

DALVNESHTORGBANK

Financial Statements and Auditors' Report

31 December 2005

Dalvneshtorgbank
Financial Statements and Auditors' Report

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Open Joint-Stock Bank «Dalvneshtorgbank» (the "Bank"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

S.N. Vlasov,
President

E.N. Ryapolova,
Chief Accountant

AUDITORS' REPORT

To the Management and the Board of Directors of Dalvneshtorgbank

We have audited the accompanying balance sheet of Open Joint-Stock Bank Dalvneshtorgbank (the "Bank") as of 31 December 2005, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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18 a Verkhneportovaya Street
Vladivostok

OOO Moore Stephens CIS

3 July 2006

Dalvneshtorgbank
Balance Sheet as at 31 December 2005
(in thousands of Russian Roubles)

	Notes	<u>2005</u>	<u>2004</u>
Assets			
Cash and cash equivalents	5	387,141	61,303
Mandatory cash balances with Central Bank of the Russian Federation		21,739	4,090
Investments	6	80	-
Loans and advances to customers	8	1,334,780	257,740
Deferred tax asset	9	-	1,702
Accrued interest income and other assets	10	57,969	4,680
Service fee asset	18	486,211	-
Premises and equipment	11	169,337	45,207
Total assets		<u>2,457,257</u>	<u>374,722</u>
Liabilities and shareholders' equity			
Due to other banks	7	459,829	111,936
Customer accounts	12	998,567	214,468
Bills of exchange		92,446	-
Warranties on loans sold	13	64,459	-
Accrued interest expense and other liabilities	14	64,326	5,956
Finance lease liability	15	64,238	-
Deferred tax liability	9	105,791	-
Total liabilities		<u>1,849,656</u>	<u>332,360</u>
Shareholders' equity			
Share capital	16	399,837	156,837
Share premium		4,697	4,697
Accumulated profit / (loss) and other reserves	17	203,067	(119,172)
Total shareholders' equity		<u>607,601</u>	<u>42,362</u>
Total liabilities and shareholders' equity		<u>2,457,257</u>	<u>374,722</u>
Total credit related commitments	25	<u>30,136</u>	<u>624</u>

Approved on behalf of the Management Board on 3 July 2006

S.N. Vlasov, President

E.N. Ryapolova, Chief Accountant

Dalvneshorgbank
Statement of Income for the Year Ended 31 December 2005
(in thousands of Russian Roubles)

	Notes	<u>2005</u>	<u>2004</u>
Interest income	19	126,729	48,476
Interest expense	19	<u>(94,156)</u>	<u>(25,559)</u>
Net interest income		32,573	22,917
Net allowance for impairment losses on loans and advances	20	<u>(50,254)</u>	<u>1,529</u>
Net interest (expense) / income after allowances for impairment losses		(17,681)	24,446
Result on sale of loans	18	492,746	-
Gains less losses arising from securities		-	2,496
Gains less losses arising from dealing in foreign Currencies		7,140	5,163
Net foreign exchange translation (losses) / gains		(296)	139
Net fee and commission income	21	197,775	4,894
Release on warranty	13	8,121	
Other operating income		10,055	2,271
Allowance for impairment losses against loans resold to Sibakadembank		(11,583)	-
Value transfer on loans at below commercial rates		-	(98)
Allowance for loan credit commitments		<u>-</u>	<u>(8)</u>
Operating income		686,277	39,303
Operating expenses	22	<u>(243,857)</u>	<u>(37,123)</u>
Profit before taxation		442,420	2,180
Taxation	23	<u>(120,181)</u>	<u>(96)</u>
Net profit for the year		<u>322,239</u>	<u>2,084</u>

Dalvneshborgbank
Statement of Cash Flows for the Year Ended 31 December 2005
(in thousands of Russian Roubles)

	Notes	2005	2004
Cash flows from operating activities			
Interest received on loans		116,849	45,030
Interest paid		(75,305)	(23,544)
Net gains arising from dealing in securities		20	3,225
Income received from dealing in foreign currencies		7,140	5,163
Net fees and commissions received		276,890	4,894
Other operating income received		10,055	2,271
Operating expenses paid		(199,734)	(32,901)
Income tax paid		(12,688)	(484)
Cash flows from operating activities before changes in operating assets and liabilities		123,227	3,654
Net cash increase / (decrease) from changes in operating assets and liabilities			
Net (increase) / decrease in mandatory cash balances with the Central Bank of the Russian Federation		(17,649)	3,716
Net increase in investments		(80)	-
Net decrease in securities		-	23,986
Net increase in loans and advances to customers		(1,127,294)	(163,610)
Net increase in due to other banks		347,893	71,871
Net increase in customer accounts		784,099	103,372
Net increase in bills of exchange		92,446	-
Net change in other assets and liabilities		(51,522)	(325)
Net cash generated by operating activities		151,120	42,664
Cash flows from investing activities			
Purchase of premises and equipment		(63,329)	(31,597)
Proceeds from sale of fixed assets		1,684	164
Net cash used in investing activities		(61,645)	(31,433)
Cash flows from financing activities			
Finance lease capital repayments		(6,341)	-
Issue of shares		243,000	15,000
Share premium received		-	3 000
Net cash received from financing activities		236,659	18,000
Effect of changes in exchange rate		(296)	139
Net change in cash and cash equivalents		325,838	29,370
Cash and cash equivalents at the beginning of the year		61,303	31,933
Cash and cash equivalents at the end of the year	5	387,141	61,303

During the year there were non-cash transactions of RUR 70,579 in respect of purchase of assets under finance lease.

Dalvneshtorgbank
Statement of Changes in Equity for the Year Ended 31 December 2005
(in thousands of Russian Roubles)

	Share Capital	Share premium	Accumulated profit / (loss) and other reserves	Total equity
Balance at 1 January 2004	141,837	3,500	(123,059)	22,278
Issue of shares	15,000	3,000	-	18,000
Losses written off against share premium	-	(1,803)	1,803	-
Net profit	-	-	2,084	2,084
Balance at 1 January 2005	156,837	4,697	(119,172)	42,362
Issue of shares	243,000	-	-	243,000
Net profit	-	-	322,239	322,239
Balance at 31 December 2005	399,837	4,697	203,067	607,601

The availability of the Bank's retained earnings for distribution to shareholders is determined by Russian legal and fiscal regulations and by shareholders' decisions and does not correspond to the figures presented above (Note 17).

A reconciliation of shareholders' equity and net profit per Russian Accounting Standards and International Financial Reporting Standards is set out in Note 3 (c).

1. Principal Activities

Dalvneshtorgbank (the "Bank") is a commercial bank owned by shareholders whose liability is limited. It is constituted as a Russian open joint stock company (OAO). The Bank was granted a license to conduct banking operations by the Central Bank of Russian Federation (CBRF) on 12 May 1991. It holds a license to carry out transactions with individuals and a license to make loans. These were issued on 15 March 2004 and 22 April 1999 respectively. At 31 December 2005 the Bank operated a head office in Blagoveshensk and four branches located in Primorskiy Region, Khabarovsk Region, Chita Region and in Sakha Republic.

