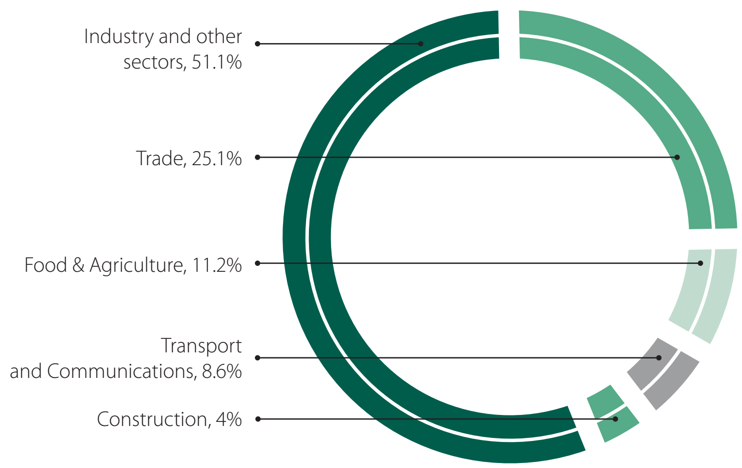
As of 1 January 2007, 1.4 million corporate clients, primarily small and medium-size enterprises, used Sberbank's accounts. In 2006, the balance of corporate accounts increased by 43.2%, totalling RUB 782.8 billion excluding funds raised through MTN programmes on international financial markets.

Lending

Sberbank's corporate loan portfolio of more than RUB 1,949.8 billion (excluding interbank loans) accounts for one third of all Russian corporate lending. The bank's universal loan products include financing for manufacturing activities, investment and construction projects, export and import transactions.

Sberbank continues to lend across all sectors of the Russian economy. Notably in 2006, Sberbank markedly increased its involvement in the Russian agricultural sector as part of the national Agro-Industrial Complex Development project, which led to a 60.9% increase in the bank's loans to farms under RAR.

CORPORATE LOAN PORTFOLIO BY SECTOR



Project Finance

Sberbank was increasingly active in providing project finance in 2006, with the volume of loans provided for investment projects doubling from 2005 to RUB 338.7 billion under RAR. By 1 January 2007, the total loan portfolio for investment projects reached RUB 460.1 billion under RAR.

The bank was involved in projects across a variety of sectors, with an emphasis on construction and property development. In 2006, 22.9 million square meters of property were built with Sberbank financing, a 58% increase from 2005.

Other Corporate Banking Services

Sberbank offers a range of other services to its corporate clients. In 2006, the bank provided salary payment services to 110,000 companies through its banking and branch network.

It also served numerous foreign trade contracts, with volume increasing 59.2% from 2005 to USD 100.3 billion. In addition, the bank served import/export contracts valued at USD 68 million, a 45.3% increase over 2005 under RAR.

In 2006 Sberbank also provided loans in precious metals amounting to RUB 1.7 billion under RAR. Since this financing service was launched in 2004, the bank has provided 1,348 such loans worth RUB 4.9 billion under RAR.

More than 230 participants in the precious metals market kept their unallocated bullion accounts in gold, silver, platinum and palladium with Sberbank in 2006, 2.2 times the 2005 figure.

Sberbank also provides brokerage services to corporate clients for corporate securities as well as for sovereign, sub-federal and municipal bonds. The total volume of such client operations amounted to RUB 88 billion in 2006.

Financial Markets

Forex, Banknotes and Bullion

Sberbank was active on the rouble / USD exchange market in 2006, with the volume of transactions, including swap deals, exceeding USD 300 billion under RAR.

The bank also expanded its banknote business, which reached USD 16.2 billion in 2006. Sberbank also increased the volume of operations with precious metals on the domestic interbank market: the volume of operations with gold and silver increased by 61.4% and 32.2% respectively.

Securities

As of 1 January 2007, Sberbank had RUB 474.7 billion invested in securities. Government securities dominated its portfolio with more than 93%, including RUB 252.6 billion in OFZ bonds and RUB 87.5 billion in bonds of the Bank of Russia.

The bank also conducted proprietary trading of municipal and sub-federal bonds, primarily those issued by the Moscow and St. Petersburg governments, as well as other highly liquid corporate securities. Corporate trading increased 1.5 times from 2005, reaching RUB 33.7 billion.

International Activities

Fund Raising

Sberbank was active in raising capital in 2006, securing loan facilities substantially larger than those previously made available to Russian companies.

In May 2006, Sberbank launched a USD 10 billion MTN-programme co-managed by Barclays Capital and JP Morgan. Within the framework of this programme the bank attracted a loan for USD 500 million with a maturity of 7 years. In November, the bank raised a second loan for USD 750 million managed by Barclays Capital, Deutsche Bank and Merrill Lynch, this with a 5-year maturity. The high demand resulted in a coupon rate of 5.93%.

In October 2006 Sberbank signed a USD 1.5 billion syndicated loan with a group of 30 foreign banks. ABN Amro, Barclays Capital, JP Morgan and Sumitomo Mitsui Banking Corporation Europe acted as lead managers. This was the largest unsecured loan ever furnished to a financial institution within the EEMEA region.

Export Credit Agency (ECA) Financing

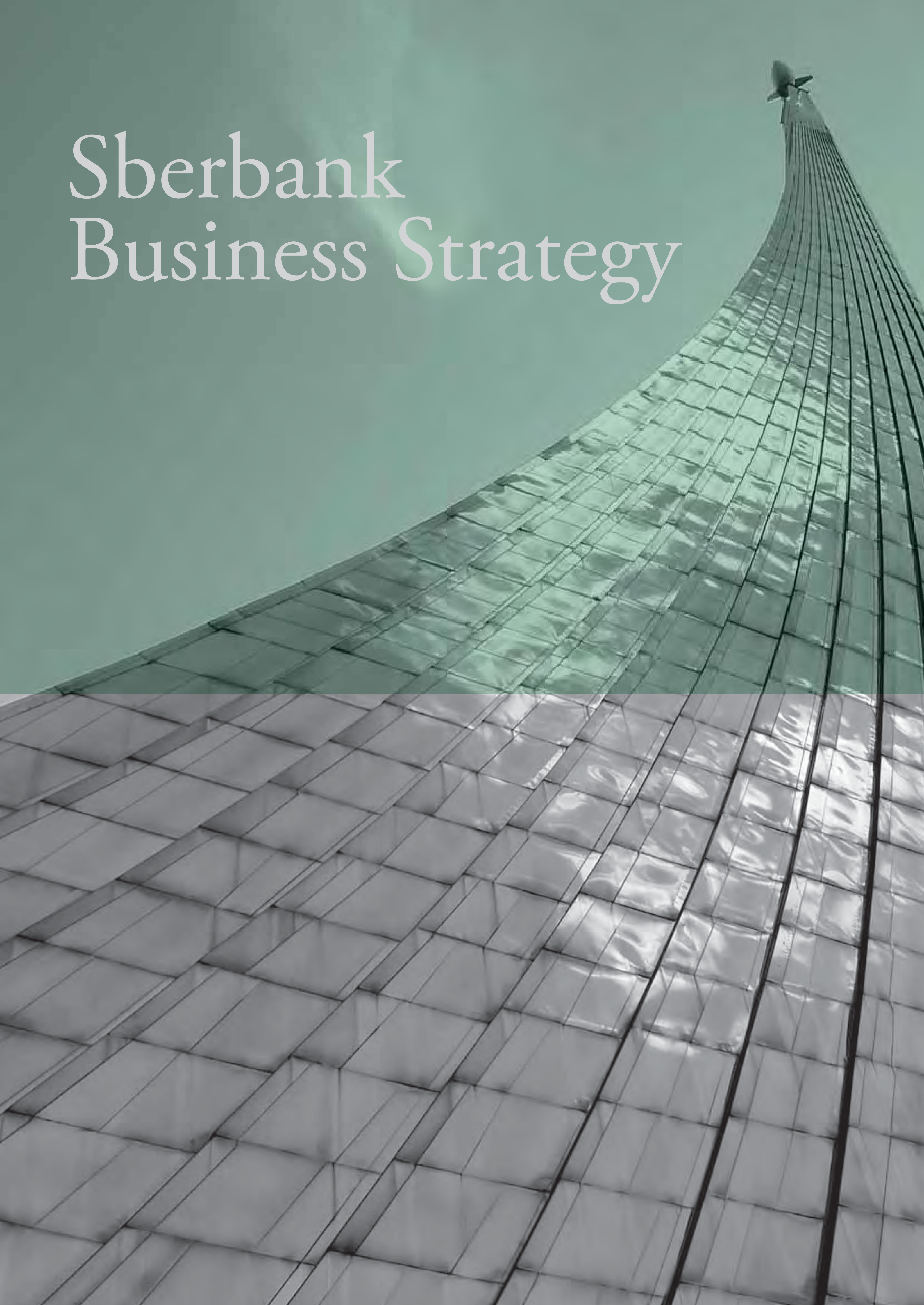
The total size of ECA-covered facilities extended to Sberbank in 2006 was more than EUR 1.8 billion and USD 220 million. Compared to the balance as of 31 December 2005, the overall volume of credit facilities increased by 30 per cent. At the same time, the annual growth rate of actual ECA financing as of 1 January 2007 exceeded 130% for dollar-denominated loans and 400% for euro-denominated loans under RAR.

International Cooperation Agreements

In 2006, Sberbank continued to pursue the interests of its clients by developing cooperation agreements with national export credit agencies and foreign banks providing ECA financing.

In May, Sberbank signed a Cooperation Agreement with Slovenska Izvozna Druhba aimed at strengthening the parties' interaction in financing the imports of Slovenian goods and services into Russia.

Sberbank Business Strategy



The Russian banking sector continues to grow and mature and is catching up with more developed markets. For the first time, Russia's banking assets exceeded 50% of GDP in 2006. At the same time, competition — particularly from foreign entrants to the market – continues to increase, creating pressure on profit margins.

With the market maturing and competition increasing, the bank's continued growth and profitability will come from achieving greater economies of scale while also maximising efficiencies throughout its business, including in human resources, business processes and IT systems.

Expand product portfolio

Sberbank will continue to expand and diversify its portfolio of products and services. In 2006 the bank's total gross loan portfolio reached RUB 2,683.8 billion, up from RUB 1,906.3 billion in 2005. Deposits from individuals increased from RUB 1,514.3 billion to RUB 2,046 billion, representing growth of 35%. However, Sberbank's strategy is not simply growth for the sake of growth. The bank recognises the need to maintain the quality of its portfolio and client base. In 2006 the percentage of overdue loan payments was less than 1.1% against an overall industry average of 1.3%. These positive dynamics are expected to continue in 2007.

Develop branch network

Sberbank's vast branch network will continue to be one of its core competitive advantages and will enable the bank to maintain its market share in the face of growing competition. Sberbank's strategy is to build on 2006 achievements and further expand its network in 2007. An example of the bank's recent efforts is its acquisition of one of the leading banks in Kazakhstan. Sberbank will continue to assess such acquisition opportunities in other high-growth CIS markets in 2007, while strengthening further its position in the Russian market.

Increasing international visibility and recognition

Sberbank made significant headway in developing its international profile in 2006, which was recognised by leading international financial publications such as Financial Times and The Banker. For the first time in its history, Sberbank made it into the Banker's 'World's Top 100 Financial Institutions', and into the FT's 'Top 500 Global Companies'.

2,683.8
bln RUB
Sberbank total gross loan portfolio

160%
Sberbank share price increase

$1.5 bln
Three-year syndicated loan

With this improving international recognition comes an ability to raise more funding at more favourable rates, as evidenced by the recent three-year $1.5-billion syndicated loan which the bank raised from a consortium of 30 banks at LIBOR + 0.3%.

In 2007 Sberbank will continue to raise its profile and expand relationships with leading international financial institutions.

Creating value for shareholders

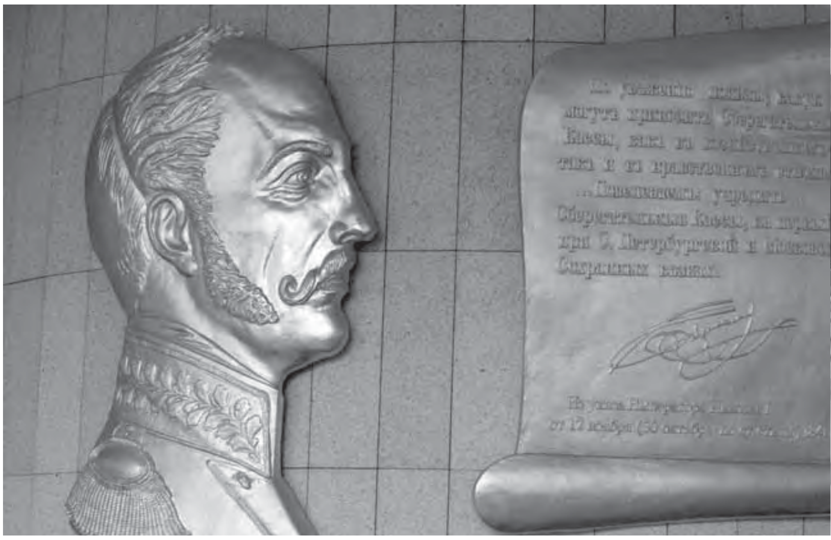
Creating value for its rapidly expanding shareholder base will continue to be a major priority for Sberbank. In 2006 the bank significantly outpaced the market in terms of share price performance - up 160%, while the RTS index increased by 70%. The bank's shares were the best performing among the 10 largest Russian corporations.

In summary, Sberbank's 2007 strategy is to focus on continuing the positive trends of 2006 through growth and diversification of the bank's portfolio of products and services; maintaining the high quality of its assets; expanding its branch network; increasing the efficiency of its operations; enhancing its international profile and relationships; and continuing to create value for shareholders.

Corporate Governance

Corporate Governance

Effective corporate governance is central to fulfilling Sberbank's business strategy.



The bank has continued to improve its standards of corporate governance, including greater transparency of its decision-making processes and the effectiveness of its internal and external communications in order to maximise shareholder value.

Sberbank adheres to a strict code of corporate governance based on principles set forth in the Russian Federal Law "On Joint Stock Companies", the bank's own charter, the Organisation for Economic Cooperation and Development's Principles of Corporate Governance, the Federal Financial Markets Service's Code of Corporate Conduct and the Code of Ethical Principles of the Banking Business approved by the XII Congress of the Association of Russian Banks.

Corporate Governance Principles

- Sberbank's corporate governance ensures the highest level of financial performance, risk management and operational excellence for the bank's shareholders, employees and customers.
- The bank is committed to complying with Russian laws and regulations and best international practices, including the highest standards of ethical behaviour in its corporate governance policies.
- All shareholders have equal rights in exercising control over corporate management, and the bank abides strictly by the principles of equal opportunity and equitable treatment of its shareholders.
- The bank is committed to accurate and timely disclosure of corporate information to all interested parties.
- The bank strictly observes employees' rights as defined by existing legislation, seeks to create new jobs and pursues cooperation with its stakeholders in order to maximise shareholder value.

Ownership

According to Sberbank's Charter and Russian banking legislation, the Bank of Russia must hold at least a controlling stake in Sberbank. At the end of 2006, the Bank of Russia owned 63.8% of Sberbank's ordinary shares and 60.6% of the issued and outstanding shares. On 21 December 2006, the Supervisory Board of the Bank approved the issue of 3,500,000 additional ordinary shares through a public offering in Russia in the first quarter of 2007.

Shares of Sberbank have been publicly traded on Russian markets since 1996. At the end of 2006, institutional and private investors (both domestic and foreign) owned 36.2% of voting shares.

Supervisory Board

Sberbank's Supervisory Board includes representatives of the Russian government, the bank and independent entities. It is headed by the Chairman of the Bank of Russia. Of the 17 seats on the Board, 7 are held by the Bank of Russia, 4 by the Russian Government (including 1 by the Russian Presidential Administration), 3 by Sberbank and 3 by independent members not connected to other organisations represented on the Board.

Sberbank Supervisory Board

CHAIRMAN OF THE SUPERVISORY BOARD	
Sergei M. Ignatiev	Chairman of the Bank of Russia
DEPUTY CHAIRMEN OF THE SUPERVISORY BOARD	
Georgy I. Luntovsky	First Deputy Chairman of the Bank of Russia
Alexei V. Ulukaev	First Deputy Chairman of the Bank of Russia
MEMBERS OF THE SUPERVISORY BOARD	
Alla K. Aleshkina	First Deputy Chairman of the Board of Sberbank
Mstislav P. Afanasiev	Doctor of Economy, Professor, Head of Chair of State Finance at the Higher School of Economics
German O. Gref	Minister of Economic Development and Trade of the Russian Federation
Anton V. Danilov-Danilian	Chief Analyst of "Oboronprom"
Arkady V. Dvorkovich	Head of the Expert Department of the Russian Presidential Administration of the Russian Federation
Boris G. Fyodorov	Doctor of Sciences, Economics
Nadezhda Yu. Ivanova	Director, Consolidated Economic Department of the Bank of Russia
Andrei I. Kazmin	Chairman of the Board and Chief Executive Officer of Sberbank
Alexei L. Kudrin	Minister of Finance of the Russian Federation
Tatyana V. Paramonova	First Deputy Chairman of the Bank of Russia
Alexei L. Savatyugin	Director of the Finance Policy Department of the Ministry of Finance
Konstantin B. Shor	Head of the Bank of Russia's Moscow Branch
Valery V. Tkachenko	Chief Auditor of the Bank of Russia
Bella I. Zlatkis	Deputy Chairman of the Board of Sberbank

Elected by the Annual General Shareholders Meeting on 16 June 2006

Sberbank
Management Board

Andrei I. Kazmin
Chairman of the Board and Chief Executive Officer

Alla K. Aleshkina
First Deputy Chairman of the Board

Alexander V. Brinza
Deputy Chairman of the Board

Alexander N. Govorunov
Deputy Chairman of the Board

Deputy Chairmen of the Board

Evgeny A. Korolev
Deputy Chairman of the Board

Andrei F. Manoilo
Deputy Chairman of the Board, Director of the Internal Control, Revisions and Audit Department

Andrei E. Pogodin
Deputy Chairman of the Board

Alexander K. Solovyev
Deputy Chairman of the Board, Chairman of the Tsentralno-Chernozemny Head Office

Alexander V. Zakharov
Deputy Chairman of the Board

Bella I. Zlatkis
Deputy Chairman of the Board

Irina N. Bokhan
Director of the Credit Department

Viktor V. Gavrilov
Chairman of the Severo-Kavkazsky Head Office

Andrei F. Golikov
Head of Treasury

Members of the Board

Andrei V. Kruzhalov
Chief Accountant, Director of the Accounting Department

Nikolai I. Kuleshov
Director of the Corporate Banking Department

Vladimir F. Pesotski
Chairman of the Altaisky Head Office

Galina A. Rybakova
Director of the Branch Network Management Department

Viktor V. Shchurenkov
Chairman of the Povolzhsky Head Office

Vladimir B. Sundeev
Director of the Operations Department

Leonid M. Syukasev
Director of the Legal Department

ANDREI I. KAZMIN
Chairman of the Board and Chief Executive Officer

Andrei I. Kazmin has been Chairman of the Board, Chief Executive Officer and a member of the Supervisory Board of Sberbank since January 1996. He is also a Vice President of the World Savings Banks Institute and a member of the Board of Directors of MasterCard Europe and the U.S.-Russia Business Council. Mr. Kazmin graduated from the Moscow Institute of Finance in 1980 with a specialisation in Finance and Credit, and completed postgraduate studies at the Moscow Institute of Finance. He has a Ph.D. in Economics. From 1993 to 1996 he served as Deputy Minister of Finance of the Russian Federation. In November 2001 the President of Russia awarded Mr. Kazmin the Order of Honour for merit in economics and finance.