The Bank's registered office is located at the following address: 1, per. Svyatiteyal Innokentiya, Blagoveschensk, Amursky Region, 675000, Russian Federation. As at 31 December 2005 the Bank had 1,299 employees (2004: 119).

A list of major shareholders is set out in Note 16.

The Bank does not have any immediate parent entity. Mr. Igor Kim is considered to be the Bank's ultimate controlling party.

2. Operating Environment of the Bank

The Russian economy, although essentially transformed to market status, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of the Russian Federation. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

3. Basis of Presentation

a) Basis of Presentation

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian Banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The accompanying financial statement have been prepared using the RUR as the unit of measurement and adjusted with the inflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". This was done to measure all corresponding balances, including comparative figures, in RUR taking into account RUR purchasing capacity as at 31 December 2002.

b) Functional and presentation currency

Accounting records of the Bank are maintained in Russian roubles and the rouble has also been adopted as the functional currency for the purpose of IFRS financial statements as management believes this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank. Management also believes the Russian rouble to be the most appropriate currency for presentation of the Bank's IFRS financial statements.

Actual exchange rates applied in translation of transactions and balances initially denominated in other currencies to the Russian rouble are detailed in Note 4(o).

continued

3. Basis of Presentation (continued)

c) Reconciliation of shareholders' equity and net profit between Russian Accounting Standards and IFRS

Shareholders' equity and net profit in accordance with Russian Accounting Standards can be reconciled to equity and net profit in accordance with IFRS as follows:

	2005		2004	
	Shareholders' equity	Net profit	Shareholders' equity	Net profit
	RUR 000's	RUR 000's	RUR 000's	RUR 000's
Russian Accounting Standards	351,110	76,079	49,472	4,501
Depreciation and other expenses related to fixed assets	(4,882)	(8,094)	(1,411)	(3,212)
Tax liabilities, including profit tax	(118,479)	(120,181)	1,702	541
Effect of accrued interests	(8,996)	(8,991)	(5)	(952)
Allowance for loans and fair value adjustment	(268)	(941)	(1,002)	(2,589)
Expenses recorded directly to equity	-	-	(459)	-
Inflation effect	-	-	-	(218)
Result on sales of loans	492,746	492,746	-	-
Reserve against resold loans	(11,583)	(11,583)	-	-
Value of warranty issued	(64,459)	(64,459)	-	-
Other operating accruals	(33,958)	(33,958)	-	-
Unused holidays	(5,580)	(5,580)	-	-
LVI written off	(5,109)	(6,225)	153	(1,116)
Other	17,159	13,426	(6,088)	5,129
International Financial Reporting Standards	607,701	322,239	42,362	2,084

d) Consolidation

The Bank has only one subsidiary, whose operations are immaterial in the context of the Bank. There are also several related parties over whom the Bank is able to exert significant influence (see Note 27). Management has considered whether or not IFRS require the Bank to produce consolidated financial statements consolidating the balances and results of any of these entities and has concluded that consolidation is not required.

In the light of the above management has decided not to produce consolidated financial statements. This decision will be reviewed on an annual basis.

e) Changes in accounting policies

Revised IFRS

During the current year the Bank changed a number of its accounting policies as a result of new or revised Standards that are relevant to its operations and effective for periods beginning on or after 1 January 2005. The following changes had in impact on the Bank's financial position or results of operations, or resulted in changes in classification or increased disclosures:

Application of IAS 1 "Presentation of Financial Statements" (revised 2003) has resulted in increase disclosures, including disclosure of critical accounting estimates and judgements in applying accounting policies.

Application of IAS 24 "Related Party Disclosures" (revised 2003) has resulted in increasing disclosures in respect of related party transactions.

Application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) has resulted in increasing disclosures in respect of financial instruments.

continued

3. Basis of Presentation (continued)

e) Changes in accounting policies (continued)

There was no impact on opening retained earnings as at 1 January 2004 from the adoption of any of the above-mentioned standards.

f) Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions relate to management's estimate of allowance for impairment losses on loans which is described in Note 4 (d) and 20.

g) Standards, interpretations and amendments that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6 "Exploration for and Evaluation of Mineral Resources"

IFRS 7 "Financial Instruments: Disclosures"

IFRIC 4 "Determining whether an Arrangement contains a Lease"

IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 6 "Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

IFRIC 8 "Scope of IFRS 2"

IFRIC 9 "Reassessment of Embedded Derivatives"

Management anticipates that, except for IFRS 7, the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specific minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces *IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"*, and disclosure requirements in *IAS 32 "Financial Instruments: Disclosure and Presentation"*. It is applicable to all entities that report under IFRS. In August 2005 amendments have been also introduced to IAS 1 requiring disclosures about entity's objectives, policies and processes for managing capital, as quantitative data about what the entity regards as capital and compliance with capital requirements. The Bank has assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007.

IAS 39 (Amendment) "The Fair Value Option". This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Bank believes that this amendment should not have a significant impact on the classification of financial instruments, as the Bank should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Bank will apply this amendment from the annual period beginning 1 January 2006.

continued

3. Basis of Presentation (continued)

g) Standards, interpretations and amendments that are not yet effective (continued)

IAS 39 and IFRS 4 (Amendment) - "Financial Guarantee Contracts". This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considers that the Bank should be able to comply with the amendment bringing into the balance sheet guarantees issued in favour of its clients. The Bank will apply this amendment from 1 January 2006.

Other amendments to existing published standards and which management considers not relevant to the activities of Bank include:

IAS 19 Employee Benefits

IAS 39 Amendment on cash flow hedge accounting of forecast intragroup transactions

IFRS 1 First time adoption of IFRS

4. Significant Accounting Policies

a) Cash and cash equivalents

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

b) Mandatory balances with CBRF

Mandatory balances with CBRF represent 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 cash flow statement. As part of the monetary policy implemented by the CBRF, during 2004 the required reserve ratios for credit institutions decreased significantly.

c) Securities

Values for securities are derived either from market quotations or from management's assessment of the future realisability of these securities. Certain securities, for which there is no readily attainable market value or those securities for which management has determined that the available quotation does not depict the security's true market value, have been fair valued by management. Management has used the best available information to adjust downwards, based on the concept of prudence, market quotations to reflect their best estimate of fair values where considered necessary.

In determining market value, all securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price. If listed market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined based upon other relevant factors, including management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition in a reasonable period of time and the level of liquidity in the stock. Market value is not necessarily indicative of the amount that could be obtained for disposal of a large block of securities.

Changes in market values are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs. Coupons earned on government securities are reflected in the statement of income as interest income on securities whereas any trading gains or losses on these securities are reflected as gains less losses arising from securities.

Because of the inherent settlement risk of the securities market, purchases and sales of securities are recorded on the date that ownership is transferred.

continued

4. Significant Accounting Policies (continued)

d) Loans and advances and allowance for impairment

Loans are stated at underlying amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated.

Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

The current methodology for assessing impairment of loans differs from that used in previous years when loans were divided into groupings based on indicators of quality such as loan service history and the financial standing of the borrowers. Impairment allowances were applied based on these groupings. The previous methodology involved a greater degree of subjective judgement than the current methodology.