ALLA K. ALESHKINA
First Deputy Chairman of the Board

Alla K. Aleshkina has an outstanding track record in the Russian banking sector. She has served as a member of Sberbank's Board since April 1996. Since 1997 she has been the First Deputy Chairman of the Board. From 1997 to 2004 she was a member of the bank's Supervisory Board. Ms. Aleshkina graduated from the Moscow Institute of Finance with a specialisation in Finance and Credit. In November 2006 the President of Russia awarded Mrs. Aleshkina the Order of Honour.

ALEXANDER V. BRINZA
Deputy Chairman of the Board

Alexander V. Brinza has served as Deputy Chairman of the Board since September 2003. From 1996 to 2002 he worked at the Moscow office of Arthur Andersen. From March 2002 to August 2003 he was a Vice President of Gazprombank. Mr. Brinza has degrees from the Moscow State Aviation Institute and the Finance Academy with a specialisation in International Economic Relations.

ALEXANDER N. GOVORUNOV
Deputy Chairman of the Board

Alexander N. Govorunov has served as a member of Sberbank's Board since April 2003 and as Deputy Chairman of the Board since May 2000. From March to December 1999 he was the Director of the Security Department of Sberbank's St. Petersburg Regional Head Office. Mr. Govorunov graduated from the Leningrad Engineering and Economics Institute. In November 2006 the President of Russia awarded Mr. Govorunov the Order of Friendship.

EVGENY A. KOROLEV
Deputy Chairman of the Board

Evgeny A. Korolev has been a member of Sberbank's Board since July 1997 and Deputy Chairman of the Board since March 2003. From October 1995 to November 2000 he was the Chairman of Sberbank's Nizhegorodsky Regional Head Office. From November 2000 to March 2003 he was Chairman of Sberbank's Volgo-Vyatsky Regional Head Office. Mr. Korolev graduated from the Gorky State University with a specialisation in Radio physics and Electronics, and from the All-Russian Institute of Finance and Economics in 1995 with a specialisation in Finance and Credit.

ANDREI F. MANOILO
Deputy Chairman of the Board, Director of the Internal Control, Revisions and Audit Department

Andrei F. Manoilo has been a member of Sberbank's Board since April 1995. Since December 2003 Mr. Manoilo has been Deputy Chairman of the Board and the Director of Sberbank's Internal Control, Revisions and Audit Department. From October 1997 to October 2000 he was Director of Sberbank's Treasury. From October 2000 to December 2003 Mr. Manoilo was Director of Sberbank's Financial Department. Mr. Manoilo has degrees from the Moscow Institute of Physics and Engineering and from the Moscow Institute of Management.

ANDREI E. POGODIN
Deputy Chairman of the Board

Andrei E. Pogodin has served as Deputy Chairman of the Board since July 1997. Mr. Pogodin is a member of the Supervisory Board of JSC BGS Smartcard Systems AG, an Austrian company engaged in bank card processing services. Since 2005 he has also been Chairman of the Supervisory Board of CJSC Sberkart. Mr. Pogodin has a specialisation in Communications Equipment. In November 2006 the President of Russia awarded Mr. Pogodin the Order of Friendship.

ALEXANDER K. SOLOVYEV
Deputy Chairman of the Board,
Chairman of the Tsentralno-Chernozemny Head Office

Alexander K. Solovyev has been a member of Sberbank's Board since April 1995. He has served as Deputy Chairman of the Board and Chairman of the Tsentralno-Chernozemny Regional Head Office since 1997. From January 1994 to 1997 he was Chairman of the Voronezhski Regional Head Office. Mr. Solovyev graduated from the Voronezh Teacher's Institute with a specialisation in Physics and from Voronezh Polytechnic Institute with a specialisation in Machine-Building Industry Management and Economics.

ALEXANDER V. ZAKHAROV
Deputy Chairman of the Board

Alexander V. Zakharov was appointed Deputy Chairman of the Board in April 2003. From April 1992 to April 2003 he was the Chief Executive Officer of the MICEX. Mr. Zakharov graduated from the Moscow Plekhanov Institute of Economics and from the Academy of Foreign Trade with a specialisation in International Economic Relations.

BELLA I. ZLATKIS
Deputy Chairman of the Board

Bella I. Zlatkis joined the Sberbank Board in May 2004, and is currently Deputy Chairman of the Board. She has also served on the Supervisory Board since January 1996. From August 1998 to August 2000 she served as the Head of the Internal State Debt Department at the Ministry of Finance of the Russian Federation. From August 2000 to May 2004 she was Deputy Minister of Finance of the Russian Federation. Since 2005 Ms. Zlatkis has been a member of the Supervisory Board of MICEX. Ms. Zlatkis graduated from the Moscow Institute of Finance with a specialisation in Finance and Credit. She has a Ph.D. in Economics. In November 2006 the President of Russia awarded Mrs. Zlatkis the Order of Friendship.

IRINA N. BOKHAN
Director of the Credit Department

Irina N. Bokhan has been a member of Sberbank's Board since July 1997. From May 1996 Ms. Bokhan has been Director of Sberbank's Credit Department. Ms. Bokhan has a degree in accounting from the Moscow Plekhanov Institute of Economics. In November 2006 the President of Russia awarded Mrs. Bokhan the Order of Friendship.

VIKTOR V. GAVRILOV
Chairman of the Severo-Kavkazsky Head Office

Viktor V. Gavrilov has served as a member of the Board since July 1997. From November 2000 he has been the Chairman of Sberbank's Severo-Kavkazsky Regional Head Office. From April 1991 to November 2000 Mr. Gavrilov was the Chairman of Sberbank's Stavropolskiy Regional Bank. Mr. Gavrilov graduated from the Rostov Institute of State Enterprise with a specialisation in Finance and Credit.

ANDREI F. GOLIKOV
Head of Treasury

Andrei F. Golikov has held various senior positions at Sberbank since he joined the bank in 1996, including recently Head of Treasury. Since November 2004 he has served as a member of Sberbank's Board. From 2003 Mr. Golikov has been a member of the Supervisory Board of MICEX. He graduated from the Moscow State University with a specialisation in Mechanics.

ANDREI V. KRUZHALOV
Chief Accountant and Director of the Accounting Department

Andrei V. Kruzhalov has served as a member of Sberbank's Board since July 1997. From October 1996 Mr. Kruzhalov has been Sberbank's Chief Accountant and Director of the Accounting Department. Mr. Kruzhalov has degrees from the Moscow Institute of Economics and Statistics and the Russian Economic Academy.

NIKOLAI I. KULESHOV
Director of the Corporate Banking Department

Nikolai I. Kuleshov has served as a member of Sberbank's Board since December 1996. From July 2002 Mr. Kuleshov has been the Director of Sberbank's Corporate Banking Department. From July 1998 to January 2001 Mr. Kuleshov was Deputy Director of Sberbank's Treasury and Director of the Financial Market Operations Department, from January 2001 to July 2002 he was Director of Currency Market Operations of Sberbank's Treasury. Mr. Kuleshov has degrees from the Moscow Institute of Aviation Technology and from the All-Union Moscow Juridical Institute.

VLADIMIR F. PESOTSKI
Chairman of the Altaisky Head Office

Vladimir F. Pesotski has served as a member of Sberbank's Board since July 1997. Since September 1991 Mr. Pesotski has been Chairman of Sberbank's Altaisky Regional Head Office. Mr. Pesotski has a degree in Civil Engineering from the Altai Polytechnic Institute.

GALINA A. RYBAKOVA
Director of the Branch Network Management Department

Galina A. Rybakova has served as a member of Sberbank's Board since October 1991. Since October 2000 Ms. Rybakova has been Director of Sberbank's Branch Network Management Department. From January1994 to October 2000 she was Director of Sberbank's Economics Department. Ms. Rybakova graduated from the Moscow Institute of Finance with a specialisation in Finance and Credit and has a Ph.D. in Economics.

VIKTOR V. SHCHURENKOV
Chairman of the Povolzhsky Head Office

Viktor V. Shchurenkov has served as a member of Sberbank's Board since December1996. From November 2000 Mr. Shchurenkov has been Chairman of Sberbank's Povolzhsky Regional Head Office. From March 1995 through November 2000, Mr. Shchurenkov was Chairman of Sberbank's Samarsky Regional Bank. Since 2004 Mr. Shchurenkov has been a member of the Supervisory Board of CJSC Sberbankinveststroi. Mr. Shchurenkov graduated from the Kuibyshev Polytechnic Institute in 1976 and from the Samara State Economic Academy with a specialisation in Finance and Credit.

VLADIMIR B. SUNDEEV
Director of the Operations Department

Vladimir B. Sundeev has served as a member of Sberbank's Board since July 1997. Since September 1996 Mr. Sundeev has been Director of Sberbank's Operations Department. Mr. Sundeev has degrees from the Leningrad Navy Higher Engineering College and from the Government Staff Re-Training Institute of the Finance Academy.

LEONID M. SYUKASEV
Director of the Legal Department

Leonid M. Syukasev has served as a member of Sberbank's Board since November 2004. From March 1995 he has been Director of Sberbank's Legal Department. From July 1993 to March 1995 Mr. Syukasev was Director of Sberbank's Cash and Valuables Department. He has a degree from the Sverdlovsk Law Institute. In November 2006 the President of Russia awarded Mr. Syukasev the title of Distinguished Lawyer of the Russian Federation.

Risk Management

Risk Management

Sberbank's risk management policy deals with four basic types of risk: credit, market, liquidity and operational.

Management of risk exposure is divided between two internal committees: the Credit and Investment Committee (CIC), which is responsible for managing credit risk, and the Interest Rates and Limits Committee (IRLC), which is responsible for managing market and liquidity risk. Sberbank's Internal Control, Revisions and Audit Department regularly audits and evaluates internal control procedures, focusing particularly on accounting and financial reporting and IT systems. The bank's comprehensive risk management system is based on the recommendations of the Basel Committee on Banking Supervision and the requirements of the Bank of Russia. The strength of the risk management system means that the bank meets and, in many cases exceeds, all the requirements set by the Bank of Russia.

Sberbank uses a variety of risk assessment tools, including Value-at-Risk (VaR), stress tests and scenario analysis, to evaluate a range of factors associated with risk, such as changes in the financial markets and the structure of the bank's assets and liabilities.

Credit Risk

Given the considerable growth in the size of the bank's loan portfolio, credit risk arising from unpaid or defaulted loans is Sberbank's most significant risk.

To minimise its exposure to credit risk, the bank assigns ratings based on factors such as sector, geography and ownership structure, which are then used to optimise its loan portfolio.

Sberbank constantly reviews its loan criteria and procedures, and launches new loan products only after conducting comprehensive tests—in the form of pilot projects and in-depth monitoring of key indicators—to ensure that the products do not expose the bank to an unreasonable level of risk.

In 2006, Serbank's overdue loan payments were less than 1.1% of all loans outstanding compared to the sector-wide figure of 1.3%.

2006 ECONOMIC INDICATORS

	01.01.03	01.01.04	01.01.05	01.01.06	01.01.07
Loans outstanding (including from banks) (billion RUB)	608.6	937.6	1.387.9	1.906.3	2.683.8
Credit risk	8.5%	7.1%	5.7%	4.9%	3.8%
Percentage of overdue loan payments in portfolio (including from banks)	1.8	1.5	1.4	1.0	1.1

3.8%
Credit risk

1.1
Percentage of overdue loan payments in portfolio

Market Risk

Sberbank manages market risk associated with interest rates, equity and currency.

The bank is exposed to interest rate rises as a result of changes in the value of its debt securities trading portfolio. The IRLC sets diversity requirements, limiting the amount of investment that can be made in government and corporate bonds and staggering the maturity dates to manage this risk. It also sets country-wide uniform rate ceilings based on those of the Bank of Russia and regional banks.

The IRLC limits equity-related risk by imposing restrictions on acceptable issuers and limiting the bank's investments to select blue chip companies as well as restricting the total amount that can be invested in a single company.

Sberbank also manages risk associated with changes in foreign exchange rates and the price of precious metals. The IRLC sets both general limits and limits specific to particular currencies and metals in addition to stop-loss limits on arbitrage trading operations.

Liquidity Risk

Sberbank's internal liquidity risk management system uses simulation and predictive tools to predict cash flow based on asset and liability ratios and various macroeconomic criteria. These tools analyse information updated on a daily basis so as to give the most accurate assessment of the bank's cash and non-cash liquidity, both at a given time, over a three-month period and in the longer term.

Operational Risk

Sberbank limits exposure to operational risk through careful regulation of all internal processes as well as through the development of technology and information systems. In order to more accurately assess and predict the level of operational risk, Sberbank launched a new database in 2006, which collects and classifies information and then uses state-of-the-art mathematical techniques to analyse information to forecast future risk.

Corporate Social Responsibility

Corporate Social Responsibility

In 2006 Sberbank continued its commitment to a variety of domestic and international programmes to further develop social welfare in Russia and abroad.

488
mln RUB
donated to charities

Domestic
Sberbank's domestic involvement extends to government and social programmes.

The bank continued to repay domestic debt on deposits made before 20 June 1991, with payments in 2006 totalling RUB 48.9 billion, a 90% increase from 2005.

The bank also continued to manage welfare payments in Russia. In 2006 Sberbank paid out RUB 17.9 billion in child benefits free of charge to 7.1 million people, a 15% increase in payments from 2005. It also paid out a total of RUB 17 billion in unemployment benefits to 1.73 million people.

The bank's involvement in federal housing programmes has also expanded. In 2006, it continued to assist with the implementation of the State Housing Certificate Programme, facilitating 14,233 real estate contracts worth a total of RUB 10.9 billion. It also provided support to two government housing initiatives: one for people involved in radioactive cleanup and another for those moving from the Artic regions of the Russian Federation. Through these programmes, the bank paid, respectively, RUB 16.3 billion under 19,349 contracts and RUB 854.9 million under 1,413 contracts.

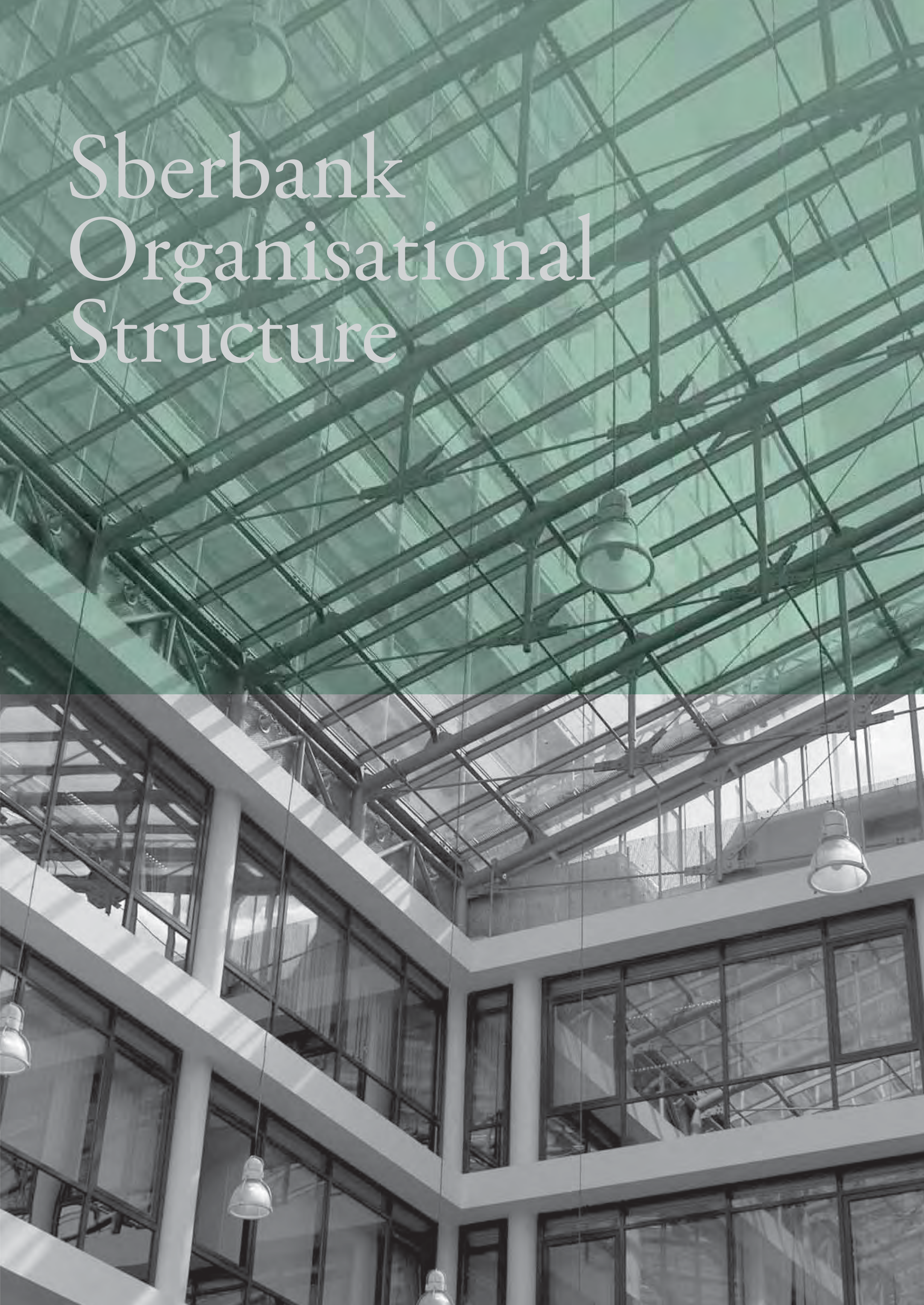
Continuing its mandate under the 2002 government resolution on the social restructuring of the Artic regions, Sberbank carried out real estate transactions worth RUB 178.1 million related to 1,181 federal housing certificates.

Sberbank has also remained active in charity, donating more than RUB 488 million to a variety of Russian charities dedicated to art, culture, education, healthcare and social development.