The change in methodology has been introduced as a result of changes in IAS 39. Management is not able to arrive at a reliable estimate of the impact on the financial statements of this change in methodology.

e) Discount on loans at below commercial rates

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the statement of income. Any subsequent upward revaluation passes through the statement of income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

f) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments comprising loan commitments, letters of credit and guarantees. These operations are disclosed at their nominal value and allowances for impairment are recognised in the statement of income if objective evidence for impairment exists.

continued

4. Significant Accounting Policies (continued)

g) Fixed assets

Equipment and other fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset's potential net sales proceeds and its value in use.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

h) Depreciation

Depreciation is applied on the straight line basis over the estimated useful lives of the assets as follows:

Buildings:	50 years;
Leasehold improvements	10 years;
Vehicles and other assets:	3–5 years.

i) Bills of exchange

Bills of exchange, more commonly known as "veksels", are instruments issued by the Bank to its customers which carry a fixed date of repayment or mature on demand. These instruments can be issued against customer deposits, or as a means of payment which can be discounted by the customer at over-the-counter secondary market. The Bank did not issue any bills of exchange at a discount. Issued bills of exchange are stated at the cost of issue plus any accrued interest, which is included in other liabilities.

The Bank also purchases bills of exchange from its customers or in the market. These bills are initially recognized at fair value and subsequently re-measured to amortized cost using the effective interest method. Allowance is made, based on management's assessment, for bills where objective evidence of impairment exists.

Purchased bills of exchange are included within the balance sheet in securities or in loans and advances to customers or to banks, depending on their substance.

j) Factoring transactions

Factoring transactions until maturity date present a form of lending and, therefore, balances in respect of such transactions are included within loans issued. Balances are stated at discounted value, and amortization of the discount is charged to the income statement during the whole period until maturity. Based on management assessment an allowance is made for any amounts which are considered doubtful at a year end.

k) Share premium

Share premium represents excess of shareholders contributions to share capital over nominal value the issued shares.

l) Dividends

Dividends payable are not accounted for until they have been ratified at the Bank's Annual Shareholders' Meeting. They are accounted for in the year they are ratified. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. No dividends were declared in 2004 and 2005. The Bank's Annual Shareholders' Meeting held in 2006 decided not to pay any dividends for 2005.

continued

4. Significant Accounting Policies (continued)

m) Income taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates in force at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

n) Income and expense recognition

Interest income and expense are recognised in the statement of income on the accrual basis. Overdue interest or accrued interest which the management considers doubtful are excluded from interest income. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. Fees, commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Certain fees and commissions may be charged in place of applying a higher interest rate to the relevant loan. Where it is possible to identify fees and commissions as being similar in nature to interest they are recognised in equal instalments over the life of the loan and are shown as interest income. Where this is not possible they are treated in a manner similar to other fees and commissions.

In the previous year interest income was not recognised when it was overdue and/or in situations where management believed it was not collectable. This change in policy has been made following changes in IFRSs. The change in policy has had no impact on the stated profit or retained earnings for the current or previous year.

o) Foreign currency translation

Transactions denominated in currencies other than the rouble ("foreign currencies") are recorded in roubles at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date. Monetary assets and liabilities denominated in foreign currency are translated into Russian roubles at the official exchange rate of the CBRF at the balance sheet date.

Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 31 December 2005 the principal rate of exchange used for translating foreign currency balances was U.S.\$ 1 = RUR 28.7825 (2004: U.S. \$ 1 = RUR 27.7487).

Exchange restrictions and controls exist relating to converting Russian roubles into other currencies. At present, the Russian rouble is not a fully convertible currency outside the Russian Federation.

p) 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.

continued

4. Significant Accounting Policies (continued)

q) Pension costs

The Bank contributes to the Russian Federation state pension scheme, social insurance and employment funds in respect of its employees. The Bank's pension scheme contributions amount to 28% of employees' gross salaries, and are expensed as incurred. The contributions are included in staff costs. The Bank has no liability or obligation other than for the annual contribution.

r) Operating leases

Where the Bank is leasee, the total payments made under operating leases are charged against income in equal instalments over the period of the lease.

s) Comparative information

Certain comparative information was restated to comply with current presentation. These restatements have had no effect a profit or reserves for either year.

5. Cash and Cash Equivalents

	2005	2004
	RUR 000's	RUR 000's
Cash on hand	207,926	20,707
Cash balances with the CBRF (other than mandatory reserve and deposits)	12,776	35,341
Correspondent accounts and overnight deposits with other banks:		
- Russian Federation	163,747	4,973
- Other countries	2,692	282
Total cash and cash equivalents	387,141	61,303

6. Investments

The investment represents a shareholding in the following subsidiary:

			2005	2004
Name	Activity	Country of incorporation	RUR 000's	RUR 000's
OOO "First Collection Bureau"	Commerce	Russia	80	-

The Bank owns 80% of the share capital of the company.

7. Due to other Banks

	2005	2004
	RUR 000's	RUR 000's
Unsecured short-term loans from Russian Banks	328,513	95,767
Unsecured long-term loans from Russian Banks	85,000	-
Vostro accounts with Russian Banks	46,316	16,169
Total due to other Banks	459,829	111,936

The major unsecured short term loans are with Bank SKT for RUR 100,000 thousand issued at 9% per annum (fixed). The long term loans are with Bank SKT for RUR 85,000 thousand issued at 22.5% per annum (fixed).

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8. Loans and Advances to Customers

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Current loans	1,379,211	260,338
Overdue loans	8,884	463
	<u>1,388,095</u>	<u>260,801</u>
Less: Allowance for impairment loss	(53,315)	(3,061)
Total loans and advances to customers	<u>1,334,780</u>	<u>257,740</u>

The estimated value of collateral taken to secure the Bank's loan portfolio amounted to RUR 55,169 thousand.

Movements in the allowance for impairment loss on loans and advances to customers are as follows:

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Allowance for impairment loss on loans and advances to customers at 1 January	3,061	4,160
Net movement in allowance for impairment loss (Note 20)	50,254	(1,099)
Allowance for impairment loss on loans and advances to customers at 31 December	<u>53,315</u>	<u>3,061</u>

As at 31 December 2005 no interest was charged on the aggregate loan portfolio of RUR 514 thousand (2004- RUR 430 thousand).

Loan portfolio stratification at 31 December 2005 is as follows:

<u>Loan outstanding balance range</u>	<u>Amount</u> <u>RUR 000's</u>	<u>Number of</u> <u>loans</u>	<u>%</u>
Less than 500	150	58,939	-
From 500 to 5000	13,530	4,680	1.0
From 5001 to 10000	81,571	10,947	5.9
From 10,001 to 50,000	765,029	34,335	55.1
From 50,001 to 100,000	425,517	8,020	30.6
From 100,001 to 250,000	13,075	119	0.9
From 250,001 to 1,000,000	7,982	14	0.6
More than 1,000,000	81,241	16	5.9
Total loans and advances to customers	<u>1,388,095</u>	<u>117,070</u>	<u>100.0</u>

The Bank did not have any borrowers who accounted for more than 5% of the loan portfolio as at 31 December 2005 (2004: none). The ten largest borrowers accounted for RUR 82,141 thousand or 5.8% in 2005 (2004: RUR 56,661 thousand or 21.7% respectively).

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8. Loans and Advances to Customers (continued)

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

	2005		2004	
	Amount RUR 000's	%	Amount RUR 000's	%
Individuals	1,301,926	93.9	213,803	82.0
Trade and catering	14,844	1.1	32,555	12.4
Manufacturing	8,959	0.6	328	0.1
Other	62,366	4.4	14,115	5.5
Total loans and advances to customers (aggregate amount)	1,388,095	100.0	260,801	100.0

Geographic and currency analysis, the interest rates and the maturity structure of the loan portfolio are detailed in Note 24. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 27.

During 2005 the Bank sold to Sibakadembank a portfolio of loans to individuals amounting to RUR 2,419,340 thousand (See Note 18).

9. Deferred Tax

	2005 RUR 000's	2004 RUR 000's
Deferred tax asset at 1 January	1,702	1,161
Deferred tax recognised during the year (Note 23)	(107,493)	541
Deferred tax (liability) / asset at 31 December	(105,791)	1,702

Major components making up the deferred tax asset at the end of the period were:

	Temporary differences RUR 000's	Tax Rate, %	Deferred asset / (liability) RUR 000's
Loan impairment allowance	53,010	24	12,722
Other assets allowance	(2,373)	24	(570)
Accrued income	(1,015)	24	(244)
Accrued expenses	33,958	24	8,150
Premises and equipment	(137,884)	24	(33,092)
Recognition of servicing asset	(565,326)	24	(135,678)
Other items of working capital	178,835	24	42,921
	(440,795)		(105,791)

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10. Accrued Interest Income and Other Assets

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Accrued interest income	9,860	3,826
Debtors and prepayments	44,274	967
Receivable from customers on loans previously sold	16,396	-
Other	1,211	-
	<u>71,741</u>	<u>4,793</u>
Less: Allowance for impairment loss	<u>(13,772)</u>	<u>(113)</u>
Total accrued interest income and other assets	<u>57,969</u>	<u>4,680</u>

Movements in the allowance for impairment loss are as follows:

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Allowance for impairment loss at 1 January	113	52
Charge during the year	13,659	61
Allowance for impairment loss at 31 December	<u>13,772</u>	<u>113</u>

11. Premises and Equipment

	<u>Premises</u>	<u>AUC</u>	<u>Equipment</u>	<u>Total</u>
	<u>RUR 000's</u>	<u>RUR 000's</u>	<u>RUR 000's</u>	<u>RUR 000's</u>
Historical cost				
Opening balance as at 01/01/04	-	883	13,416	14,299
Additions	26,424	682	9,655	36,761
Disposals	-	-	(612)	(612)
Closing balance as at 31/12/04	<u>26,424</u>	<u>1,565</u>	<u>22,459</u>	<u>50,448</u>
Additions	17,309	16,689	99,910	133,908
Disposals	-	(1,461)	(1,096)	(2,557)
Transferred to FA	7,138	(7,173)	35	-
Closing balance as at 31/12/05	<u>50,871</u>	<u>9,620</u>	<u>121,308</u>	<u>181,799</u>
Accumulated Depreciation				
Opening balance as at 01/01/04	-	-	2,868	2,868
Charge	170	-	2,656	2,826
Disposals	-	-	(453)	(453)
Closing balance as at 31/12/04	<u>170</u>	<u>-</u>	<u>5,071</u>	<u>5,241</u>
Charge	716	-	7,378	8,094
Disposals	-	-	(873)	(873)
Closing balance as at 31/12/05	<u>886</u>	<u>-</u>	<u>11,576</u>	<u>12,462</u>
NBV as at 01/01/05	<u>26,254</u>	<u>1,565</u>	<u>17,388</u>	<u>45,207</u>
NVB as at 31/12/05	<u>49,985</u>	<u>9,620</u>	<u>109,732</u>	<u>169,337</u>

Fixed assets were insured for RUR 13,867 thousand as at 31 December 2005 (2004: not insured).

Assets with a net book value of RUR 67,629 thousand are held under Finance Leases. Details concerning the lease of fixed assets from related parties are disclosed in Note 27.

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Notes to the Financial Statements - 31 December 2005

12. Customer Accounts

	<u>2005</u> RUR 000's	<u>2004</u> RUR 000's
State and public organisations		
– Current/settlement accounts	1,498	14,365
– Term deposits	13,103	-
Other legal entities		
– Current/settlement accounts	47,696	21,747
– Term deposits	176,630	17,916
Individuals		
– Current/demand accounts	180,862	7,257
– Term deposits	578,778	153,183
Total customer accounts	<u><u>998,567</u></u>	<u><u>214,468</u></u>

Deposits and current accounts of the Bank's ten largest depositors accounted for RUR 187,699 thousand or 18.8% of the overall balance as at 31 December 2005 (2004: RUR 65,286 thousand or 30.4%).

Customer accounts stratification at 31 December 2005 is as follows:

<u>Outstanding balance range</u>	<u>Amount</u> RUR 000's	<u>Number of</u> <u>accounts</u>	<u>%</u>
Less than 500	5,014	102,705	0.5
From 501 to 5,000	56,605	27,676	5.7
From 5,001 to 10,000	31,232	4,605	3.1
From 10,001 to 50,000	132,540	5,688	13.3
From 50,001 to 100,000	146,539	1,978	14.7
From 100,001 to 250,000	164,254	1,186	16.4
From 250,001 to 500,000	87,799	251	8.8
500,001 and higher	374,584	162	37.5
Total customer accounts	<u><u>998,567</u></u>	<u><u>144,251</u></u>	<u><u>100.0</u></u>

Customer accounts stratification at 31 December 2004 is as follows:

<u>Outstanding balance range</u>	<u>Amount</u> RUR 000's	<u>Number of</u> <u>accounts</u>	<u>%</u>
Less than 500	122	28,378	0.1
From 501 to 5,000	1,877	857	0.9
From 5,001 to 10,000	2,393	310	1.1
From 10,001 to 50,000	22,532	908	10.5
From 50,001 to 100,000	28,150	380	13.1
From 100,001 to 250,000	32,061	219	14.9
From 250,001 to 500,000	27,334	76	12.8
500,001 and higher	99,999	48	46.6
Total customer accounts	<u><u>214,468</u></u>	<u><u>31,176</u></u>	<u><u>100.0</u></u>

continued

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12. Customer Accounts (continued)

Geographical, currency analysis of customers, the interest rates and maturity analysis are provided in Note 24. The Bank has several deposits from related parties. Information on related party deposits is disclosed in Note 27.