International
Sberbank provides payment agency services in USD and Euros to a variety of non-profit organisations and charities. In 2006 the bank paid out grants, benefits and copyright royalties worth USD 3.7 million on behalf of four charities to 6,500 people.

The bank has also almost completed its 5½-year involvement in the outsanding programme as payment agent for aid given to the victims of Nazi oppression through the Stiftung "Erinnerung, Verantwortung und Zukunft" ("Remembrance, Responsibility and Future" Foundation). Working together with agencies in Germany and Austria, the bank administered EUR 44 million to 69,000 recipients in 2006. Total amount of payment reached over EUR 400 million.

Sberbank Organisational Structure



Sberbank Organisational Structure

Sberbank's organisational structure enables the bank to meet the needs of each of the local markets where it operates. The average number of the Bank's employees during 2006 was 243,620, which demonstrates a 3.6% increase compared to the previous year.

AS OF 1 JANUARY 2007

General Shareholders Meeting

Supervisory Board

The Board

Central Head Office

17
Regional Head Offices

Altaisky, Baikalsky, Dalnevostochny, Povolzhsky, Severny, Severo-Kavkazsky, Severo-Vostochny, Severo-Zapadny, Sibirsky, Srednerussky, Tsentralno-Chernozemny, Uralsky, Volgo-Vyatsky, Vostochno-Sibirsky, Yugo-Zapadny, Zapadno-Sibirsky, Zapadno-Uralsky.

202
Sub-branches Subordinated directly to RHO

827
Branches

18,291
Sub-Branches

13
Moscow Branches

751
Moscow Sub-Branches

Central Head Office Organisational Structure

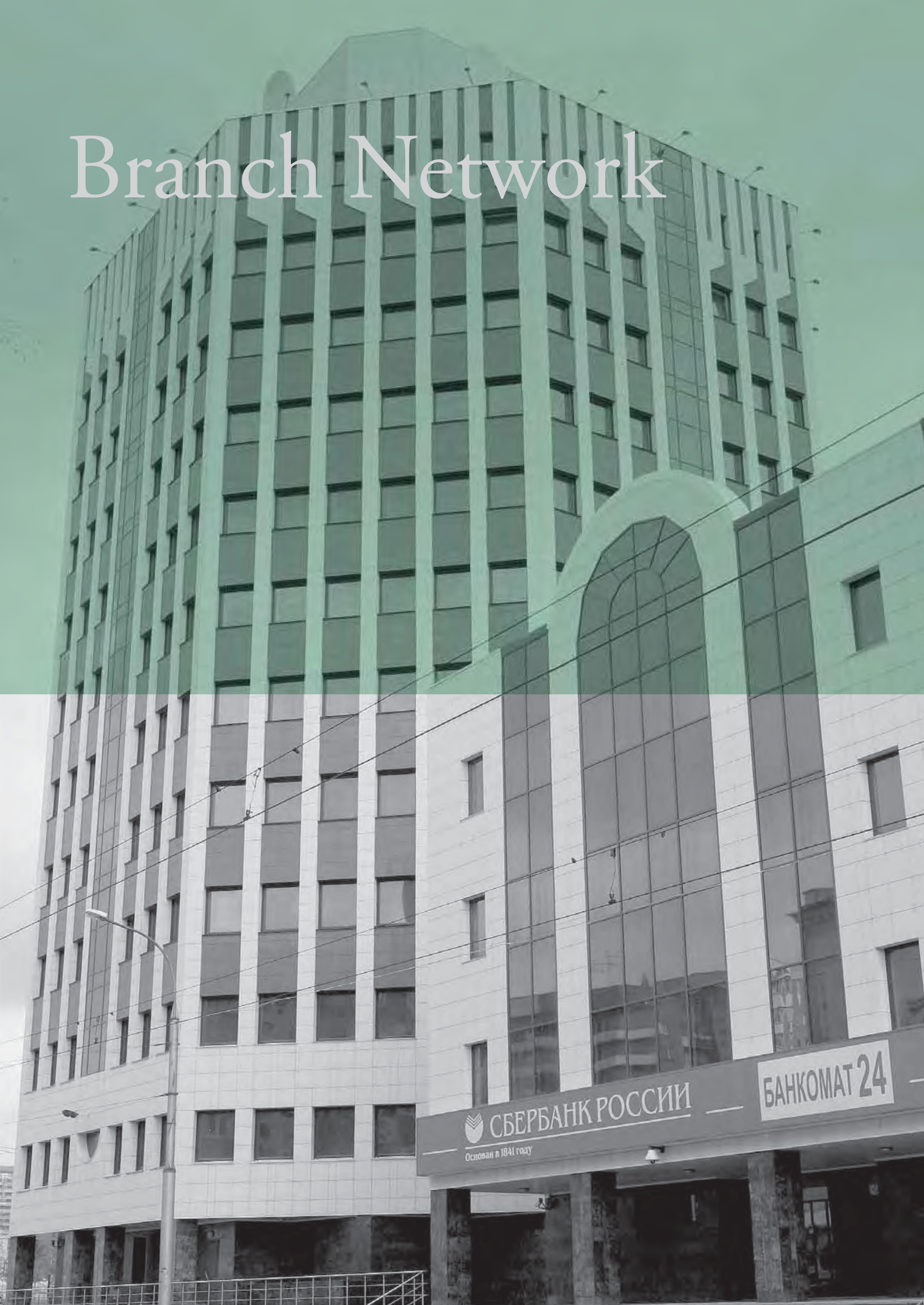
CENTRAL HEAD OFFICE

- Treasury
  - Financial Markets Department
  - Capital Markets Department
- Credit Department
- Engineering Credit Department
- Project Finance Department
- Construction Projects Finance Department
- Retail Lending Department
- Corporate Banking Department
- Documentary Operations and Trade Finance Department
- Foreign Currency and Non-Commercial Operations Department
- Bank Cards Department
- Securities Department
- Operations Department
- Custody

- Strategic Planning Department
- Financial Department
- Risk Management Department
- Tax Planning Department
- Branch Network Management Department
- Main Settlement Centre
- Accounting Department
- Processing and Control of Banking Operations Department
- Internal Control, Revisions and Audit Department
- Accounting and Control of Retail Operations Department
- Banking Technologies Department
- Retail Deposits and Payments Department

- IT Systems Support Department
- Bank Systems Department
- IT & Telecommunication Systems Department
- Cash and Valuables Department
- Cash Collection Department
- Legal Department
- International Relations Department
- Public Relations Department
- Human Resources Department
- Bank Security Department
- Property Management Department
- Administrative Department
- Office Management Department
- Secretariat

Branch Network



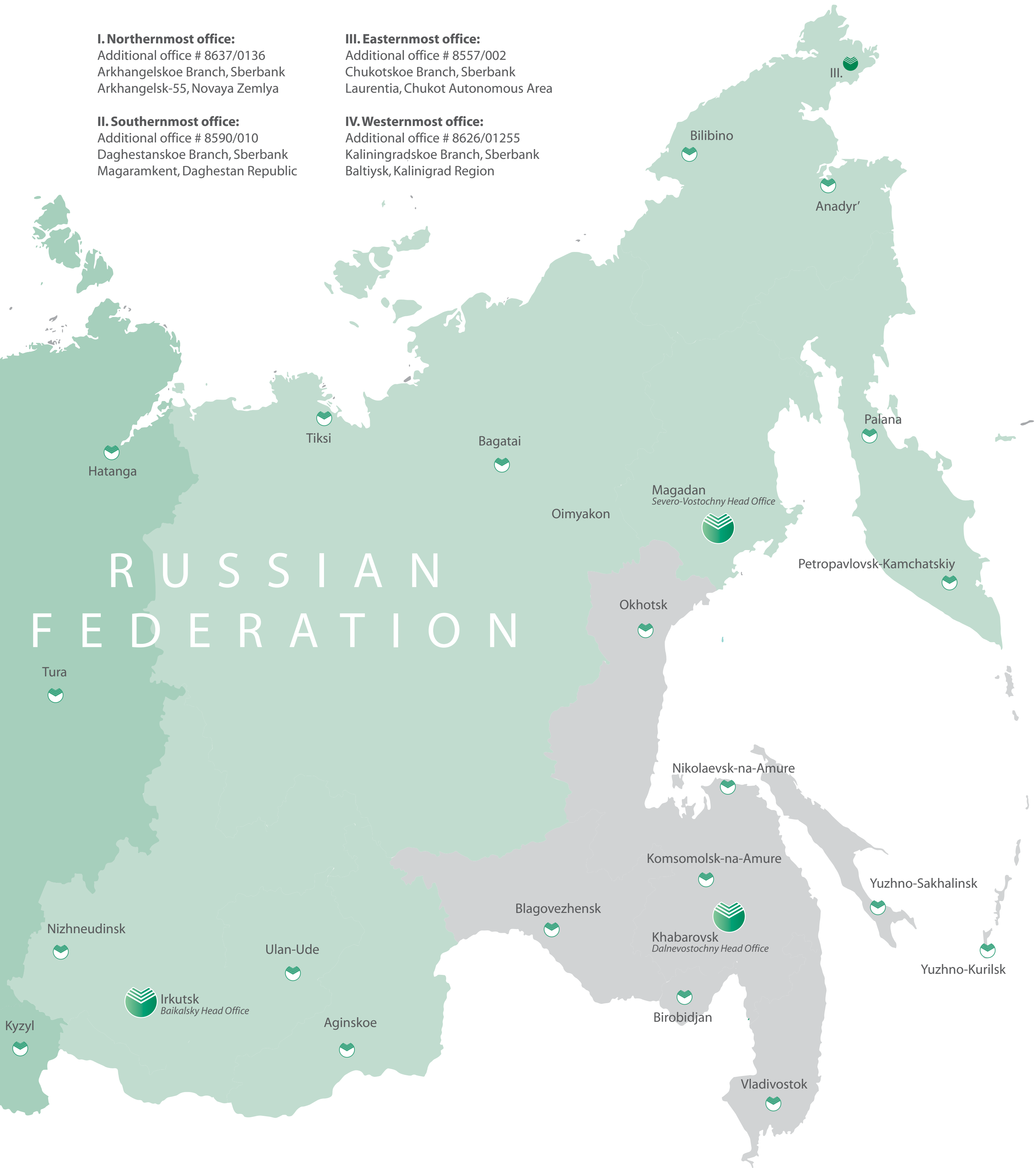
Branch Network

I. Northernmost office:
Additional office # 8637/0136
Arkhangelskoe Branch, Sberbank
Arkhangelsk-55, Novaya Zemlya

II. Southernmost office:
Additional office # 8590/010
Daghestanskoe Branch, Sberbank
Magaramkent, Daghestan Republic

III. Easternmost office:
Additional office # 8557/002
Chukotskoe Branch, Sberbank
Laurentia, Chukot Autonomous Area

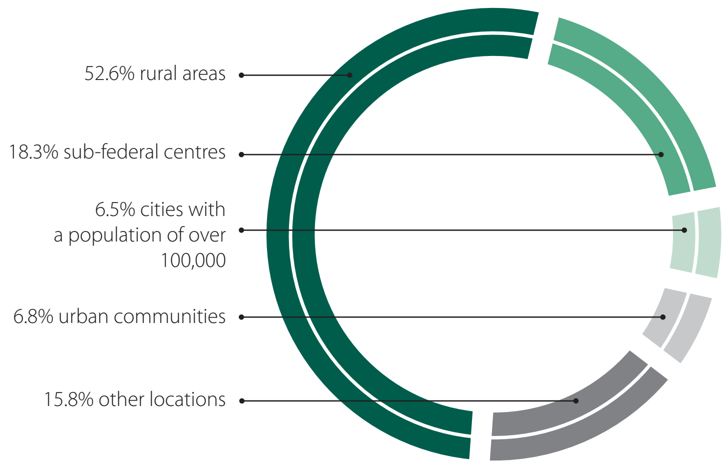
IV. Westernmost office:
Additional office # 8626/01255
Kaliningradskoe Branch, Sberbank
Baltiysk, Kalinigrad Region



Sberbank Branch Network

Sberbank's branch network is unrivalled in the Russian market and is a symbol of its dominance in the banking sector. At the end of 2006 Sberbank's branches consisted of more than 20,000 outlets across Russia, including 17 regional offices, 840 branches and 19,244 sub-branches and small outlets.

SBERBANK'S BRANCH GEOGRAPHY



In 2006 Sberbank continued to develop and strengthen its domestic country-wide network to provide high-quality customer service in areas with high demand. At the regional level, 153 branches were restructured to create consolidated management centres that more efficiently oversee business development. The bank also opened 205 new outlets, more than half of which are located in sub-federal centres, as well as 6 free-standing exchange offices. In addition, it relocated 371 existing outlets closer to urban centres and closed 389 units in low-demand areas. In some of these areas, closed offices were replaced with mobile outlets.

To better serve the needs of its customer base, Sberbank continued to expand operating hours at locations across the country, with 952 outlets extending their weekday hours, 538 extending their Saturday hours and 134 starting to operate on Sundays.

REGIONAL HEAD OFFICES

ALTAISKY HEAD OFFICE
106-a Komsomolski Prospekt, 656038 Barnaul, Russia, tel.: (+7 385-2) 39 92 11, SWIFT Code SABRRUMMAC1
Vladimir F. PESOTSKI, Chairman

BAIKALSKY HEAD OFFICE
32 Deputatskaya St., 664047 Irkutsk, Russia, tel.: (+7 395-2) 25 41 11, SWIFT Code SABRRU66
Maxim V. POLETAEV, Chairman

DALNEVOSTOCHNY HEAD OFFICE
4 Brestskaya St., 680011 Khabarovsk, Russia, tel.: (+7 421-2) 78 32 32, SWIFT Code SABRRU8K
Valeri V. PYTNEV, Chairman

POVOLZHSKY HEAD OFFICE
305 Novo-Sadovaya St., 443011 Samara, Russia, tel.: (+7 846-9) 98 11 04, SWIFT Code SABRRUMMSE1
Viktor V. SHCHURENKOV, Chairman

SEVERNY HEAD OFFICE
8 Prospekt Oktyabrya, 150028 Yaroslavl, Russia, tel. (+7 085-2) 40 78 11, SWIFT Code SABRRUMMYA1
Vladimir P. RYBIN, Chairman

SEVERO–KAVKAZSKY HEAD OFFICE
361 Lenina St., 355035 Stavropol, Russia, tel.: (+7 865-2) 24 39 76, SWIFT Code SABRRUMMSP1
Viktor V. GAVRILOV, Chairman

SEVERO–VOSTOCHNY HEAD OFFICE
11/11 Pushkina St., 685000 Magadan, Russia, tel.: (+7 413-22) 2 26 32, SWIFT Code SABRRUMMMA1
Galina D. KOZUB, Chairperson

SEVERO–ZAPADNY HEAD OFFICE
2 Krasnogo Tekstilshchika St., 191124, St. Petersburg, Russia, tel. (+7 812) 329 96 01, SWIFT Code SABRRU2P
Alexei L. LOGINOV, Chairman

SIBIRSKY HEAD OFFICE
46 Krasny Prospekt, 630091 Novosibirsk, Russia, tel.: (+7 383-2) 22 18 81, SWIFT Code SABRRUMMNH1
Vladimir V. VOROZHEIKIN, Chairman

SREDNERUSSKY HEAD OFFICE
8 Bolshaya Andronyevskaya St., 109544 Moscow, Russia, tel.: (+7 495) 785 45 15, SWIFT Code SABRRUM3
Andrei N. USPENSKY, Chairman

TSENTRALNO–CHERNOZEMNY HEAD OFFICE
28 Devyatogo Yanvarya St., 394006 Voronezh, Russia, tel.: (+7 073-2) 55 05 83, SWIFT Code SABRRUMMVH1
Alexander K. SOLOVYEV, Chairman

URALSKY HEAD OFFICE
31-v Malysheva St., 620014 Ekaterinburg, Russia, tel.: (+7 343) 376 88 88, SWIFT Code SABRRUMMEA1
Vladimir A. CHERKASHIN, Chairman

VOLGO–VYATSKY HEAD OFFICE
35 Oktyabrskaya St., 603005 Nizhniy Novgorod, Russia, tel.: (+7 831-2) 17 98 00, SWIFT Code SABRRUMMNA1
Dmitri Yu. DAVYDOV, Chairman

VOSTOCHNO–SIBIRSKY HEAD OFFICE
46 Svobodny Prospekt, 660028 Krasnoyarsk, Russia, tel.: (+7 391-2) 59 80 03, SWIFT Code SABRRUMMKR1
Julia A. AIZUP, Acting Chairperson

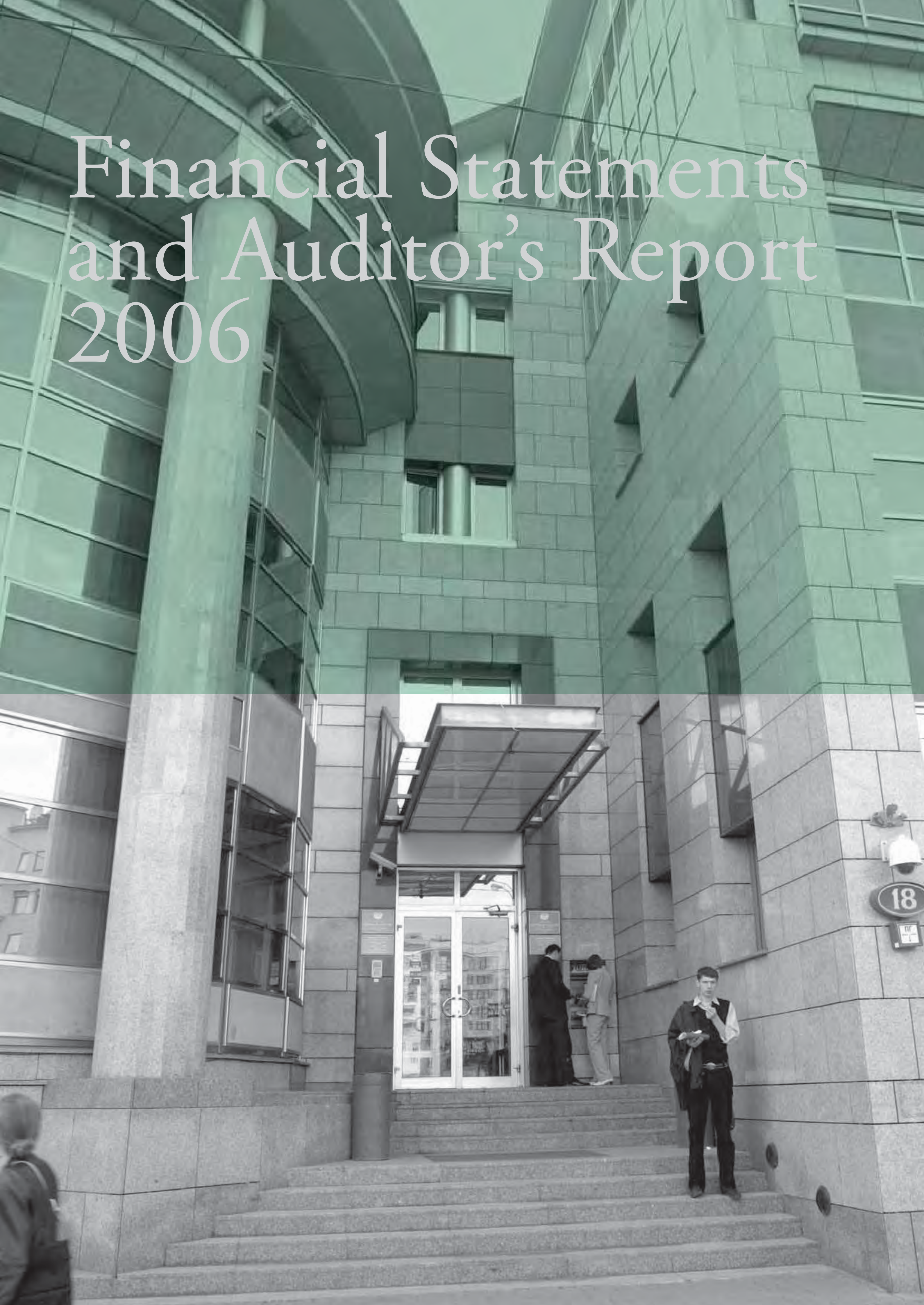
YUGO–ZAPADNY HEAD OFFICE
116 Pushkinskaya St., 344006 Rostov-On-Don, Russia, tel.: (+7 863-2) 64 39 20, SWIFT Code SABRRUMMRA1
Michail V. ZOLOTAREV, Chairman

ZAPADNO–SIBIRSKY HEAD OFFICE
61 Rizhskaya St., 625023 Tyumen, Russia, tel.: (+7 345-2) 41 21 53, SWIFT Code SABRRUMMTN1
Igor G. ARTAMONOV, Chairman

ZAPADNO–URALSKY HEAD OFFICE
4 Ordzhonikidze St., 614990 Perm, Russia, tel.: (+7 342-2) 10 26 00, SWIFT Code SABRRUMMPC1
Vladimir A. VERKHOLANTSEV, Chairman

SUBSIDIARY BANK AO SBERBANK OF RUSSIA IN KAZAKHSTAN
30/26 Gogolya St, 050010 Almaty, Kazakhstan, tel.: (+7 3272) 500060, SWIFT Code TEXA KZ KA
Gaukhar T. BISEMBIEVA, Acting Chairperson

Financial Statements and Auditor's Report 2006



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INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Notes to the Financial Statements

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the shareholders and Supervisory Board of Sberbank (Savings Bank of the Russian Federation):

1 We have audited the accompanying financial statements of Sberbank (Savings Bank of the Russian Federation (the "Bank") which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and statement of cashflows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

3 Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

4 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
25 April 2007

Sberbank (Savings Bank of the Russian Federation)
Balance Sheet

In millions of Russian Roubles	Note	31 December 2006	31 December 2005
ASSETS			
Cash and cash equivalents	7	169 805	123 369
Mandatory cash balances with the Bank of Russia		77 915	56 809
Trading securities	8	210 641	131 815
Other securities at fair value through profit or loss	9	237 847	227 281
Due from other banks	10	41 276	25 932
Loans and advances to customers	11	2 541 617	1 787 288
Repurchase receivable		-	1 659
Investment securities held to maturity	12	26 198	28 399
Premises and equipment	13	125 216	106 850
Other assets	14	36 158	23 726
TOTAL ASSETS		**3 466 673**	**2 513 128**
LIABILITIES			
Due to other banks	15	44 836	24 912
Deposits from individuals	16	2 046 035	1 514 302
Customer accounts	16	782 789	546 806
Debt securities in issue	17	123 729	86 890
Other borrowed funds	18	107 332	62 964
Deferred income tax liability	26	3 604	2 330
Other liabilities	19	22 944	14 462
Subordinated debt	20	26 880	29 393
TOTAL LIABILITIES		**3 158 149**	**2 282 059**
EQUITY			
Share capital	21	79 981	20 981
Share premium	21	10 016	10 016
Revaluation reserve for premises		15 344	15 873
Retained earnings	22	203 183	184 199
TOTAL EQUITY		**308 524**	**231 069**
TOTAL LIABILITIES AND EQUITY		**3 466 673**	**2 513 128**

Approved for issue and signed on behalf of the Board on 25 April 2007.

A.I. Kazmin
Chairman of the Board and CEO

A.V. Kruzhalov
Chief Accountant

Statement of Income

In millions of Russian Roubles	Note	2006	2005
Interest income	23	317 646	245 522
Interest expense	23	(122 030)	(89 149)
Net interest income		**195 616**	**156 373**
Provision for loan impairment	11	(13 851)	(19 602)
Net interest income after provision for loan impairment		**181 765**	**136 771**
Gains less losses arising from trading securities and other securities at fair value through profit or loss		11 210	16 145
Gains less losses arising from investment securities available for sale		-	5
Gains arising from investment securities held to maturity		-	4 181
Net gains/ (losses) arising from trading in foreign currencies		8 464	(731)
Foreign exchange translation net (losses)/ gains		(4 834)	5 920
Fee and commission income	24	51 691	36 930
Fee and commission expense	24	(1 615)	(1 147)
Gain on settlement of a receivable	31	3 346	-
Other operating income		4 133	3 921
Operating profit		**254 160**	**201 995**
Administrative and other operating expenses	25	(145 140)	(114 373)
Profit before tax		**109 020**	**87 622**
Income tax expense	26	(26 216)	(21 814)
Profit for the year		**82 804**	**65 808**
Earnings per ordinary share, basic and diluted (expressed in RR per share)	27	**4 343**	**3 454**

Statement of Changes in Equity

In millions of Russian Roubles	Note	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Fair value reserve for investment securities available for sale	Retained earnings	Total equity
Balance as at 1 January 2005		**20 981**	**10 016**	–	**453**	**5**	**121 864**	**153 319**
Securities available for sale:								
- Fair value losses net of gains		–	–	–	–	(1)	–	(1)
- Disposals		–	–	–	–	(5)	–	(5)
Premises and equipment:								
- Revaluation of premises	13	–	–	–	20 317	–	–	20 317
- Realised revaluation reserve		–	–	–	(27)	–	27	–
Income tax recorded in equity	26	–	–	–	(4 870)	1	(6)	(4 875)
Net income/(expense) recognised directly in equity		**–**	**–**	**–**	**15 420**	**(5)**	**21**	**15 436**
Profit for the year		–	–	–	–	–	65 808	65 808
Total income/(expense) recognised for the year		**–**	**–**	**–**	**15 420**	**(5)**	**65 829**	**81 244**
Dividends declared	28	–	–	–	–	–	(3 494)	(3 494)
Balance as at 31 December 2005		**20 981**	**10 016**	–	**15 873**	**–**	**184 199**	**231 069**
Premises and equipment:								
- Realised revaluation reserve		–	–	–	(696)	–	696	–
Income tax recorded in equity		–	–	–	167	–	(167)	–
Net income/(expense) recognised directly in equity		**–**	**–**	**–**	**(529)**	**–**	**529**	**–**
Profit for the year		–	–	–	–	–	82 804	82 804
Total income/(expense) recognised for the year		**–**	**–**	**–**	**(529)**	**–**	**83 333**	**82 804**
Disposal of treasury shares		–	–	3	–	–	–	3
Purchase of treasury shares		–	–	(3)	–	–	–	(3)
Dividends declared	28	–	–	–	–	–	(5 349)	(5 349)
Increase in the nominal value of shares		59 000	–	–	–	–	(59 000)	–
Balance as at 31 December 2006		**79 981**	**10 016**	**–**	**15 344**	**–**	**203 183**	**308 524**

Statement of Cash Flows

In millions of Russian Roubles	Note	2006	2005
Cash flows from operating activities			
Interest received		316 881	240 035
Interest paid		(111 285)	(85 976)
Income received from trading securities and other securities at fair value through profit or loss		6 338	13 286
Income received/ (expenses paid) from trading in foreign currencies		8 557	(694)
Fees and commissions received		51 983	36 760
Fees and commissions paid		(1 615)	(1 147)
Income received on settlement of a receivable		3 346	-
Other operating income received		4 721	2 954
Administrative and other operating expenses paid		(125 483)	(100 208)
Income tax paid		(25 018)	(17 275)
Cash flows from operating activities before changes in operating assets and liabilities		**128 425**	**87 735**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Bank of Russia		(21 106)	(11 842)
Net increase in trading securities		(81 120)	(14 840)
Net increase in securities at fair value through profit or loss		(6 854)	(15 960)
Net increase in due from other banks		(15 216)	(18 143)
Net increase in loans and advances to customers		(803 350)	(496 907)
Net decrease/ (increase) in repurchase receivable		1 043	(1 043)
Net increase in other assets		(13 559)	(10 303)
Net increase in due to other banks		19 693	11 975
Net increase in deposits from individuals		545 482	316 113
Net increase in customer accounts		247 955	112 316
Net increase in debt securities in issue		37 412	24 114
Net increase in other liabilities		3 802	1 699
Net cash from/(used in) operating activities		**42 607**	**(15 086)**
Cash flows from investing activities			
Proceeds from disposal and redemption of investment securities available for sale		-	109
Acquisition of premises and equipment	13	(34 800)	(26 012)
Proceeds from disposal of premises and equipment		1 463	1 132
Dividend income received		149	204
Net cash used in investing activities		**(33 188)**	**(24 567)**
Cash flows from financing activities			
Other borrowed funds received		77 553	32 366
Redemption of other borrowed funds		(27 998)	(137)
Repayment of interest on other borrowed funds		(3 800)	(1 004)
Proceeds from subordinated debt		-	28 340
Repayment of interest on subordinated debt		(1 711)	(901)
Dividends paid	28	(5 325)	(3 477)
Net cash from financing activities		**38 719**	**55 187**
Effect of exchange rate changes on cash and cash equivalents		**(1 702)**	**(1 302)**
Net increase in cash and cash equivalents		**46 436**	**14 232**
Cash and cash equivalents at the beginning of the year		123 369	109 137
Cash and cash equivalents at the end of the year	7	**169 805**	**123 369**

The notes set out on pages 5 to 60 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 for Sberbank (Savings Bank of the Russian Federation) (the "Bank").

The Bank is a joint stock commercial bank established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal shareholder, the Central Bank of the Russian Federation (the "Bank of Russia"), owns 63.8% of ordinary shares or 60.6% of the issued and outstanding shares at 31 December 2006. On 21 December 2006 the Supervisory Board of the Bank approved the issuance of 3 500 000 additional ordinary shares by way of a public offering in Russia in the first quarter of 2007. The placement has changed the share of the Bank of Russia in the Bank's share capital. Please refer to Note 37.

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia. The Supervisory Board also includes representatives from the Bank's other shareholders. Two Deputy Chairmen of the Bank of Russia are Deputy Chairmen of the Supervisory Board.

Principal activity. The Bank's principal business activity is corporate and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Bank of Russia since 1991.

The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of individual deposits up to RR 190 thousand per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments.

During February 2007 the guarantee repayment of individual deposits under the State deposit insurance scheme was raised up to RR 400 thousand (approximately US Dollars 15 thousand) per individual in case of the withdrawal of a license of a bank or a Bank of Russia imposed moratorium on payments.

The Bank has 17 (2005:17) regional head offices, 840 (2005: 992) branches and 19 244 (2005:19 261) sub-branches within the Russian Federation as at 31 December 2006. The average number of the Bank's employees during 2006 was 243 620 (2005: 235 116).

Registered address and place of business. The Bank's registered address is: Vavilova str., 19, Moscow, Russian Federation.

Presentation currency. These financial statements are presented in millions of Russian Roubles ("RR millions").

2 Operating Environment of the Bank

High rates of economic growth in the Russian Federation gave rise to dynamic development of its banking system. During 2006 Fitch and Standard and Poor's, the international rating agencies, raised Russian sovereign foreign currency rating to the "BBB+" grade. In 2006 international rating agency Moody's also upgraded foreign currency country ceiling for Russian bonds to A2. On the whole the Russian Federation displays certain characteristics of an emerging market, including high rates of economic growth, continuing fall of inflation rates, liberalization of current and capital foreign transactions.

At the same time there is no confidence that the latest positive trends in the Russian economy will remain in future. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, revaluation of available for sale financial assets, financial assets held at fair value through profit or loss and all derivative contracts.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Key measurement terms. Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The cost based measurement for financial instruments is applied only in rare circumstances.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount and premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Basis of Preparation and Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities, other securities at fair value through profit or loss, derivatives are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the income statement as interest income. Dividends are included in dividend income within other operating income when the Bank's right to receive the dividend payment is established. Translation differences are included in foreign exchange translation net gains/(losses). All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses arising from trading securities and other securities at fair value through profit or loss in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's management bodies. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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 foreclosure is probable.

After a loan has been written down as a result of impairment, interest income is then recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments. In the normal course of business, the Bank enters into credit related commitments, including letters of credit, guarantees, commitments to extend credit and undrawn credit lines. Financial guarantees represent irrevocable assurance to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition. Investment securities held to maturity are carried at amortised cost.

Derecognition of financial assets. The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Premises have been revalued to market value at 31 December 2005. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was fair value. Revalued premises are depreciated in accordance with their remaining useful life since 1 January 2006.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following annual rates are applied for the main categories of premises and equipment:

Premises	2.5-3.3%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Deposits from individuals and customer accounts. Deposits from individuals and customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit and savings certificates issued by the Bank. Debt securities in issue are stated at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Other borrowed funds. Other borrowed funds represent medium and long-term funds attracted by the Bank on the international financial markets. Other borrowed funds are carried at amortised cost. If the Bank repurchases its borrowed funds, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including forward and futures foreign exchange contracts and forwards with precious metals, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from trading in foreign currencies and other operating income. The Bank does not apply «hedge accounting» according to IAS 39.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the balance sheet only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provision for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Preference shares. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Dividend payments in excess of that minimum level are determined at the Bank's annual shareholders' meeting. Preference shares are classified as a part of equity.

Treasury shares. Where the Bank purchases the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the statement of income for interest-bearing instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's original effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Foreign currency translation. Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the Bank of Russia at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the Bank of Russia are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items.

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (2005: USD 1 = RR 28.7825).

Fiduciary assets. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Contingent assets. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised by the Bank in its balance sheet, but disclosed in the notes to the financial statements.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Bank fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity, or sale or reclassification is attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments was tainted, the carrying amount would increase by RR 21 352 million, with a corresponding entry to the fair value reserve in equity, net of deferred tax of

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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 portfolio when scheduling its future cash flows. For new types of loans, where the Bank has not collected statistics of historical losses, market information on historical losses of similar groups of loans is used to assess incurred but not yet reported losses on such groups of loans. Also, the Bank's management accounting system in some cases does not allow to collect all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. Management is also in process of upgrading Bank's accounting systems to produce fully the information required for proper application of loan portfolio impairment assessment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Fair Value of Financial Instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Capital Adequacy Ratio. Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires Management judgement.

Related party transactions. The Bank's principal shareholder is the Bank of Russia (refer to Note 1). As the Bank applies IAS 24 "Related Party Disclosures" (revised), disclosures are made in these financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the financial statements. Refer to Notes 34 and 35.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2006. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4 – Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. Financial instruments designated into the category "at fair value through profit or loss" have been and continue to be managed on a fair value basis, in a accordance with a documented investment strategy in place since the initial recognition of these financial instruments and information on that basis is regularly provided to and reviewed by the Bank's management bodies.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the amount recognised under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

The application of these amendments and interpretations did not have a significant impact on these financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods and which the Bank has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

6 New Accounting Pronouncements (Continued)

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This interpretation is not relevant for the Bank;

IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. Management does not expect the interpretation to be relevant for the Bank;

IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management does not expect the interpretation to be relevant for the Bank;

IFRIC 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. The Interpretation states that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. Management does not expect the interpretation have any material impact on the Bank;

IFRIC 11, "IFRS 2 – Group and Treasury Shares Transactions", effective for annual periods beginning on or after 1 March 2007. This interpretation is not relevant for the Bank.

IFRIC 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. This interpretation is not relevant for the Bank; and

IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires the Bank to report financial and descriptive information about its operating segments and specifies how the Bank should report such information.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009) The revised Standard removed the option of immediate recognition as an expense of borrowing costs related to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Management does not expect the revised standart have any material impact on the Bank.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2006**	**2005**
Cash on hand	83 699	58 282
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	8 221	26 946
Correspondent accounts and overnight placements with other banks		
- Russian Federation	25 853	14 551
- Other countries	52 032	23 590
Total cash and cash equivalents	**169 805**	**123 369**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

8 Trading securities

In millions of Russian Roubles	2006	2005
Bonds of the Bank of Russia	87 500	24 461
Federal loan bonds (OFZ bonds)	65 898	52 662
Russian Federation Eurobonds	29 473	35 956
Municipal and subfederal bonds	13 485	7 423
Corporate bonds	8 762	5 620
VneshEconomBank bonds (VEB bonds)	5 045	5 194
Corporate shares	478	499
Total trading securities	**210 641**	**131 815**

Bonds of the Bank of Russia are non interest-bearing RR denominated securities issued by the Bank of Russia at a discount. These bonds have maturity date from June 2009 to September 2009 (2005: from June 2009 to September 2009); the Bank of Russia put an irrevocable offer for sale of these bonds in March and June 2007. Yield to offer – from 5% to 10% p.a. (2005: 5% p.a.).

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from June 2007 to February 2036 (2005: from February 2006 to November 2021), coupon rates from 0% to 10% p.a. (2005: from 0% to 10% p.a.) and yield to maturity from 3% to 7% p.a. (2005: from 4% to 7% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from June 2007 to March 2030 (2005: from June 2007 to March 2030), coupon rates from 5% to 13% p.a. (2005: from 5% to 13% p.a.) and yield to maturity from 5% to 6% p.a. (2005: from 5% to 6% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from April 2007 to June 2015 (2005: from April 2006 to December 2014), coupon rates from 7% to 14% p.a. (2005: from 7% to 17% p.a.) and yield to maturity from 3% to 11% p.a. (2005: from 3% to 11% p.a.), depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds have maturity dates from April 2007 to March 2012 (2005: from February 2006 to November 2012), coupon rates from 7% to 14% p.a. (2005: from 7% to 15% p.a.) and yield to maturity from 5% to 12% p.a. (2005: from 6% to 13% p.a.), depending on the type of bond issue.