Economic sector concentrations within customer accounts are as follows:

	2005		2004	
	Amount RUR 000's	%	Amount RUR 000's	%
Individuals	755,847	75.7	160,460	74.8
Financial intermediation	112,719	11.3	21,053	9.8
Manufacturing	71,205	7.1	2,317	1.1
Wholesale and retail trade	17,478	1.8	1,850	0.9
Transport, storage and communications	13,152	1.3	258	0.1
community and personal activities	9,337	1.0	5,040	2.4
Construction	9,035	0.9	6,917	3.2
Electricity, gas and water supply	3,266	0.3	10,437	4.9
Agriculture, hunting and forestry	167	0.0	3,301	1.5
Education	40	0.0	41	0.0
Real estate, renting	36	0.0	35	0.0
Health and social work	23	0.0	32	0.0
Hotels and restaurants	13	0.0	1	0.0
Other	6,249	0.6	2,726	1.3
Total customer accounts	998,567	100.0	214,468	100.0

13. Warranties on loans sold

The warranties on loans sold arise from the transactions described in Note 18. Movements on the warranty during the year are as follows:

	2005 RUR 000's	2004 RUR 000's
Opening balance	-	-
Fair value of warranties issued in period at date of issue	72,580	-
Movement in fair value of warranties in issue	(8,121)	-
Closing balance	64,459	-

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14. Accrued Interest Expense and Other Liabilities

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Accrued interest expense	18,851	4,778
Other accrued expenses	33,958	-
Taxes	5,214	498
Other	6,303	680
Total accrued interest expenses and other liabilities	<u>64,326</u>	<u>5,956</u>

15. Finance Lease Liability

	<u>Minimum lease payments</u> <u>RUR 000's</u>	<u>Present value of minimum lease payments</u> <u>RUR 000's</u>
Amounts payable under finance lease:		
Within one year	32,404	29,622
Subsequent years	47,101	34,616
Minimum lease payments	79,505	<u>64,238</u>
Less: Future finance charges	(15,267)	
Present value of minimum lease payments	<u>64,238</u>	

For a full maturity analysis of finance lease liabilities see Note 24.

16. Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2005		2004	
	<u>Number of shares</u>	<u>RUR 000's</u>	<u>Number of shares</u>	<u>RUR 000's</u>
Ordinary shares with nominal value of RUR 100 each at 1 January, all carrying equal rights	369,883	36,988	219,883	21,988
Preference shares with nominal value of RUR 1 each at 1 January	11,700	12	11,700	12
Issue of new ordinary shares during the period	2,430,000	243,000	150,000	15,000
Inflation effect of IAS 29 on share capital	-	119,837	-	119,837
Total issued capital at 31 December	<u>2,811,583</u>	<u>399,837</u>	<u>381,583</u>	<u>156,837</u>

The nominal value of capital is 280 million RUR (2004:37 million RUR).

All preference shares have a par value of RUR 1 per share and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. Holders of preference shares are entitled to receive annual dividends. If the dividends are not paid, preference shares carry the right to vote at annual and general meetings until the dividends are paid. Currently preference shareholders have the right to vote.

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16. Share Capital (continued)

Dating 2005 The Bank issued additional 2,430,000 ordinary shares with nominal value of 100 RUR each. All shares were fully paid for as at 31 December 2005.

The Bank's major shareholders are:

Shareholder	2005		2004	
	Number of ordinary shares	% holding	Number of ordinary shares	% holding
Vladimir Kozhevnikov	473,442	16.84	73,840	19.35
ZAO DLK	316,303	11.25	-	-
OOO Vklad	316,303	11.25	-	-
OOO Sibakademinvest	286,900	10.20	-	-
OAO Commercial Bank Mezhtorgbank	200,000	7.11	-	-
Non-commercial Partnership Stolichnoe Pervoe Obshestvo	168,695	6.00	-	-
Alexander Taranov	70,362	2.50	-	-
Andrey Bekarev	70,362	2.50	-	-
OOO SA-Bastion	-	-	73,607	19.29
OOO Lokiya	-	-	73,070	19.15
OOO Korund	-	-	63,064	16.53
Yuri Komarov	-	-	73,868	19.36
OOO Torgovy Dom Amur-Kabel	-	-	11,515	3.02
GU Amur Property Fund	-	-	8,000	2.10
Members of the Board of Directors, including:				
Igor Kim	559,749	19.91	-	-
Sergei Vlasov	281,159	10.00	-	-
Yuri Vavilov	12,113	0.43	-	-
Other shareholders - individuals and legal entities (holders of less than 5%)	56,195	2.01	4,619	1.20
Total	2,811,583	100.0	381,583	100.0

17. Accumulated Profit and Other Reserves

In accordance with Russian Law on banking activity, the Bank must use financial statements prepared under Russian Accounting Standards as the basis for calculating distributable profit. Profits may be used to pay dividends or transferred to reserves. The Bank's reserves under Russian Accounting Standards as at 31 December 2005 were RUR 6,500 thousand (2004: RUR 3,274 thousand).

18. Results on sale of loans

During the year the Bank sold loans with a carrying value of RUR 2,419,340 thousands at the time of sale to Sibacadembank, a related party. Under the sale agreement the bank continues to service the loans and has the right to retain service fees paid by the borrowers. These are charged at the rate of 1.5 % per month based on the original amount advanced. Interest and capital are forwarded to Sibacadembank. In accordance with the agreement Sibacadembank charges the Bank a fee for maintaining accounting records. This is charged at a rate of 2.5 % per annum on the average balance outstanding.

Also a part of the sales agreement the Bank has issued a warranty in respect of the collectability of the loans sold. The initial limit of the warranty is set at RUR 70,000. However should the warranty be called upon the Bank will be obliged to either provide additional warranties to a maximum value of loans sold, or to pay a penalty of 3 % of the outstanding balance of the loan principal and accrued interest

The result on disposal has been calculated as follows:

	RUR 000's	RUR 000's
Fair value of cash consideration received		2,419,340
Carrying value of assets derecognised	2,419,340	
Less element attributable to servicing asset	(565,326)	(1,854,014)
Less fair value of warranties issued at date of issue		(72,580)
Result on disposal		492,746

Movements on the service fee asset during the year were as follows:

	RUR 000's
Opening balance	-
Additions in the year	565,326
Amortisation in the period	(79,115)
Closing balance	486,211

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19. Interest Income and Expense

	2005	2004
	RUR 000's	RUR 000's
Interest income		
Loans and advances to legal entities	8,876	14,955
Loans and advances to individuals	117,211	33,306
Overpayment on income tax	-	36
Securities	20	165
Due from other banks	622	14
Total interest income	126,729	48,476
Interest expense		
Term deposits of individuals	(45,182)	(15,491)
Finance lease charges	(5,920)	-
Term deposits of legal entities	(9,559)	(1,204)
Bills of exchange	(11,489)	-
Current / settlement accounts	(1,426)	(58)
Term deposits of banks	(20,580)	(8,383)
Other borrowed funds	-	(423)
Total interest expense	(94,156)	(25,559)
Net interest income	32,573	22,917

20. Net Allowance for Impairment Losses on Loans

	2005	2004
	RUR 000's	RUR 000's
Release of allowance credited to profits during the year	(59,281)	(11,001)
New allowance charged to profits during the year	109,535	9,472
Net movement in allowance during the year	50,254	(1,529)