VEB bonds are bearer interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds carry an annual coupon of 3% p.a., have maturity dates from November 2007 to May 2011 (2005: from May 2006 to May 2011) and yield to maturity from 5% to 6% p.a. (2005: from 5% to 6% p.a.), depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 30. The information on trading securities issued by related parties is disclosed in Notes 34 and 35.

9 Other Securities at Fair Value through Profit or Loss

In millions of Russian Roubles	2006	2005
Federal loan bonds (OFZ bonds)	186 667	178 500
Municipal and subfederal bonds	26 681	32 408
Corporate shares	14 144	12 672
Corporate bonds	10 340	3 684
Russian Federation Eurobonds	15	17
Total other securities at fair value through profit or loss	**237 847**	**227 281**

OFZ bonds have maturity dates from June 2007 to August 2025 (2005: from February 2006 to November 2021), coupon rates from 0% to 10% p.a. (2005: from 0% to 10% p.a.) and yield to maturity from 3% to 7% p.a. (2005: from 4% to 7% p.a.), depending on the type of bond issue.

Municipal and subfederal bonds have maturity dates from April 2007 to December 2014 (2005: from March 2006 to December 2014), coupon rates of 8% to 14% p.a. (2005: from 9% to 17% p.a.) and yield to maturity from 3% to 11% p.a. (2005: from 3% to 11% p.a.), depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

Corporate bonds have maturity dates from March 2007 to July 2013 (2005: from March 2007 to July 2010), coupon rates from 8% to 14% p.a. (2005: from 8% to 15% p.a.) and yield to maturity from 5% to 12% p.a. (2005: from 5% to 13% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds have maturity date up to March 2030 (2005: March 2030), coupon rate of 5% p.a. (2005: 5% p.a.) and yield to maturity of 6% p.a. (2005: 6% p.a.).

Geographical, currency and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 30. The information on other securities at fair value through profit or loss issued by related parties is disclosed in Note 35.

10 Due from Other Banks

In millions of Russian Roubles	2006	2005
Short-term placements with other banks	37 856	23 189
Reverse sale and repurchase agreements with other banks	3 420	2 743
Total due from other banks	**41 276**	**25 932**

At 31 December 2006 amounts due from other banks in the amount of RR 3 420 million (2005: RR 2 743 million) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 3 476 million (2005: at fair value of RR 2 903 million).

At 31 December 2006 the estimated fair value of due from other banks was RR 41 276 million (2005: RR 25 932 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

11 Loans and Advances to Customers

In millions of Russian Roubles	2006	2005
Current loans	2 595 458	1 856 803
Overdue loans	29 129	19 723
Reverse sale and repurchase agreements	17 907	3 840
Less: Provision for loan impairment	(100 877)	(93 078)
Total loans and advances to customers	**2 541 617**	**1 787 288**

Overdue loans (payments that overdue by more than one day) represent the amount of overdue loan payments and do not include the entire outstanding balance of the loans with overdue payments.

At 31 December 2006 loans and advances to customers in the amount of RR 17 907 million (2005: RR 3 840 million) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 22 204 million (2005: RR 4 227 million).

Movements in the provision for loan impairment are as follows:

In millions of Russian Roubles	2006	2005
Provision for loan impairment at 1 January	**93 078**	**79 359**
Provision for loan impairment during the year	13 851	19 602
Loans and advances to customers written off during the year as uncollectible	(6 052)	(5 883)
Provision for loan impairment at 31 December	**100 877**	**93 078**

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

	2006		2005	
	Amount	%	Amount	%
Individuals	692 722	26.2	467 833	24.9
Trade	490 422	18.6	405 491	21.6
Services	244 890	9.3	190 506	10.1
Food and agriculture	218 286	8.3	159 428	8.5
Oil, gas and chemical	210 352	7.9	123 467	6.6
Machine building	173 755	6.6	135 887	7.2
Metallurgy	146 821	5.5	69 498	3.7
Transport, aviation, space industry	121 009	4.6	33 849	1.8
Construction	77 281	2.9	54 536	2.9
Energy	63 864	2.4	69 939	3.7
Telecommunications	46 432	1.8	48 564	2.6
Timber industry	23 323	0.9	19 208	1.0
Government and municipal bodies	16 947	0.6	10 450	0.5
Other	116 390	4.4	91 710	4.9
Total loans and advances to customers, gross	**2 642 494**	**100.0**	**1 880 366**	**100.0**

At 31 December 2006 the Bank had 10 borrowers with aggregated loan amounts above RR 22 700 million (2005: 10 borrowers with aggregated loan amounts above RR 17 100 million). The total aggregate amount of these loans was RR 406 997 million or 15.4% of the total gross loan portfolio (2005: RR 311 443 million or 16.6%).

11 Loans and Advances to Customers (Continued)

At 31 December 2006 the estimated fair value of loans and advances to customers was RR 2 541 617 million (2005: RR 1 787 288 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

12 Investment Securities Held to Maturity

In millions of Russian Roubles	2006	2005
Russian Federation Eurobonds	26 198	28 399
Total investment securities held to maturity	**26 198**	**28 399**

The movement in investment securities held to maturity is as follows:

In millions of Russian Roubles	2006	2005
Gross amount at 1 January	**28 399**	**35 650**
Interest income accrued	3 841	5 105
Coupon received	(3 657)	(4 951)
Disposal of securities	-	(8 762)
Exchange differences relating to debt securities	(2 385)	1 357
Gross amount at 31 December	**26 198**	**28 399**

Russian Federation Eurobonds have maturity date up to July 2018 (2005: July 2018), coupon rate of 11.0% p.a. (2005: 11.0% p.a.) and yield to maturity of 5.8% p.a. (2005: 5.6% p.a.).

At 31 December 2006 the estimated fair value of investment securities held to maturity was RR 47 550 million (2005: RR 53 501 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 30. The information on related party balances is disclosed in Note 35.

13 Premises and Equipment

In millions of Russian Roubles	Note	Premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Cost or valuation at 1 January 2005		57 852	29 887	7 830	4 377	99 946
Accumulated depreciation		(8 668)	(15 200)	(3 697)	-	(27 565)
Carrying amount at 1 January 2005		**49 184**	**14 687**	**4 133**	**4 377**	**72 381**
Additions		5 384	12 395	1 806	6 427	26 012
Transfers		3 387	-	-	(3 387)	-
Disposals		(474)	(1 414)	(639)	(29)	(2 556)
Depreciation charge	25	(2 495)	(7 081)	(1 100)	-	(10 676)
Disposals of depreciation		97	911	364	-	1 372
Revaluation of premises		20 317	-	-	-	20 317
Carrying amount at 31 December 2005		**75 400**	**19 498**	**4 564**	**7 388**	**106 850**
Cost or valuation at 31 December 2005		75 400	40 868	8 997	7 388	132 653
Accumulated depreciation		-	(21 370)	(4 433)	-	(25 803)
Carrying amount at 31 December 2005		**75 400**	**19 498**	**4 564**	**7 388**	**106 850**
Additions		8 575	16 489	1 864	7 872	34 800
Transfers		5 426	-	-	(5 426)	-
Disposals		(518)	(1 524)	(676)	(1 112)	(3 830)
Depreciation charge	25	(2 655)	(9 958)	(1 402)	-	(14 015)
Disposals of depreciation		9	1 003	399	-	1 411
Carrying amount at 31 December 2006		**86 237**	**25 508**	**4 749**	**8 722**	**125 216**
Cost or valuation at 31 December 2006		88 883	55 833	10 185	8 722	163 623
Accumulated depreciation		(2 646)	(30 325)	(5 436)	-	(38 407)
Carrying amount at 31 December 2006		**86 237**	**25 508**	**4 749**	**8 722**	**125 216**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Premises were independently valued at 31 December 2005. The valuation was carried out by an independent firm of valuers. The basis used for the appraisal was fair value. Fair values were estimated using appropriate valuation techniques and using observable market prices in an active market. At 31 December 2006 premises are stated at revalued amount less accumulated depreciation since 1 January 2006.

13 Premises and Equipment (Continued)

At 31 December 2006 the carrying amount of fixed assets would have been RR 104 965 million (2005: RR 86 533 million) had the assets been carried at cost less depreciation.

At 31 December 2006 included in office and computer equipment are fully amortised items in the amount of RR 7 206 million (2005: RR 7 642 million) and in vehicles and other equipment in the amount of RR 1 677 million (2005: RR 2 597 million).

14 Other Assets

In millions of Russian Roubles	2006	2005
Plastic cards receivables	18 895	11 889
Precious metals	6 746	3 970
Trade debtors and prepayments	2 479	1 419
Prepaid expenses	2 028	1 539
Prepaid taxes other than on income	814	1 802
Funds in settlement	808	421
Other	4 388	2 686
Total other assets	**36 158**	**23 726**

As at 31 December 2006 plastic cards receivables of RR 18 895 million (2005: RR 11 889 million) represent receivables due within 30 days on operations of the Bank's customers with plastic cards.

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Bank on behalf of its customers. The Bank has received restricted deposits from these customers in the same amounts, which are recorded in customer accounts. Refer to Note 31.

Geographical, currency and maturity analyses of other assets are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

15 Due to Other Banks

In millions of Russian Roubles	2006	2005
Correspondent accounts and overnight placements of other banks	39 354	22 833
Current term placements of other banks	5 482	607
Sale and repurchase agreements with other banks	-	1 472
Total due to other banks	**44 836**	**24 912**

At 31 December 2006 the estimated fair value of due to other banks was RR 44 836 million (2005: RR 24 912 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 30.

16 Deposits from Individuals and Customer Accounts

In millions of Russian Roubles	2006	2005
Individuals		
- Current/demand accounts	201 586	136 100
- Term deposits	1 844 449	1 378 202
State and public organisations		
- Current/settlement accounts	65 820	53 411
- Term deposits	18 805	16 126
Other legal entities		
- Current/settlement accounts	518 813	352 348
- Term deposits	179 351	124 921
Total deposits from individuals and customer accounts	**2 828 824**	**2 061 108**

Economic sector concentrations within customer accounts are as follows:

	2006		2005	
	Amount	%	Amount	%
Individuals	2 046 035	72.3	1 514 302	73.5
Trade	136 054	4.8	75 710	3.7
Oil, gas and chemical	131 341	4.6	108 919	5.2
Services	106 304	3.8	97 465	4.7
Construction	61 856	2.2	31 960	1.6
Municipal bodies and state organisations	57 841	2.0	61 454	3.0
Food and agriculture	38 975	1.4	28 146	1.3
Machine building	38 444	1.4	23 759	1.2
Metallurgy	37 094	1.3	25 258	1.2
Energy	28 704	1.0	12 207	0.6
Other	146 176	5.2	81 928	4.0
Total deposits from individuals and customer accounts	**2 828 824**	**100.0**	**2 061 108**	**100.0**

At 31 December 2006 included in customer accounts are deposits of RR 50 714 million (2005: RR 33 113 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

At 31 December 2006 the estimated fair value of customer accounts was RR 2 828 824 million (2005: RR 2 061 108 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Notes 34 and 35.

17 Debt Securities in Issue

In millions of Russian Roubles	2006	2005
Promissory notes	106 730	79 264
Savings certificates	14 108	6 298
Deposit certificates	2 891	1 328
Total debt securities in issue	**123 729**	**86 890**

Promissory notes are interest-bearing or discount securities issued by the Bank. They are denominated in RR, USD and Euro and have maturity dates from "on demand" to April 2012 (2005: from "on demand" to May 2009). Interest or discount rates on promissory notes issued by the Bank vary from 1.4% to 11.0% p.a. (2005: from 4.3% to 6.1% p.a.). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Bank. They are denominated in RR, USD, Euro and have maturity dates from "on demand" to March 2009 (2005: from "on demand" to March 2007). Interest rates on these securities vary from 1.7% till 10.2% p.a. (2005: from 2.1% to 3.0% p.a.).

At 31 December 2006 the estimated fair value of debt securities in issue was RR 119 148 million (2005: RR 85 510 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 30.

18 Other Borrowed Funds

In millions of Russian Roubles	2006	2005
Long-term loans received	99 247	57 598
Term borrowings	8 085	5 366
Total other borrowed funds	**107 332**	**62 964**

At 31 December 2006 included in long-term loans received is a syndicated loan in the amount of USD 1 000 million which was received by the Bank in December 2005 from a consortium of foreign banks. As at 31 December 2006 the loan was accounted for at amortised cost of RR 26 463 million (2005: RR 28 716 million). This loan has a maturity date on 10 November 2008 and contractual floating interest rate of 3 months LIBOR + 0.55%. As at 31 December 2006 the effective interest rate on the loan was 6.3% p.a. (2005: 5.4% p.a.).

In October 2006 the Bank received another syndicated loan in the amount of USD 1 500 million from a consortium of foreign banks, which is also included in long-term loans received. As at 31 December 2006 the loan was accounted for at amortised cost of RR 39 649 million. This loan matures in October 2009 and has contractual floating interest rate of 3 months LIBOR + 0.30%. As at 31 December 2006 the effective interest rate on the loan was 5.9% p.a.

In May 2006 the Bank entered into USD 10 000 million loan participation notes (MTN) issuance programme. In May 2006 the Bank received the first loan under this programme in the amount of USD 500 million, which is included in long-term loans received. As at 31 December 2006 this loan was accounted for at amortised cost of RR 13 256 million. This loan matures in May 2013 and has contractual fixed interest rate of 6.5% p.a. As at 31 December 2006 the effective interest rate on the loan was 6.6% p.a.

In November 2006 the Bank attracted the second loan under the MTN issuance programme in the amount of USD 750 million, which is also included in long-term loans received. As at 31 December 2006 this loan was accounted for at amortised cost of RR 19 879 million. This loan matures in November 2011 and has contractual fixed interest rate of 5.9% p.a. As at 31 December 2006 the effective interest rate on the loan was 6.0% p.a.

18 Other Borrowed Funds (Continued)

Term borrowings represent funding received by the Bank from foreign export agencies via foreign banks, which was used by Sberbank for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2006 these term borrowings were accounted for at amortised cost of RR 8 085 million (2005: RR 5 366 million), had interest rates varying from 3.9% to 6.8% p.a. (2005: from 2.8% to 6.4% p.a.) and maturity dates from July 2007 to January 2016 (2005: from February 2006 to January 2016).

At 31 December 2006 the estimated fair value of other borrowed funds was RR 108 174 million (2005: RR 63 296 million). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30.

19 Other Liabilities

In millions of Russian Roubles	Note	2006	2005
Accrued employee benefit costs		9 822	5 586
Taxes payable		4 448	3 971
Deposit insurance system fees payable		2 824	2 124
Funds in settlement		2 520	1 036
Plastic card payables		1 391	634
Trade payables		378	320
Foreign exchange forwards	32	59	34
Precious metal forwards	32	43	45
Other		1 459	712
Total other liabilities		**22 944**	**14 462**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 30.

20 Subordinated Debt

In millions of Russian Roubles	2006	2005
Subordinated debt	26 880	29 393
Total subordinated debt	**26 880**	**29 393**

In 2005 the Bank received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of aggregate principal amount of USD 1 000 million 6.2% p.a. Loan Participation Notes due in February 2015 for the sole purpose of financing a ten-year subordinated loan to the Bank. As at 31 December 2006 this subordinated debt was accounted for at amortised cost of RR 26 880 million (2005: RR 29 393 thousand).

In the event of the Bank's liquidation the creditors under this subordinated debt would be the last ones to receive repayment.

As at 31 December 2006 the estimated fair value of subordinated debt was RR 27 256 million (2005: RR 29 185 million). Refer to Note 33.

Geographical, currency and maturity analyses of subordinated debt are disclosed in Note 30.

21 Share Capital and Share Premium

In millions of Russian Roubles	2006 Number of shares, in units	2006 Nominal amount	2006 Inflation adjusted amount	2005 Number of shares, in units	2005 Nominal amount	2005 Inflation adjusted amount
Ordinary shares	19 000 000	57 000	75 576	19 000 000	950	19 526
Preference shares	50 000 000	3 000	4 405	50 000 000	50	1 455
Less: Treasury shares						
- Ordinary shares	(1 787)	(5)	-	(1 787)	-	-
- Preference shares	-	-	-	(1 144)	-	-
Total share capital	**68 998 213**	**59 995**	**79 981**	**68 997 069**	**1 000**	**20 981**

As at 31 December 2005 nominal value of ordinary shares of the Bank was RR 50 per share and for preference shares RR 1 per share.

All ordinary shares rank equally. Each share carries one vote.

In August 2006 the Bank increased the nominal value of its ordinary and preference shares sixty times via capitalisation of the statutory revaluation reserve for premises. Consequently, all ordinary shares have nominal value of RR 3 000 per share and the preference shares have a nominal value of RR 60 per share. This transaction did not require any use of cash and cash equivalents and was therefore excluded from the statement of cash flows for 2006.

Preference shares carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to approval by the shareholders meeting. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders but lose this right when the next dividend is paid. Preference share dividends are set at 590% p.a. in 2006 for the year ended 31 December 2005 (2005: 379% p.a. for the year ended 31 December 2004) and rank above ordinary dividends.

On 21 December 2006, the Supervisory Board of the Bank approved the issuance of 3 500 000 additional ordinary shares by way of a public offering in Russia in the first quarter of 2007. Refer to Note 37.

Share premium of RR 10 016 million (2005: RR 10 016 million) represents the excess of contributions received over the nominal value of shares issued.

22 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2006 are RR 282 650 million (2005: RR 207 045 million).

23 Interest Income and Expense

In millions of Russian Roubles	2006	2005
Interest income		
Loans and advances to customers	284 174	214 275
Debt trading securities and other securities at fair value through profit or loss	24 827	24 192
Due from other banks	4 136	1 891
Investment securities held to maturity	3 841	5 105
Correspondent accounts with other banks	668	57
Debt investment securities available for sale	-	2
Total interest income	**317 646**	**245 522**
Interest expense		
Term deposits of individuals	94 724	73 286
Term deposits of legal entities	9 932	6 361
Current/settlement accounts	7 438	4 831
Other borrowed funds	4 550	1 251
Debt securities in issue	2 557	705
Subordinated debt	1 699	1 587
Term placements of other banks	679	735
Correspondent accounts of other banks	451	393
Total interest expense	**122 030**	**89 149**
Net interest income	**195 616**	**156 373**

24 Fee and Commission Income and Expense

In millions of Russian Roubles	2006	2005
Fee and commission income		
Cash transactions	28 753	22 254
Settlement transactions	8 761	5 470
Plastic cards operations	6 916	4 196
Operations with foreign currency	2 854	2 040
Cash collection	2 279	1 788
Transactions with securities	768	461
Guarantees issued	519	186
Other	841	535
Total fee and commission income	**51 691**	**36 930**
Fee and commission expense		
Settlement transactions	1 025	461
Operations with foreign currency	333	471
Transactions with securities	123	113
Cash collection	110	98
Other	24	4
Total fee and commission expense	**1 615**	**1 147**
Net fee and commission income	**50 076**	**35 783**

25 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2006	2005
Staff costs		87 167	68 316
Depreciation of premises and equipment	13	14 015	10 676
Administrative expenses		13 192	12 227
State deposit insurance system membership fee		10 190	7 683
Other costs of premises and equipment		6 635	5 924
Taxes other than on income		6 381	4 029
Advertising and marketing services		2 293	1 736
Professional services		231	245
Other		5 036	3 537
Total administrative and other operating expenses		**145 140**	**114 373**

Included in staff costs are statutory social security and pension contributions of RR 13 697 million (2005: RR 11 506 million).

26 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2006	2005
Current tax	24 942	18 257
Deferred tax	1 274	8 432
Less: Deferred tax recorded directly in equity	-	(4 875)
Income tax expense for the year	**26 216**	**21 814**

The income tax rate applicable to the majority of the Bank's income is 24% (2005: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2006	2005
IFRS profit before tax	**109 020**	**87 622**
Theoretical tax charge at statutory rate (2006: 24%; 2005: 24%)	26 165	21 029
Income on government securities taxed at different rates	(2 305)	(2 143)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(36)	(49)
- Non-deductible staff costs	1 370	967
- Other non deductible expenses	257	689
- Other non-temporary differences	765	1 321
Income tax expense for the year	**26 216**	**21 814**

At 31 December 2005 a deferred tax liability of RR 4 876 million has been recorded directly in equity in respect of the revaluation of the Bank's premises. Refer to Note 13. At 31 December 2005 a reversal of deferred tax liability of RR 1 million has been recorded directly in equity in respect of the fair valuation of investment securities available for sale.

26 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2005: 24%), except for income on state securities that is taxed at 15% (2005: 15%).

In millions of Russian Roubles	31 December 2005	(Charged)/ credited to profit or loss	31 December 2006
Tax effect of deductible temporary differences			
Loan impairment provision	4 460	(2 855)	1 605
Deferred income	2 580	479	3 059
Accrued employee benefit costs	1 341	1 335	2 676
Low value items write-off	968	262	1 230
Other	1 112	(605)	507
Gross deferred tax asset	**10 461**	**(1 384)**	**9 077**
Tax effect of taxable temporary differences			
Premises and equipment	7 017	1 352	8 369
Fair valuation of trading securities and other securities at fair value through profit or loss	4 800	(1 285)	3 515
Amortisation of investment securities held to maturity	645	32	677
Other	329	(209)	120
Gross deferred tax liability	**12 791**	**(110)**	**12 681**
Total net deferred tax liability	**(2 330)**	**(1 274)**	**(3 604)**

26 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2004	(Charged)/ credited to profit or loss	(Charged) / credited directly to equity	31 December 2005
Tax effect of deductible temporary differences				
Loan impairment provision	6 550	(2 090)	-	4 460
Deferred income	1 022	1 558	-	2 580
Accrued employee benefit costs	1 044	297	-	1 341
Low value items write-off	693	275	-	968
Other	1 330	(218)	-	1 112
Gross deferred tax asset	**10 639**	**(178)**	**-**	**10 461**
Tax effect of taxable temporary differences				
Premises and equipment	837	1 304	4 876	7 017
Fair valuation of trading securities and other securities at fair value through profit or loss	2 872	1 928	-	4 800
Amortisation of investment securities held to maturity	753	(108)	-	645
Fair valuation of investment securities available for sale	8	(7)	(1)	-
Other	67	262	-	329
Gross deferred tax liability	**4 537**	**3 379**	**4 875**	**12 791**
Total net deferred tax asset/(liability)	**6 102**	**(3 557)**	**(4 875)**	**(2 330)**

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In millions of Russian Roubles	2006	2005
Profit attributable to equity holders of the Bank	82 804	65 808
Less: preference dividends	(295)	(190)
Profit attributable to the Bank's ordinary shareholders	**82 509**	**65 618**
Weighted average number of ordinary shares in issue (millions)	19	19
Basic and diluted ordinary earnings per share (expressed in RR per share)	**4 343**	**3 454**

28 Dividends

	2006		2005	
In millions of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	41	12	28	8
Dividends declared during the year	5 054	295	3 304	190
Dividends paid during the year	(5 036)	(289)	(3 291)	(186)
Dividends payable at 31 December	**59**	**18**	**41**	**12**
Dividends per share declared during the year (RR per share)	**266.00**	**5.90**	**173.90**	**3.79**

All dividends are declared and paid in Russian Roubles.

29 Segment Analysis

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Bank is organised on a basis of two main business segments:

- Retail banking – representing private customer current accounts, savings, deposits, custody, debit cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

In 2006 the Bank measured business segment revenues, expenses and results on the basis of inter-segment prices used for internal management purposes only. The comparative information for the year ended 31 December 2005 has been presented on the same basis, as required by IAS 14 "Segment Reporting".

For the purposes of these financial statements segment revenue consists of interest income and fees and commission income for the certain segment.

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2006 and 2005 is set out below.

29 Segment Analysis (Continued)

Segment reporting of the Bank's assets and liabilities per business segments as of 31 December 2006 follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Bank items	Total
Assets				
Cash and cash equivalents	-	-	169 805	169 805
Mandatory cash balances with the Bank of Russia	24 564	53 351	-	77 915
Trading securities	210 641	-	-	210 641
Other securities at fair value through profit or loss	237 847	-	-	237 847
Due from other banks	41 276	-	-	41 276
Loans and advances to customers	1 876 396	665 221	-	2 541 617
Investment securities held to maturity	26 198	-	-	26 198
Premises and equipment	37 503	87 713	-	125 216
Other assets	3 164	27 175	5 819	36 158
Total assets	**2 457 589**	**833 460**	**175 624**	**3 466 673**
Liabilities				
Due to other banks	44 836	-	-	44 836
Deposits from individuals	-	2 046 035	-	2 046 035
Customer accounts	782 789	-	-	782 789
Debt securities in issue	107 619	16 110	-	123 729
Other borrowed funds	107 332	-	-	107 332
Deferred income tax liability	-	-	3 604	3 604
Other liabilities	3 523	11 094	8 327	22 944
Subordinated debt	26 880	-	-	26 880
Total liabilities	**1 072 979**	**2 073 239**	**11 931**	**3 158 149**
Other disclosures				
Capital expenditure incurred (additions of fixed assets)	10 424	24 376	-	34 800

29 Segment Analysis (Continued)

Segment reporting of the Bank's income and expenses per business segments for the year ended 31 December 2006 follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Bank items	Total
Interest income	203 214	114 432	-	317 646
Interest expense	(26 568)	(95 462)	-	(122 030)
Inter-segment (expense) and income	(99 512)	75 456	24 056	-
Gains less losses arising from trading securities and other securities at fair value through profit or loss	11 210	-	-	11 210
Gains less losses arising from trading in foreign currencies	4 188	4 276	-	8 464
Foreign exchanges translation net losses	(4 834)	-	-	(4 834)
Fee and commission income	29 628	22 063	-	51 691
Fee and commission expense	(1 615)	-	-	(1 615)
Gain on settlement of a receivable	3 346	-	-	3 346
Other operating income	4 133	-	-	4 133
Operating profit before provision for loan impairment	**123 190**	**120 765**	**24 056**	**268 011**
Provision for loan impairment	(8 446)	(5 405)	-	(13 851)
Operating profit	**114 744**	**115 360**	**24 056**	**254 160**
Administrative and other operating expenses	(33 212)	(87 872)	(24 056)	(145 140)
Profit before tax	**81 532**	**27 488**	**-**	**109 020**

29 Segment Analysis (Continued)

Segment reporting of the Bank's assets and liabilities per business segments as of 31 December 2005 follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Bank items	Total
Assets				
Cash and cash equivalents	-	-	123 369	123 369
Mandatory cash balances with the Bank of Russia	16 826	39 983	-	56 809
Trading securities	131 815	-	-	131 815
Other securities at fair value through profit or loss	227 281	-	-	227 281
Due from other banks	25 932	-	-	25 932
Loans and advances to customers	1 334 613	452 675	-	1 787 288
Repurchase receivables	1 659	-	-	1 659
Investment securities held to maturity	28 399	-	-	28 399
Premises and equipment	32 001	74 849	-	106 850
Other assets	3 452	17 107	3 167	23 726
Total assets	**1 801 978**	**584 614**	**126 536**	**2 513 128**
Liabilities				
Due to other banks	24 912	-	-	24 912
Deposits from individuals	-	1 514 302	-	1 514 302
Customer accounts	546 806	-	-	546 806
Debt securities in issue	78 777	8 113	-	86 890
Other borrowed funds	62 964	-	-	62 964
Deferred income tax liability	-	-	2 330	2 330
Other liabilities	4 282	4 547	5 633	14 462
Subordinated debt	29 393	-	-	29 393
Total liabilities	**747 134**	**1 526 962**	**7 963**	**2 282 059**
Other disclosures				
Capital expenditure incurred (additions of fixed assets)	7 790	18 222	-	26 012

29 Segment Analysis (Continued)

Segment reporting of the Bank's income and expenses per business segments for the year ended 31 December 2005 follows:

In millions of Russian Roubles	Corporate banking	Retail banking	Intra-Bank items	Total
Interest income	172 640	72 882	-	245 522
Interest expense	(15 863)	(73 286)	-	(89 149)
Inter-segment (expense) and income	(114 152)	81 551	32 601	-
Gains less losses arising from trading securities and other securities at fair value through profit or loss	16 145	-	-	16 145
Gains less losses arising from investment securities available for sale	5	-	-	5
Gains arising from investment securities held to maturity	4 181	-	-	4 181
Gains less losses arising from trading in foreign currencies	(3 127)	2 396	-	(731)
Foreign exchanges translation net gains	5 920	-	-	5 920
Fee and commission income	21 453	15 477	-	36 930
Fee and commission expense	(1 147)	-	-	(1 147)
Other operating income	3 921	-	-	3 921
Operating profit before provision for loan impairment	**89 976**	**99 020**	**32 601**	**221 597**
Provision for loan impairment	(10 625)	(8 977)	-	(19 602)
Operating profit	**79 351**	**90 043**	**32 601**	**201 995**
Administrative and other operating expenses	(22 189)	(59 583)	(32 601)	(114 373)
Profit before tax	**57 162**	**30 460**	**-**	**87 622**

29 Segment Analysis (Continued)

Geographical segments. Geographical segment information is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
	Yugo-Zapadny	Rostov-on-Don
Ural	Zapadno-Uralsky	Perm
	Uralsky	Ekaterinburg
Western Siberia	Sibirsky	Novosibirsk
	Altaisky	Barnaul
	Zapadno-Sibirsky	Tumen
Eastern Siberia and Far East	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk

Segment information for the main geographical segments of the Bank is set out below for the years ended 31 December 2006 and 31 December 2005.

29 Segment Analysis (Continued)

The Bank's reporting by geographical segments as of 31 December 2006 is as follows:

In millions of Russian Roubles	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Intra-Bank items	Total
Assets							
Cash and cash equivalents	103 457	44 429	8 661	6 941	6 317	-	169 805
Mandatory cash balances with the Bank of Russia	-	-	-	-	-	77 915	77 915
Trading securities	209 384	1 257	-	-	-	-	210 641
Other securities at fair value through profit or loss	228 685	8 198	-	671	293	-	237 847
Due from other banks	39 231	32	3	2 000	10	-	41 276
Loans and advances to customers	927 237	974 370	254 897	194 693	190 420	-	2 541 617
Investment securities held to maturity	26 198	-	-	-	-	-	26 198
Premises and equipment	26 607	60 972	12 657	12 319	12 661	-	125 216
Other assets	-	-	-	-	-	36 158	36 158
Total assets	**1 560 799**	**1 089 258**	**276 218**	**216 624**	**209 701**	**114 073**	**3 466 673**
Liabilities							
Due to other banks	32 483	3 553	4 976	3 375	449	-	44 836
Deposits from individuals	587 535	992 793	163 399	144 653	157 655	-	2 046 035
Customer accounts	365 031	249 893	72 744	46 275	48 846	-	782 789
Debt securities in issue	23 046	54 381	22 317	16 864	7 121	-	123 729
Other borrowed funds	107 332	-	-	-	-	-	107 332
Deferred income tax liability	-	-	-	-	-	3 604	3 604
Other liabilities	-	-	-	-	-	22 944	22 944
Subordinated debt	26 880	-	-	-	-	-	26 880
Total liabilities	**1 142 307**	**1 300 620**	**263 436**	**211 167**	**214 071**	**26 548**	**3 158 149**
Interest income	115 302	120 600	29 938	26 193	25 613	-	317 646
Interest expense	(48 150)	(49 090)	(9 192)	(7 875)	(7 723)	-	(122 030)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	11 022	182	12	(9)	3	-	11 210
Gains less losses from trading in foreign currencies	5 191	2 406	207	273	387	-	8 464
Fee and commission income	7 617	27 937	5 155	5 211	5 771	-	51 691
Fee and commission expense	(1 436)	(78)	(19)	(20)	(62)	-	(1 615)
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	7 285	16 930	3 515	3 421	3 649	-	34 800

29 Segment Analysis (Continued)

The Bank's reporting by geographical segments as of 31 December 2005 is as follows:

In millions of Russian Roubles	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Intra-Bank items	Total
Assets							
Cash and cash equivalents	67 734	36 874	6 437	6 079	6 245	-	123 369
Mandatory cash balances with the Bank of Russia	-	-	-	-	-	56 809	56 809
Trading securities	131 456	318	-	27	14	-	131 815
Other securities at fair value through profit or loss	217 241	8 885	-	754	401	-	227 281
Due from other banks	25 932	-	-	-	-	-	25 932
Loans and advances to customers	661 934	680 282	168 992	143 865	132 215	-	1 787 288
Repurchase receivable	1 659	-	-	-	-	-	1 659
Investment securities held to maturity	28 399	-	-	-	-	-	28 399
Premises and equipment	24 307	51 561	10 551	11 144	9 287	-	106 850
Other assets	-	-	-	-	-	23 726	23 726
Total assets	**1 158 662**	**777 920**	**185 980**	**161 869**	**148 162**	**80 535**	**2 513 128**
Liabilities							
Due to other banks	13 378	4 572	2 469	3 602	891	-	24 912
Deposits from individuals	427 696	729 936	123 547	111 552	121 571	-	1 514 302
Customer accounts	256 928	186 492	37 826	39 078	26 482	-	546 806
Debt securities in issue	32 007	30 913	11 321	8 134	4 515	-	86 890
Other borrowed funds	62 964	-	-	-	-	-	62 964
Deferred income tax liability	-	-	-	-	-	2 330	2 330
Other liabilities	-	-	-	-	-	14 462	14 462
Subordinated debt	29 393	-	-	-	-	-	29 393
Total liabilities	**822 366**	**951 913**	**175 163**	**162 366**	**153 459**	**16 792**	**2 282 059**
Interest income	91 115	92 620	22 849	20 061	18 877	-	245 522
Interest expense	(33 561)	(36 576)	(7 180)	(5 975)	(5 857)	-	(89 149)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	17 822	(1 092)	(194)	(108)	(283)	-	16 145
Gains less losses arising from investment securities available for sale	5	-	-	-	-	-	5
Gains less losses arising from investment securities held to maturity	4 181	-	-	-	-	-	4 181
(Losses net of gains)/gains less losses from trading in foreign currencies	(3 145)	1 725	151	210	328	-	(731)
Fee and commission income	4 594	20 384	3 326	4 077	4 549	-	36 930
Fee and commission expense	(1 061)	(39)	(9)	(11)	(27)	-	(1 147)
Other disclosures:							
Capital expenditure incurred (additions of fixed assets)	5 917	12 552	2 569	2 713	2 261	-	26 012

30 Financial Risk Management

The risk management function within the Bank is carried out in respect of major types of risks: credit, market (includes interest rate, equity and currency risks), liquidity risk and operational risk. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and limits. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

The Bank's Management Board under authority delegated by the Shareholders Meeting sets the Bank's general risk policy as well as specific policies for managing each type of major risk. The Bank's Credit and Investment Committee (CIC) and Interest Rates and Limits Committee (IRLC) establish risk limits under the guidelines set by risk policies. The work of CIC and IRLC is based on the proposals prepared by risk management departments, which are independent from departments that take risks in the normal cause of their business. Stress testing in relation to all major risks is conducted at least once a year.

Supervisory Board is informed of the major risks of the Bank on a quarterly basis.

Credit risk. The Bank is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Bank manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis.

The Bank's lending policies focus on the improvement of the credit quality and profitability of its loan portfolio and minimisation and diversification of credit risks. To minimise credit risk on the branch level, the CIC at the Central Head Office sets lending limits for the Regional Head Offices and branches that report to the Central Head Office directly. The Regional Head Offices then distribute these lending limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the CIC of the Bank.

The Bank usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, certain contract rights and certain personal property. The Bank accepts guarantees from controlling shareholders (or other controlling persons) of small businesses, government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to reduce credit risk, several types of collateral may be used simultaneously.

Exposure Limits. To manage its credit risk, the Bank places its counterparties into risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Bank has procedures for calculation and review of risk limits for the following categories: corporate clients, Russian Federation subjects, municipal bodies, resident banks and non-resident banks. Exposure limits are also set for foreign countries, single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of federation subjects and municipal bodies is evaluated on the basis of their financial position and the level of development. The financial position is evaluated on the basis of credit history, debt level and compliance with its budget and budgetary norms. The level of development is evaluated on the basis of the current socio-economic development level, future socio-economic development potential and tax base quality. The Bank sets three types of exposure limits for federation subjects and municipal bodies: short-term (for transactions with a term no more than a year), temporary (for transactions that take place before their budgets are approved and have a term of no more than three months) and long-term (for transactions with a term of over a year).These limits are calculated on the basis of the federation subjects' budgets for the current year and reports relating to compliance with their budgets for a previous year. Exposure limits are not set and credit operations are not performed if a federation subject has no legal basis for credit operations or where its financial position or level of development indicate that credit transactions are not advisable.

30 Financial Risk Management (Continued)

Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Bank. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also the amount of a loan depends on collateral provided by the client.

Risk Concentration. In order to reduce and diversify its credit risk, the Bank monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the Bank of Russia and sets limits for loans and bank guarantees made to related parties. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Head Office level.