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21 Net Fee and Commission Income	2005	2004
	RUR 000's	RUR 000's
Service fees	92,471	-
Commission on cash transactions	200,782	2,667
Amortization of Service Fee Asset	(79,115)	-
Other commissions	6,652	2,687
Total fee and commission income	220,790	5,354
Commission on settlement and foreign currency exchange transactions	(120)	(54)
Commission on cash transactions	-	(33)
Agency fees	(20,415)	
Other	(2,480)	(373)
Total fee and commission expense	(23,015)	(460)
Net fee and commission income	197,775	4,894
22. Operating Expenses	2005	2004
	RUR 000's	RUR 000's
Staff costs	93,292	16,886
Depreciation (Note 11)	8,094	2,609
Administrative expenses	74,015	3,273
Taxes other than on income (Note 23)	20,469	1,221
Other expenses related to premises and equipment	37,323	266
Advertising and marketing	8,595	1,322
Allowance for impairment of other assets	2,076	-
Release for impairment of credit related commitments	(5)	-
Release of allowance for impairment of assets on correspondent accounts	(2)	-
Other operating expenses	-	11,546
Total operating expenses	243,857	37,123

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23. Taxation

Income tax comprised the following:

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Current tax charge	(12,688)	(637)
Deferred tax charge relating to the origination and reversal of temporary differences (Note 9)	<u>(107,493)</u>	<u>541</u>
Income tax charge for the year	<u>(120,181)</u>	<u>(96)</u>

The income tax rate applicable to the majority of the Bank's income is 24% (2004: 24%). The Bank's accounting profit may be reconciled to profit for taxable purposes as follows:

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Accounting (loss) / profit before tax	322,239	2,084
Adjustments to comply with IFRS including:		
(Increase)/ decrease in allowance for loan loss	(941)	(2,589)
Additional depreciation due to use of higher rates	(8,094)	(3,212)
Taxes	(120,181)	541
Net accrued interest	(8,991)	(952)
Other accruals	(39,538)	-
Value of warranty issued	(64,459)	
Other	<u>(3,956)</u>	<u>8,629</u>
	(246,160)	2,417
Accounting profit under Russian Accounting Standards	76,079	4,501
Adjustments for disallowable items / (not taxable items)	<u>(23,214)</u>	<u>(4,101)</u>
Taxable profit	<u>52,865</u>	<u>400</u>
Tax liability at 24%	<u>(12,688)</u>	<u>(96)</u>

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2004: 24%).

Other significant taxes borne by the Bank and included in operating expenses (Note 22) comprise:

	<u>2005</u> <u>RUR 000's</u>	<u>2004</u> <u>RUR 000's</u>
Irrecoverable VAT	19,341	608
Property tax	1,107	589
Other	<u>21</u>	<u>24</u>
Total other taxes	<u>20,469</u>	<u>1,221</u>

Property tax is calculated at a rate of 2.2% (2004: 2.2%) on the value of assets as computed under Russian statutory taxation regulations. Most of the income of the Bank is exempt from VAT and therefore input tax attributable to it is not normally available for credit and hence expensed as incurred.

24. Financial Risk Management

The Bank has a pro-active approach to management of financial risks (credit, interest rate, exchange rate and liquidity), operational risk, legal and reputation risk. The primary objectives of the financial risk management function are to establish risk limits, and then, through the internal control process to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that deviations are corrected in accordance with management's policies. The operational and legal management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational, legal and reputation risks.

Credit risk

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

The Bank's credit policy establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans and contingent operations.

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

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

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The 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.

Country risk

Country risk is the risk that the Bank may suffer losses as the result of exposure of the political or economic environment of a country in which it operates or holds assets.

The Bank has particular exposure to the Russian Federation due to the concentration of its assets, liabilities and operating activities in the country. Further comments on the operating environment of the Bank are set out in Note 2. Comments on the risk, associated with the Russian tax are set out in Note 23.

A geographical analysis of the Bank's assets and liabilities as at 31 December 2005 is set out on the following page.

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24. Financial Risk Management (continued)

Country risk (continued)

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>
	<u>000's</u>	<u>000's</u>	<u>000's</u>	<u>000's</u>
Assets				
Cash and cash equivalents	384,449	27	2,665	387,141
Mandatory cash balances with the CBRF	21,739	-	-	21,739
Loans and advances to customers	1,334,780	-	-	1,334,780
Accrued interest income and other assets	57,960	-	9	57,969
Investments	80	-	-	80
Service fee asset	486,211	-	-	486,211
Premises and equipment	169,337	-	-	169,337
Total assets	<u>2,454,556</u>	<u>27</u>	<u>2,674</u>	<u>2,457,257</u>
Liabilities				
Customer accounts	998,567	-	-	998,567
Due to other banks	459,829	-	-	459,829
Bills of exchange	92,446	-	-	92,446
Deferred tax liability	105,791	-	-	105,791
Accrued interest expense and other liabilities	64,310	16	-	64,326
Warranties on loans sold	64,459	-	-	64,549
Finance lease	64,238	-	-	64,238
Total liabilities	<u>1,849,640</u>	<u>16</u>	<u>-</u>	<u>1,849,656</u>
Net on-balance sheet position	<u>604,916</u>	<u>11</u>	<u>2,674</u>	<u>607,601</u>
Credit related commitments	<u>(30,136)</u>	<u>-</u>	<u>-</u>	<u>(30,136)</u>

The geographical concentration of the Bank's assets and liabilities as of 31 December 2004 is set out below:

	<u>Russia</u>	<u>OECD</u>	<u>Non OECD</u>	<u>Total</u>
	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>	<u>RUR</u>
	<u>000's</u>	<u>000's</u>	<u>000's</u>	<u>000's</u>
Net on-balance sheet position	<u>42,080</u>	<u>33</u>	<u>249</u>	<u>42,362</u>
Credit related commitments	<u>(624)</u>	<u>-</u>	<u>-</u>	<u>(624)</u>

continued

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24. Financial Risk Management (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

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

	RUR	USD	Other currencies	Total
	RUR 000's	RUR 000's	RUR 000's	RUR 000's
Assets				
Cash and cash equivalents	368,837	15,953	2,351	387,141
Mandatory cash balances with the CBRF	21,739	-	-	21,739
Loans and advances to customers	1,334,656	124	-	1,334,780
Accrued interest income and other assets	57,206	763	-	57,969
Investments	80	-	-	80
Service fee asset	486,211	-	-	486,211
Premises and equipment	169,337	-	-	169,337
Total assets	2,438,066	16,840	2,351	2,457,257
Liabilities				
Customer accounts	965,847	32,390	330	998,567
Due to other banks	448,311	11,518	-	459,829
Bills of exchange	92,446	-	-	92,446
Deferred tax liability	105,791	-	-	105,791
Accrued interest expense and other liabilities	62,946	1,380	-	64,326
Warranties on loans sold	64,459	-	-	64,459
Finance lease	64,238	-	-	64,238
Total liabilities	1,804,038	45,288	330	1,849,656
Net balance sheet position	634,028	(28,448)	2,021	607,601
Credit related commitments	(30,136)	-	-	(30,136)

As of 31 December 2004 the Bank had the following positions in Russian and other currencies:

	RUR	USD	Other currencies	Total
	RUR 000's	RUR 000's	RUR 000's	RUR 000's
Net balance sheet position	41,505	279	578	42,362
Credit related commitments	(624)	-	-	(624)

Currency classification of monetary assets and liabilities is based on the currency they are denominated in. The Bank has loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, any fluctuation of these foreign currencies against the Russian rouble may adversely affect the borrower's repayment ability and therefore increase the likelihood of future loan losses.

continued

24. Financial Risk Management (continued)

During 2005, the Russian rouble gained 3.9% against the USD dollar. The strongest rate the Russian rouble demonstrated against the USD dollar during the year was 27.4611 on 18 March 2005, the weakest rate was 28.9978 on 6 December 2005. On 27 June 2006, the official rate was RUR 27.1021 per USD.