Monitoring. The Bank constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and interim financial information, for federation subjects and municipal bodies twice a year on the basis of their approved budgets, for resident banks on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis, if required.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risk management includes management of interest rate risk, currency risk and equity risk. The Bank manages its market risks primarily through transaction limits set by the Interest Rates and Limits Committee (IRLC). Market risk limits are updated at least once a year and controlled constantly. The IRLC develops market risk management methodologies and sets limits on particular operations for the Central Head Office and Regional Head Offices. The Regional Head Offices have their own interest rates and limits committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by IRLC. If necessary, the Regional Head Offices develop their own methodologies and set their own market risk limits. Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

30 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities at 31 December 2006 is set out below:

In millions of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	117 773	52 032	169 805
Mandatory cash balances with the Bank of Russia	77 915	-	77 915
Trading securities	210 641	-	210 641
Other securities at fair value through profit or loss	237 847	-	237 847
Due from other banks	10 581	30 695	41 276
Loans and advances to customers	2 541 374	243	2 541 617
Investment securities held to maturity	26 198	-	26 198
Premises and equipment	125 216	-	125 216
Other assets	32 708	3 450	36 158
Total assets	**3 380 253**	**86 420**	**3 466 673**
Liabilities			
Due to other banks	38 965	5 871	44 836
Deposits from individuals	2 037 698	8 337	2 046 035
Customer accounts	773 758	9 031	782 789
Debt securities in issue	123 729	-	123 729
Other borrowed funds	-	107 332	107 332
Deferred income tax liability	3 604	-	3 604
Other liabilities	22 944	-	22 944
Subordinated debt	-	26 880	26 880
Total liabilities	**3 000 698**	**157 451**	**3 158 149**
Net balance sheet position	**379 555**	**(71 031)**	**308 524**
Credit related commitments (Note 31)	**361 582**	**95 268**	**456 850**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand, and premises and equipment have been allocated based on the country in which they are physically held.

30 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2005 is set out below:

In millions of Russian Roubles	Russia	Other countries	Total
Assets			
Cash and cash equivalents	99 779	23 590	123 369
Mandatory cash balances with the Bank of Russia	56 809	-	56 809
Trading securities	131 815	-	131 815
Other securities at fair value through profit or loss	227 281	-	227 281
Due from other banks	6 844	19 088	25 932
Loans and advances to customers	1 787 046	242	1 787 288
Repurchase receivable	-	1 659	1 659
Investment securities held to maturity	28 399	-	28 399
Premises and equipment	106 850	-	106 850
Other assets	23 070	656	23 726
Total assets	**2 467 893**	**45 235**	**2 513 128**
Liabilities			
Due to other banks	17 984	6 928	24 912
Deposits from individuals	1 508 367	5 935	1 514 302
Customer accounts	543 999	2 807	546 806
Debt securities in issue	86 890	-	86 890
Other borrowed funds	-	62 964	62 964
Deferred income tax liability	2 330	-	2 330
Other liabilities	14 462	-	14 462
Subordinated debt	-	29 393	29 393
Total liabilities	**2 174 032**	**108 027**	**2 282 059**
Net balance sheet position	**293 861**	**(62 792)**	**231 069**
Credit related commitments (Note 31)	**267 014**	**37 172**	**304 186**

30 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The IRLC of the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	104 419	43 109	18 185	4 092	169 805
Mandatory cash balances with the Bank of Russia	77 915	-	-	-	77 915
Trading securities	176 123	34 518	-	-	210 641
Other securities at fair value through profit or loss	237 832	15	-	-	237 847
Due from other banks	15 742	1 238	24 296	-	41 276
Loans and advances to customers	2 088 323	407 412	45 282	600	2 541 617
Investment securities held to maturity	-	26 198	-	-	26 198
Premises and equipment	125 216	-	-	-	125 216
Other assets	25 685	3 601	108	6 764	36 158
Total assets	**2 851 255**	**516 091**	**87 871**	**11 456**	**3 466 673**
Liabilities					
Due to other banks	40 026	3 673	214	923	44 836
Deposits from individuals	1 786 696	182 367	68 495	8 477	2 046 035
Customer accounts	568 873	146 705	64 844	2 367	782 789
Debt securities in issue	121 741	1 651	337	-	123 729
Other borrowed funds	-	104 613	2 719	-	107 332
Deferred income tax liability	3 604	-	-	-	3 604
Other liabilities	20 413	2 050	352	129	22 944
Subordinated debt	-	26 880	-	-	26 880
Total liabilities	**2 541 353**	**467 939**	**136 961**	**11 896**	**3 158 149**
Net balance sheet position	**309 902**	**48 152**	**(49 090)**	**(440)**	**308 524**
Off-balance sheet notional position on term derivatives	**2 917**	**(49 594)**	**44 858**	**1 734**	**(85)**
Off-balance sheet notional position on spot transactions	**1 542**	**(2 812)**	**1 266**	**6**	**2**
Credit related commitments (Note 31)	**175 753**	**231 926**	**47 424**	**1 747**	**456 850**

30 Financial Risk Management (Continued)

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

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	88 646	12 933	20 082	1 708	123 369
Mandatory cash balances with the Bank of Russia	56 809	-	-	-	56 809
Trading securities	90 665	41 150	-	-	131 815
Other securities at fair value through profit or loss	227 264	17	-	-	227 281
Due from other banks	5 891	1 237	18 804	-	25 932
Loans and advances to customers	1 364 240	397 557	24 161	1 330	1 787 288
Repurchase receivable	-	1 659	-	-	1 659
Investment securities held to maturity	-	28 399	-	-	28 399
Premises and equipment	106 850	-	-	-	106 850
Other assets	14 554	3 966	476	4 730	23 726
Total assets	**1 954 919**	**486 918**	**63 523**	**7 768**	**2 513 128**
Liabilities					
Due to other banks	20 465	3 788	428	231	24 912
Deposits from individuals	1 237 238	225 992	48 829	2 243	1 514 302
Customer accounts	386 552	124 936	34 392	926	546 806
Debt securities in issue	69 120	17 371	399	-	86 890
Other borrowed funds	-	60 603	2 361	-	62 964
Deferred income tax liability	2 330	-	-	-	2 330
Other liabilities	13 452	871	87	52	14 462
Subordinated debt	-	29 393	-	-	29 393
Total liabilities	**1 729 157**	**462 954**	**86 496**	**3 452**	**2 282 059**
Net balance sheet position	**225 762**	**23 964**	**(22 973)**	**4 316**	**231 069**
Off-balance sheet notional position on term derivatives	**22 187**	**(42 910)**	**19 144**	**2 345**	**766**
Off-balance sheet notional position on spot transactions	**(34)**	**(1 148)**	**1 084**	**100**	**2**
Credit related commitments (Note 31)	**149 644**	**122 416**	**31 300**	**826**	**304 186**

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the IRLC of the Bank.

30 Financial Risk Management (Continued)

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used.

The liquidity position as per contractual maturity of the Bank's assets and liabilities at 31 December 2006 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	169 805	-	-	-	-	-	169 805
Mandatory cash balances with the Bank of Russia	25 885	14 943	15 964	17 185	3 938	-	77 915
Trading securities	210 641	-	-	-	-	-	210 641
Other securities at fair value through profit or loss	237 847	-	-	-	-	-	237 847
Due from other banks	38 487	2 657	132	-	-	-	41 276
Loans and advances to customers	233 188	533 048	579 563	653 743	542 075	-	2 541 617
Investment securities held to maturity	-		-	-	26 198	-	26 198
Premises and equipment	-	-	-	-	-	125 216	125 216
Other assets	29 009	1 285	599	666	300	4 299	36 158
Total assets	**944 862**	**551 933**	**596 258**	**671 594**	**572 511**	**129 515**	**3 466 673**
Liabilities							
Due to other banks	44 303	533	-	-	-	-	44 836
Deposits from individuals	359 737	467 049	509 877	580 394	128 978	-	2 046 035
Customer accounts	580 065	75 474	69 707	43 537	14 006	-	782 789
Debt securities in issue	70 445	20 341	15 473	17 463	7	-	123 729
Other borrowed funds	-	-	2 622	66 799	37 911	-	107 332
Deferred income tax liability	-	-	-	-	-	3 604	3 604
Other liabilities	8 953	9 253	249	1 243	3 032	214	22 944
Subordinated debt	-	-	-	-	26 880	-	26 880
Total liabilities	**1 063 503**	**572 650**	**597 928**	**709 436**	**210 814**	**3 818**	**3 158 149**
Net liquidity gap	**(118 641)**	**(20 717)**	**(1 670)**	**(37 842)**	**361 697**	**125 697**	**308 524**
Cumulative liquidity gap at 31 December 2006	**(118 641)**	**(139 358)**	**(141 028)**	**(178 870)**	**182 827**	**308 524**	**-**

30 Financial Risk Management (Continued)

The liquidity position as per contractual maturity of the Bank's assets and liabilities at 31 December 2005 is set out below.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	123 369	-	-	-	-	-	123 369
Mandatory cash balances with the Bank of Russia	18 426	11 520	8 882	14 230	3 751		56 809
Trading securities	131 815	-	-	-	-	-	131 815
Other securities at fair value through profit or loss	227 281	-	-	-	-	-	227 281
Due from other banks	24 443	539	-	950	-	-	25 932
Loans and advances to customers	111 182	459 911	404 488	467 358	344 349	-	1 787 288
Repurchase receivable	-	1 659	-	-	-	-	1 659
Investment securities held to maturity	-	-	-	-	28 399	-	28 399
Premises and equipment	-	-	-	-	-	106 850	106 850
Other assets	20 765	736	230	508	206	1 281	23 726
Total assets	**657 281**	**474 365**	**413 600**	**483 046**	**376 705**	**108 131**	**2 513 128**
Liabilities							
Due to other banks	23 440	1 472	-	-	-	-	24 912
Deposits from individuals	257 085	343 494	286 604	495 225	131 894	-	1 514 302
Customer accounts	411 413	74 490	35 649	21 059	4 195	-	546 806
Debt securities in issue	57 480	12 210	15 695	1 495	10	-	86 890
Other borrowed funds	-	888	-	30 134	31 942	-	62 964
Deferred income tax liability	-	-	-	-	-	2 330	2 330
Other liabilities	6 027	7 132	83	870	321	29	14 462
Subordinated debt	-	-	-	-	29 393	-	29 393
Total liabilities	**755 445**	**439 686**	**338 031**	**548 783**	**197 755**	**2 359**	**2 282 059**
Net liquidity gap	**(98 164)**	**34 679**	**75 569**	**(65 737)**	**178 950**	**105 772**	**231 069**
Cumulative liquidity gap at 31 December 2005	**(98 164)**	**(63 485)**	**12 084**	**(53 653)**	**125 297**	**231 069**	**-**

30 Financial Risk Management (Continued)

Management believes that, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The entire portfolio of trading securities and other securities at fair value through profit or loss is classified within demand and less than one month category as the portfolio is of a high liquid nature, and Management believes this is a fairer portrayal of its liquidity position.

Contractual maturity of trading portfolio as at 31 December 2006 is as follows: on demand and less than 1 month – nil; from 1 to 6 months – RR 4 636 million; from 6 to 12 months – RR 3 712 million; from 1 to 3 years – RR 112 071 million; more than 3 years – RR 89 744 million; no stated maturity – RR 478 million (2005: on demand and less than 1 month – nil; from 1 to 6 months – RR 4 409 million; from 6 to 12 months – RR 1 195 million; from 1 to 3 years – RR 20 477 million; more than 3 years – RR 105 235 million, no stated maturity – RR 499 million).

Contractual maturity of other securities at fair value through profit or loss as at 31 December 2006 is as follows: on demand and less than 1 month – nil; from 1 to 6 months – RR 19 146 million; from 6 to 12 months – RR 9 386 million; from 1 to 3 years – RR 71 580 million; more than 3 years – RR 123 591 million; no stated maturity – RR 14 144 million (2005: on demand and less than 1 month – nil; from 1 to 6 months – RR 31 134 million; from 6 to 12 months – RR 16 024 million; from 1 to 3 years – RR 72 871 million; more than 3 years – RR 94 581 million; no stated maturity – RR 12 672 million).

Management believes that in spite of a substantial portion of customer accounts and deposits from individuals being on demand (as at 31 December 2006 total customer deposits and deposits from individuals on demand amounted to RR 939 802 million (2005: RR 668 498 million)), diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts and deposits from individuals provide a long-term and stable source of funding for the Bank.

However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest. The Bank utilises a wide range of market instruments to support a level of liquidity sufficient for both current and forecasted financial obligations including the disposals of liquid assets and attraction of funding in domestic and international capital markets.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Bank's exposure to interest rate risks at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

30 Financial Risk Management (Continued)

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non-monetary	Total
Assets							
Cash and cash equivalents	169 805	-	-	-	-	-	169 805
Mandatory cash balances with the Bank of Russia	25 885	14 943	15 964	17 185	3 938	-	77 915
Trading securities	210 641	-	-	-	-	-	210 641
Other securities at fair value through profit or loss	237 847	-	-	-	-	-	237 847
Due from other banks	38 487	2 657	132	-	-	-	41 276
Loans and advances to customers	233 188	533 048	579 563	653 743	542 075	-	2 541 617
Investment securities held to maturity	-	-	-	-	26 198	-	26 198
Premises and equipment	-	-	-	-	-	125 216	125 216
Other assets	29 009	1 285	599	666	300	4 299	36 158
Total assets	**944 862**	**551 933**	**596 258**	**671 594**	**572 511**	**129 515**	**3 466 673**
Liabilities							
Due to other banks	44 303	533	-	-	-	-	44 836
Deposits from individuals	359 737	467 049	509 877	580 394	128 978	-	2 046 035
Customer accounts	580 065	75 474	69 707	43 537	14 006	-	782 789
Debt securities in issue	70 445	20 341	15 473	17 463	7	-	123 729
Other borrowed funds	43 402	30 795	-	-	33 135	-	107 332
Deferred income tax liability	-	-	-	-	-	3 604	3 604
Other liabilities	8 953	9 253	249	1 243	3 032	214	22 944
Subordinated debt	-	-	-	-	26 880	-	26 880
Total liabilities	**1 106 905**	**603 445**	**595 306**	**642 637**	**206 038**	**3 818**	**3 158 149**
Net sensitivity gap	**(162 043)**	**(51 512)**	**952**	**28 957**	**366 473**	**125 697**	**308 524**
Cumulative sensitivity gap at 31 December 2006	**(162 043)**	**(213 555)**	**(212 603)**	**(183 646)**	**182 827**	**308 524**	**-**

30 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks at 31 December 2005 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Non-monetary	Total
Assets							
Cash and cash equivalents	123 369	-	-	-	-	-	123 369
Mandatory cash balances with the Bank of Russia	18 426	11 520	8 882	14 230	3 751	-	56 809
Trading securities	131 815	-	-	-	-	-	131 815
Other securities at fair value through profit or loss	227 281	-	-	-	-	-	227 281
Due from other banks	24 443	539	-	950	-	-	25 932
Loans and advances to customers	111 182	459 911	404 488	467 358	344 349	-	1 787 288
Repurchase receivable	-	1 659	-	-	-	-	1 659
Investment securities held to maturity	-	-	-	-	28 399	-	28 399
Premises and equipment	-	-	-	-	-	106 850	106 850
Other assets	20 765	736	230	508	206	1 281	23 726
Total assets	**657 281**	**474 365**	**413 600**	**483 046**	**376 705**	**108 131**	**2 513 128**
Liabilities							
Due to other banks	23 440	1 472	-	-	-	-	24 912
Deposits from individuals	257 085	343 494	286 604	495 225	131 894	-	1 514 302
Customer accounts	411 413	74 490	35 649	21 059	4 195	-	546 806
Debt securities in issue	57 480	12 210	15 695	1 495	10	-	86 890
Other borrowed funds	30 417	32 547	-	-	-	-	62 964
Deferred income tax liability	-	-	-	-	-	2 330	2 330
Other liabilities	6 027	7 132	83	870	321	29	14 462
Subordinated debt	-	-	-	-	29 393	-	29 393
Total liabilities	**785 862**	**471 345**	**338 031**	**518 649**	**165 813**	**2 359**	**2 282 059**
Net sensitivity gap	**(128 581)**	**3 020**	**75 569**	**(35 603)**	**210 892**	**105 772**	**231 069**
Cumulative sensitivity gap at 31 December 2005	**(128 581)**	**(125 561)**	**(49 992)**	**(85 595)**	**125 297**	**231 069**	**-**

30 Financial Risk Management (Continued)

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

To manage interest rate risk the IRLC sets uniform fixed interest rates for deposits of and loans to individuals for Head Office and Regional Head Offices, maximum interest rates on deposits of legal entities, minimum interest rates for loans to legal entities. The Board sets interest rates for deposits of and loans to individuals after their approval by IRLC. Interest rates for deposits of and loans to individuals generally depend on maturity of the loan or deposit, its amount and category of the client. Head Office and Regional Head Offices attract funds and place them with the legal entities taking into consideration interest rate limits which provide effective performing of transactions on asset and liability sides. The IRLC also sets limits restricting long-term operations on the asset side.

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

	2006		2005	
In % p.a.	RR	Other currencies	RR	Other currencies
Assets				
Cash and cash equivalents	0.9	3.4	0.8	1.6
Debt trading securities	8.4	5.7	4.1	5.4
Other debt securities at fair value through profit or loss	6.2	5.7	5.6	5.5
Due from other banks	5.6	3.7	5.7	2.5
Loans and advances to customers	12.6	9.2	14.1	8.4
Repurchase receivable	-	-	-	10.7
Debt investment securities held to maturity	-	15.8	-	15.8
Liabilities				
Due to other banks	1.5	3.2	2.0	5.9
Deposits from individuals	6.0	5.6	6.6	5.2
Customer accounts	2.1	4.6	2.1	2.5
Debt securities in issue	2.8	2.0	1.3	4.9
Other borrowed funds	-	6.1	-	5.9
Subordinated debt	-	6.4	-	6.4

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

31 Contingencies and Commitments

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

31 Contingencies and Commitments (Continued)

Tax legislation. 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 may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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.

Capital expenditure commitments. At 31 December 2006 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling RR 5 393 million (2005: RR 2 705 million) and in respect of computer equipment installation of RR 1 684 million (2005: RR 784 million). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under operating leases, both cancellable and non-cancellable, are as follows:

In millions of Russian Roubles	**2006**	**2005**
Not later than 1 year	3 154	2 446
Later than 1 year and not later than 5 years	6 020	5 702
Later than 5 years	7 850	8 323
Total operating lease commitments	**17 024**	**16 471**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct lending.

31 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2006**	**2005**
Undrawn credit lines and commitments to extent credit	198 026	182 849
Export letters of credit	133 588	68 486
Import letters of credit and letters of credit for domestic settlements	97 309	37 172
Guarantees issued	27 927	15 679
Total credit related commitments	**456 850**	**304 186**

At 31 December 2006 included in customer accounts are deposits of RR 50 714 million (2005: RR 33 113 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 16.

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

Contingent asset. In December 2005 the Bank has performed a set-off transaction following its claim for premature termination of a secured borrowing agreement with a foreign counterparty. The netting of mutual obligations performed by the Bank resulted in a receivable in the amount of USD 120 million (RR equivalent of 3 457 million), which represented the difference between the fair value of the securities pledged and the amount of borrowings plus accrued interest.