Interest rate risk

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

The Bank is exposed to this risk, principally as a result of lending and making advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, the Bank has the ability to make immediate changes to rates on most interest bearing assets in response to changes in the interest rate environment. Where the Bank has entered into fixed rate contracts these are generally fixed on a short term basis normally at three month intervals.

The majority of interest bearing liabilities are on floating rate terms and will reprice in line with changes in the CBRF refinancing rate. Management does not consider the Bank to have significant exposure as a result of taking long term deposits at fixed interest rates.

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

	RUR	USD
Assets		
Due from banks	-	3.8%
Loans and advances to customers	18.0%	9.0%
Liabilities		
Due to other banks:		
- correspondent accounts and "overnight" deposits of other banks	12.5%	-
- current term loans and deposits of other banks	13.0%	7.5%
Customer accounts:		
- term deposits of legal entities	10.3%	-
- term deposits of individuals	12.8%	7.6%
Bills of exchange issued	21.4%	-

A significant proportion of the Bank's revenue on loans is earned from charging service fees. This significantly increases the profitability of the Bank's interest bearing assets. Service fees are calculated on a fixed rate basis, generally at 1.5% per month based on the original loan amount.

continued

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Notes to the Financial Statements - 31 December 2005

24. Financial Risk Management (continued)

Liquidity risk

The liquidity position of the Bank as at 31 December 2005 is set out below:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
	RUR 000's	RUR 000's	RUR 000's	RUR 000's	RUR 000's	RUR 000's
Assets						
Cash and cash equivalents	387,141	-	-	-	-	387,141
Mandatory cash balances with the CBRF	-	-	-	-	21,739	21,739
Loans and advances to customers	65,241	300,110	330,063	613,269	26,097	1,334,780
Investments	-	-	-	-	80	80
Accrued interest income and other assets	56,351	351	36	385	846	57,969
Service fee asset	32,371	165,580	109,875	178,385	-	486,211
Premises and equipment	-	-	-	-	169,337	169,337
Total assets	541,104	466,041	439,974	792,039	218,099	2,457,257
Liabilities						
Customer accounts	285,824	326,853	235,902	149,988	-	998,567
Due to other banks	214,749	110,080	50,000	85,000	-	459,829
Bills of exchange	11,500	-	80,946	-	-	92,446
Deferred tax liability	-	-	-	-	105,791	105,791
Accrued interest expense and other liabilities	47,267	8,075	8,134	795	55	64,326
Finance lease liability	2,814	15,443	11,365	34,616	-	64,238
Warranties on loans sold	4,292	21,952	14,567	23,648	-	64,459
Total liabilities	566,446	482,403	400,914	294,047	105,846	1,849,656
Net liquidity gap	(25,342)	(16,362)	39,060	497,992	112,253	607,601
Cumulative liquidity gap at 31 December 2005	(25,342)	(41,704)	(2,644)	495,348	607,601	-
Cumulative liquidity gap at 31 December 2004	(28,332)	(115,767)	942	(8,671)	42,362	-

continued

24. Financial Risk Management (continued)

Liquidity risk is defined as the risk that arises from the fact that the maturity of assets and liabilities does not match. Management of the Bank actively monitors liquidity risk. The table above shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature. For example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to 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.

Insurance

The use of insurance as a means of regulating liability risk is still relatively undeveloped in Russian Federation as this type of cover is not widely available. Management has therefore not been able to utilise this risk management tool.

Details of property insurance are set out in Note 11.

As at the end of the reporting year the Bank was registered with individuals' deposit insurance scheme

25. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no allowance has been made in these financial statements.

Tax legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, management's judgement of the Bank's business activities may not coincide with the interpretation of the same activities by tax authorities.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

Capital commitments

As at 31 December 2005 and 31 December 2004 the Bank had no material capital commitments.

continued

25. Contingencies, Commitments and Derivative Financial Instruments (continued)

Credit related commitments

Credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, all the Bank's import letters of credit are fully collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2005	2004
	RUR 000's	RUR 000's
Undrawn credit lines	1,551	79
Guarantees issued	28,585	550
Less: Allowance for losses on credit related commitments (Note 20)	-	(5)
Total credit related commitments	30,136	624

Management evaluated the likelihood of impairment in respect of other credit related commitments and concluded that no allowance for impairment loss was necessary as at 31 December 2005 (2004: RUR 5 thousand). The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives

As at 31 December 2005 and 31 December 2004 the Bank had no outstanding derivative contracts.

Assets pledged

As at 31 December 2005 there were no assets pledged to secure liabilities of the Bank (2004 - nil).

Leased Fixed Assets

During the year the Bank leased fixed assets from third parties. Details of lease payments lease payable are set out below:

	2005	2004
	RUR 000's	RUR 000's
Operating lease:		
Payable within one year	49,688	6,643
Payable within two to five years	59,002	16,746
Payable over five years	3,717	-
Total future operating lease payments	112,407	23,389

Operating lease includes a number of contracts expiring in 2006, but which can be prolonged, and this will result in substantial lease payable within two to five years.

26. Fair value of financial instruments

As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument.

The Bank estimates the fair value of its financial assets and liabilities to be approximately equal to the carrying value of these assets and liabilities.

27. Related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". A holding of 5% or more by one party in another is considered by management to be one of the possible indicators that the parties are related. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The list of those companies and individuals considered by management to be related parties as at 31 December 2005 is set out below:

Significant shareholders

	Activities
Igor Kim	
Vladimir Kozhevnikov	
ZAO DLK	Supporting activities in financial intermediation
OOO Vklad	Financial intermediation
OOO Sibakademinvest	Investment
Sergei Vlasov	
OAO Commercial Bank Mezhtorgbank	Banking
Non-commercial Partnership Stolichnoe	Provision of legal, accounting and consulting service

continued

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Notes to the Financial Statements - 31 December 2005