In 2006 the Bank was successful in the UK High Court and in the US District Court for the Southern District of New York for the amount of USD 124 million in respect of its court claim against the above counterparty. In June 2006 the Bank signed a settlement agreement with its foreign counterparty-defendant following the Court ruling and recorded a gain in the income statement in the amount of USD 124 million (RR equivalent of 3 346 million). The item was disclosed as a contingent asset as at 31 December 2005. In accordance with the payment schedule under the above mentioned agreement the Bank has collected the debt in full in June - October 2006.

31 Contingencies and Commitments (Continued)

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2006 Nominal value	2005 Nominal value
GKO and OFZ	53 328	396
Corporate shares	21 839	14 429
Promissory notes	17 687	5 236
Corporate bonds	2 550	4 587
VneshEconomBank bonds (VEB bonds)	1 090	1 350
Debt securities of municipal and subfederal bodies of the Russian Federation	971	2 201
Bonds of the Bank of Russia	303	-
Other securities	1 187	495

Assets pledged and restricted. At 31 December 2006 and at 31 December 2005 the Bank has the following assets pledged as collateral:

In millions of Russian Roubles	2006		2005	
	Asset pledged	Related liability	Asset pledged	Related liability
Repurchase receivable	-	-	1 659	1 472
Total	**-**	**-**	**1 659**	**1 472**

Mandatory cash balances with the Bank of Russia in the amount of RR 77 915 million (2005: RR 56 809 million) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

As at 31 December 2006 the Bank has pledged securities with fair value of RR 69 603 million (2005: RR 61 853 million) on the special accounts with the Bank of Russia as collateral against overnight interbank borrowings that the Bank attracts on a regular basis from the Bank of Russia.

As at 31 December 2006 restricted cash represents monetary funds in the amount of RR 4 million (2005: RR 655 million) which collateralise settlements on irrevocable letters of credit.

32 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forward and futures contracts entered into by the Bank. The table covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	Domestic counterparties				Foreign counterparties			
2006:	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value
Deliverable forwards								
Foreign currency								
- purchase JPY/sale USD	-	-	-	-	1 050	(1 053)	-	(3)
- purchase RR/sale USD	-	-	-	-	1 988	(1 975)	13	-
- purchase RR/sale EURO	13	(13)	-	-	126	(126)	-	-
- purchase USD/sale EURO	49	(49)	-	-	-	-	-	-
- purchase EURO/sale GBP	-	-	-	-	114	(114)	-	-
- purchase EURO/sale USD	-	-	-	-	44 932	(44 984)	4	(56)
Precious metals								
- purchase precious metals/sale USD	-	-	-	-	798	(841)	-	(43)
Futures								
Foreign currency								
- purchase RR /sale USD	790	(790)	-	-	-	-	-	-
Total	**852**	**(852)**	**-**	**-**	**49 008**	**(49 093)**	**17**	**(102)**

32 Derivative Financial Instrument (Continued)

2005:	Domestic counterparties				Foreign counterparties			
	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value
Deliverable forwards								
Foreign currency								
- purchase euro/sale USD	-	-	-	-	19 144	(19 140)	37	(33)
- purchase RR/sale USD	1 738	(1 727)	11	-	6 108	(6 102)	6	-
Precious metals			-					
- purchase precious metals/sale RR	5 704	(4 973)	760	(28)	-	-	-	-
- purchase USD /sale precious metals	-	-	-	-	3 343	(3 359)	1	(17)
Futures								
Foreign currency								
- purchase RR /sale USD	19 314	(19 284)	29	-	-	-	-	-
Total	**26 756**	**(25 984)**	**800**	**(28)**	**28 595**	**(28 601)**	**44**	**(50)**

In respect of derivatives outstanding at 31 December 2006 the Bank has recorded a net loss of RR 42 million (2005: net gain of RR 50 million) within net gains/(losses) arising from trading in foreign currencies and a net loss of RR 43 million (2005: net gain of RR 716 million) within other operating income.

During the year the Bank has received a net gain on foreign currency derivatives of RR 2 637 million (2005: net loss of RR 2 173 million), which is recorded in the Bank's income statement within net gains/(losses) arising from trading in foreign currencies.

33 Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Despite the Russian Federation is assigned investment grade ratings, the Russian economy continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Some market quotations may be outdated or reflect distress sale transactions and therefore may not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss including those classified as repurchase receivable and financial derivatives are carried on the balance sheet at their fair value.

33 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 10 and 11 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Investment securities held to maturity. Fair value for investment securities held to maturity is based on quoted market prices. Refer to Note 12 for the estimated fair value of investment securities held to maturity.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, 17, 18 and 20 for the estimated fair values of due to other banks, deposits of individuals and customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 32.

34 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can 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. Transactions with related parties are entered into the normal course of business and are priced at market rates.

The Bank's principal shareholder is the Bank of Russia (refer to Note 1). As the Bank continues to apply IAS 24 "Related Party Disclosures" (revised), respective disclosures are made in Note 35 for transactions with state-controlled entities and government bodies.

The table in this note represent balances and results of operations with the Bank's principal shareholder, the Bank of Russia, and other related parties, not disclosed in Note 35.

34 Related Party Transactions (Continued)

At 31 December 2006, the outstanding balances with related parties were as follows:

In millions of Russian Roubles	2006 The Bank of Russia	2006 Other related parties(*)	2005 The Bank of Russia	2005 Other related parties (*)
Assets				
Mandatory cash balances with the Bank of Russia	77 915		56 809	
Account with the Bank of Russia (other than mandatory cash balances)	8 221	-	26 946	-
Discount debt securities	87 500	-	24 461	-
Due from other banks (contractual interest rate: 4.0% – 5.2%)	875	-	3 498	-
Gross amount of loans and advances to customers (contractual interest rate: 1.9% - 17.1%)	-	18 831	-	17 717
Impairment provisions for loans and advances to customers	-	(219)	-	(480)
Other assets	-	-	-	10
Liabilities				
Customer accounts (contractual interest rate: 2.4% - 4.9%)	-	1 162	-	503
Credit related commitments				
Import letters of credit at the year end	-	211	-	359
Guarantees issued by the Bank at the year end	-	2 034	-	-

(*) Other related parties are represented mostly by leasing subsidiary of the Bank, CJSC "RG-Leasing".

Income and expense items with related parties for the year were as follows:

In millions of Russian Roubles	2006 The Bank of Russia	2006 Other related parties	2005 The Bank of Russia	2005 Other related parties
Interest income	3 099	2 108	723	1 905
Interest expense	(113)	(16)	(126)	(20)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	3 681	-	1 964	-
Other operating income	-	78	-	98
Other operating expenses	(251)	(86)	(216)	(113)

In 2006, the remuneration of members of the key management personnel comprised salaries and bonuses totalling RR 865 million (2005: RR 522 million).

35 Operations with State-Controlled Entities and Government Bodies

As stated in Note 34, the Bank continues to apply IAS 24 "Related Party Disclosures" revised. Disclosures are made below for transactions with state-controlled entities and government bodies.

Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Bank disclosed only information that its current internal management accounting system allows to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Bank's transactions with its largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 1) 100% State subsidiaries and government bodies and 2) largest entities where the State controls over 50% of its share capital.

Transactions with government bodies and state-controlled entities are entered into the normal course of business and priced at market rates. At 31 December 2006, the outstanding balances with state-controlled entities and government bodies were as follows:

	2006		2005	
In millions of Russian Roubles	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital
Cash and cash equivalents	17 468	422	-	3 261
Due from other banks	1 341	349	-	240
Trading securities	113 964	2 680	101 236	3 379
Other securities at fair value through profit and loss	213 398	11 562	210 925	10 716
Gross amount of loans and advances to customers	119 496	139 656	84 132	24 178
Impairment provisions for loans and advances to customers	(502)	(1 208)	(1 054)	(796)
Repurchase receivable	-	-	1 659	-
Investment securities held to maturity	26 198	-	28 299	-
Customer accounts	87 181	20 681	69 537	121 225

Income and expense items with State subsidiaries and government bodies for the reporting period were as follows:

	2006		2005	
In millions of Russian Roubles	100% owned state subsidiaries and government bodies	Entities where the state controls over 50% of share capital	100% owned state subsidiaries and government bodies	Entities where the state controls over 50% of share capital
Interest income	38 483	1 826	38 326	3 014
Interest expense	(2 337)	(1 016)	(938)	(1 636)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	(1 442)	197	12 448	335
Gains less losses arising from investment securities available for sale	-	-	5	-
Gains less losses arising from investment securities held to maturity	-	-	4 181	-
Gain on settlement of a receivable	3 346	-	-	-
Fee and commission income	2 174	167	2 711	779

Transactions with the State include taxes which are detailed in Note 26.

36 Capital Adequacy Ratio

As of 31 December 2006, Capital Adequacy Ratio calculated by the Bank in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements was as follows:

	2006	2005
Core capital adequacy ratio (Tier 1)	9.9%	10.3%
Total capital adequacy ratio (Tier 1 and Tier 2)	11.2%	12.5%

37 Subsequent events

On 21 December 2006, the Supervisory Board of the Bank approved the issuance of 3 500 000 additional ordinary shares with a nominal value of RR 3 000 by way of a public offering in Russia in the first quarter of 2007. The issue's results were approved by the Bank of Russia on 29 March 2007. The amount of shares placed under this issue is 2 586 948 units. The amount of cash brought in to pay for the shares under the additional issue comprised RR 230 238 million. As a result the share capital of the Bank under IFRS will be set in the amount of RR 87 741 million. The share of the Bank of Russia after the placement comprises 60.3% of ordinary shares or 57.6% of all the issued and outstanding shares of the Bank. The Bank has received RR 222 478 million of share premium.

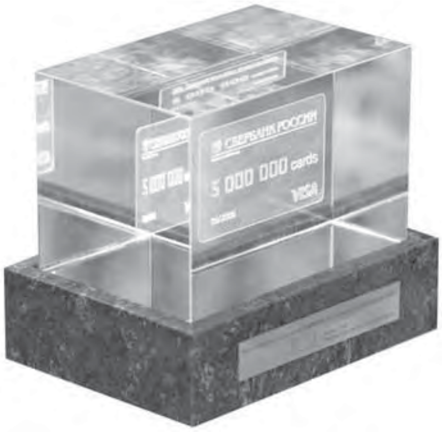
Sberbank Awards 2006*

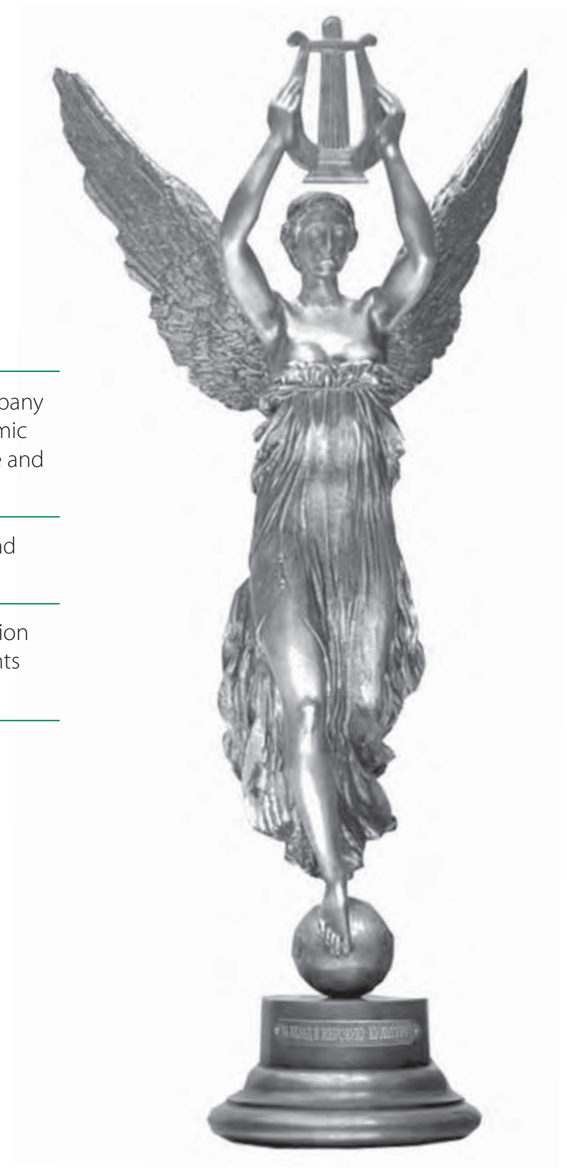
Voted Best Bank in Russia in Euromoney Awards for Excellence 2006

Chairman Andrei Kazmin recognised as The Best Banker in 2006, an award given by a consortium comprised of the Association of Russian Banks, the Expert Council of the Russian Audit Chamber, and the Financial Academy of the Russian Government

Andrei Kazmin awarded diploma by *Institutional Investor* Magazine as one of Russia's Leading Managers in the year of 2006

* Selected list





Named Bank of the Year at RosBusinessConsulting's Annual Company of the Year Awards, supported by the Russian Ministry for Economic Development and Trade and the Russian Chamber of Commerce and Industry

Bank of New York Award for Outstanding Payment Formatting and Overall Technical Performance

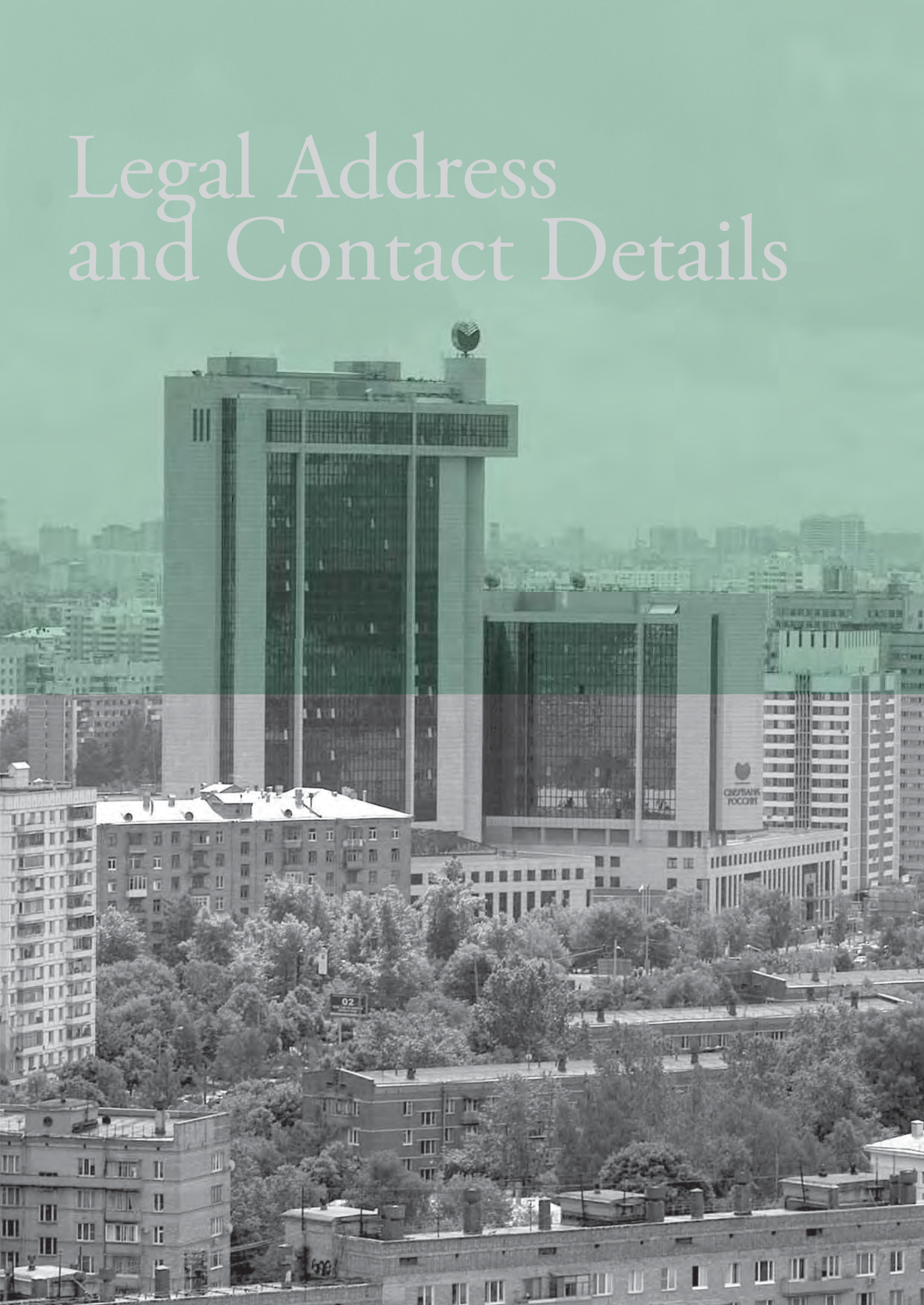
2006 Payment Quality Award from Dresdner Bank AG in recognition of Sberbank's excellent performance in the international payments business

Named Best Retail Bank by Itogi Magazine

Golden Mask National Theatre Award – Gratitude for Support

Named Best of the Best for establishing a Russia-wide service network at the All-Russia Golden Networks Awards 2001-2006

Legal Address and Contact Details



Sberbank's Correspondents Worldwide

225 Total number of correspondent banks worldwide

Europe

Total number of correspondent banks **141**

among them Nostro correspondents **25**

MAIN CLEARING BANKS:

CHF	UBS AG, Zurich
CZK	Komercni Banka a.s., Prague
DKK	Danske Bank A/S, Copenhagen
EUR	Deutsche Bank AG, Frankfurt/Main
EUR	Dresdner Bank AG, Frankfurt/Main1
EUR	J.P. Morgan AG, Frankfurt/Main
GBP	HSBC Bank plc, London
NOK	DnB NOR Bank ASA, Oslo
PLN	Bank Polska Kasa Opieki SA, Warsaw
SEK	Nordea Bank AB (publ), Stockholm
UAH	Closed Joint Stock Company OTP Bank, Kiev
BYR	Belvnesheconombank, Minsk
EEK, LVL, LTL	AS Hansapank, Tallinn

North America

Total number of correspondent banks **18**

among them Nostro correspondents **4**

MAIN CLEARING BANKS:

USD	The Bank of New York, New York
CAD	Canadian Imperial Bank of Commerce, Toronto

Asia

Total number of correspondent banks **52**

among them Nostro correspondents **7**

MAIN CLEARING BANKS:

JPY	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Tokyo
KZT	Kazkommertsbank, Alma-Ata
SGD	United Overseas Bank Limited, Singapore

Australia and Oceania

Total number of correspondent banks **2**

among them Nostro correspondents **1**

MAIN CLEARING BANKS:

AUD	Commonwealth Bank of Australia, Sydney

South America

Total number of correspondent banks **1**

Africa

Total number of correspondent banks

Sberbank

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PUBLIC RELATIONS DEPARTMENT		
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Written and designed by The PBN Company

Established in 1841

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