27. Related parties (continued)

Companies over which key members of management exert influence

	Activities
ОАО "Sibacadembank"	Banking
ОАО "Uralvneshtorgbank"	Banking
ОАО АKB Zheleznodorozhnogo Transporta (Railway Transport Bank)	Banking
ЗАО "Etalonbank"	Banking
ОАО Bank "Stolichnoe Kreditnoe Tovarischestvo "	Banking
ЗАО "Unisoft - Liga"	Wholesale and retail trade
ООО "Asmodius"	Wholesale and retail trade
ОАО "TsK"	Hotels and restaurants
ООО "K-Lombard"	Provision of finance
ООО "Fast-Food"	Catering
ООО "Food-kord-Novosibirsk"	Catering
ООО "Veresk"	Catering
ООО "Managing company "Food- Master "	Catering
ООО "Severniy gorod"	Catering
ООО "Food -Master-Novokuznetsk"	Catering
СПАО «Sibakademstroj»	Construction
ООО "Oskar S"	Wholesale
ООО "Verda"	Construction, transportation
ООО "Boulevard"	Catering
ООО "Traktir"	Catering
ЗАО "Upravlenie Sibakademstroj"	Construction
ООО "Sibakademstroj Holding"	Construction
ООО "Food –Master –Barnaul-2"	Catering
ООО "Food –Master –Barnaul"	Catering
Primorsk Credit Agency	Financial Intermediation
Irkutsk Credit Agency	Financial Intermediation
Zabaikalskoe Credit Agency	Financial Intermediation

continued

27. Related parties (continued)

Companies under common control

	Activities
OOO "Dal'VTB"	Financial intermediation
OOO "Blagoveschensk Credit Agency"	Financial intermediation
OOO "Khabarovsk Credit Agency"	Financial intermediation
OOO "First Credit History Bureau"	Financial intermediation
OOO "First Collection Bureau"	Financial intermediation

Members of the Board of Management

Dmitry Akimkin

Elena Kalinina

Ludmila Proskurina

Members of the Board of Directors

Ury Vavilov

Alexey Grigoriev

Oleg Viushin

Vladimir Meleshin

During the reporting year the Bank entered in transactions with related parties, which included loan and deposit agreements, and provision of guarantees.

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Notes to the Financial Statements - 31 December 2005

27. Related parties (continued)

Details of transactions and balances with related parties are set out below (all balances are unsecured unless otherwise stated):

	2005				
	Shareholders	Other linked by control	Other including management	Total balances with related parties	Total Account category
	RUR 000's	RUR 000's	RUR 000's	RUR 000's	RUR 000's
Balance sheet					
Cash and cash equivalents	-	118,400	612	119,012	387,141
Loans issued	-	17,730	36	17,766	1,388,095
Loan loss allowance	-	(7,099)	-	(7,099)	(53,315)
Balances on correspondent accounts	-	2,485	-	2,485	163,747
Bills of exchange issued	6,500	-	-	6,500	92,446
Accounts payable	493	4,505	467	5,465	64,326
Guarantees issued	-	27,936	-	27,936	28,585
Balances on current accounts	355	15,909	1,574	17,838	230,056
Customer deposits	-	246,229	1,151	247,380	768,511
Balances on loans resold to Sibkadembank	-	2,148,623	-	2,148,623	2,148,623
Balance on warranties on loans sold	-	64,459	-	64,459	64,459
Income Statement					
Interest income on loans issued	-	665	17	682	247,260
Interest expense	(2,284)	(17,900)	(330)	(20,514)	(94,156)
Rent	-	(9)	(4,205)	(4,214)	(64,238)
Commission received	-	593	1	594	220,790
Commission paid	-	(24,089)	-	(24,089)	(23,015)
Other income	-	152	-	152	10,055
Other expense	(340)	(11,714)	(5,777)	(17,831)	(179,619)
Results on disposal of loans	-	492,746	-	492,746	492,746
Loans sold to Sibkadembank during 2005	-	2,419,340	-	2,419,340	2,419,340

continued

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Notes to the Financial Statements - 31 December 2005

27. Related parties (continued)

	2004	
	Total balances with related parties	Total Account category
	RUR 000's	RUR 000's
Balance sheet		
Cash and cash equivalents	-	61,303
Loans issued	1,182	257,740
Bills of exchange issued	-	-
Accounts payable	-	5,956
Guarantees issued	-	550
Balances on current accounts	183	214,468
Customer deposits	1,475	171,099
Income Statement		
Interest income on loans issued	64	48,261
Interest income or discount income on bills of exchange	-	165
Interest expense	(5)	(25,559)
Rent	-	(3,562)
Commission received	1	4,894
Commission paid	-	(460)
Other income	-	39,303
Other expense	-	(37,123)

Total remuneration paid to the Chairman of the Management Board in 2005 amounted to RUR 2,291 thousand (2004: None).

The salaries paid to the members of the Management Board in 2005 amounted to RUR 4,247 thousand (2004: RUR 1,559 thousand).

There were no long term benefits, post-employment benefits, termination benefits or share based payments.

Leased Fixed Assets

During the year the Bank leased certain fixed assets from related parties, namely equipment and vehicles. Details of lease payments lease payable are set out below:

	2005 RUR 000's	2004 RUR 000's
Operating lease:		
Payable within one year	4,215	5,981
Payable within two to five years	-	-
Cost of leased fixed assets	4,215	5,981

Operating lease includes a number of contracts expiring in 2006, but which can be prolonged, and this will result in substantial lease payable within two to five years.

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28. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian Accounting Legislation. As of 31 December 2005, the Bank's capital adequacy ratio calculated on this basis was 20.8%, exceeding the statutory minimum (2004: 14.4%)

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1998, as of 31 December 2005 was 27.1% (2004: 14.7%). This ratio exceeded the minimum ratio of 8% recommended by Basle Accord.

The capital adequacy ratio in accordance with the 1998 Basle Accord guidelines based on the audited financial statements of the Bank as of 31 December 2005, was computed as follows:

	<u>2005</u> RUR 000's	<u>2004</u> RUR 000's
Tier 1 Capital		
Share capital	399,837	156,837
Share Premium	4,697	4,697
Accumulated profit / (loss)	203,067	(119,172)
Total Tier 1 Capital	607,601	42,362
Tier 2 Capital		
Total loan loss provision	-	3,061
Tier 2 Capital	-	3,061
Total Capital	607,601	45,423
Risk weighted assets	2,243,402	308,172
Capital adequacy ratio	27.1	14.7

Capital is calculated as the total of restricted and unrestricted components of equity plus general provision for loan losses to the extent that this provision does not exceed 1.25% of assets calculated using the following risk weightings:

Weighting	Description
0%	Cash, amounts with the Central Bank of Russian Federation and claims on the Government of the Russian Federation denominated in Roubles and funded in Roubles
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favour of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% - 5%	Foreign exchange contracts
0% - 0,5%	Interest rate contracts

29. Post Balance Sheet Events

In accordance with a resolution of the Board of Directors passed on 28 February 2006 the Bank acquired a commercial building at 23 Shevchuka St., Khabarovsk, for total consideration of RUR 64,847 thousand.

In accordance with a resolution of the Board of Directors on 4 April 2006 the Bank acquired a commercial building at 1 Okeansky Prospect Vladivostok for total consideration of RUR 19,000 thousand.

At the Annual General Meeting of the Bank held on 26 May 2006 shareholders agreed to pay no dividends in respect of 2005.

On 22 June 2006 the Bank registered amendments to its Charter, which had previously been approved an Extraordinary Shareholders' Meeting. The amendments include a change of the Bank's name to OAO "Vostochny Express Bank" (full name) and OAO KB "Vostochny" (reduced name).