ICICI BANK EURASIA LIABILITY COMPANY LIMITED

1ST ANNUAL REPORT AND ACCOUNTS 2005-2006

Directors

K. V. Kamath, Chairman

Lalita D. Gupte

Bhargav Dasgupta

Sanjay Kumar Maheshka, *President & CEO*

Auditors

Bank's Audit Service Limited Liability Company (BAS)

Registered Office

3, 50 Let Oktyabrya Square
City of Balabanovo
Borovsk District
Kaluga Region 249000
Russia

directors' report

to the members

Your Directors have pleasure in presenting the First Annual Report of ICICI Bank Eurasia LLC with the un-audited statement of accounts for the financial year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

The Financial Performance for fiscal 2006 is given below:

(Rupees in million)

	Fiscal 2005	**Fiscal 2006**	**% change**
Net interest income and other income.........	*N/a*	**155.98**	100.0
Operating expense..	*N/a*	**126.81**	100.0
Provisions & contingencies..............................	*N/a*	**12.11**	100.0
Profit before tax..	*N/a*	**17.06**	100.0
Profit after tax...	*N/a*	**12.46**	100.0
Consolidated profit after tax............................	*N/a*	**12.46**	100.0

The balance sheet as at March 31, 2006 is summarised below:

Rs. million, except percentages

	Fiscal 2005	**Fiscal 2006**	**% change**
CAPITAL AND LIABILITIES			
HO Control Account......................................	*N/a*	**481.14**	100.0
Reserves and Surplus..................................	*N/a*	**273.13**	100.0
Deposits..	*N/a*	**3180.35**	100.0
Borrowings...	*N/a*	**3.35**	100.0
Other liabilities and provisions...................	*N/a*	**8.90**	100.0
TOTAL...	*N/a*	**3946.87**	100.0
ASSETS			
Cash and balance with Reserve Bank of India	N/a	**8.21**	100.0
Balances with banks and money at call and short notice...................	N/a	**1 377.01**	100.0
Investments...	N/a	**1 443.21**	100.0
Advances..	N/a	**983.24**	100.0
Fixed Assets..	N/a	**27.36**	100.0
Other Assets..	N/a	**107.84**	100.0
TOTAL...	N/a	**3 946.87**	100.0

ISSUANCE OF EQUITY CAPITAL

In September 2005, ICICI Bank Eurasia LL has successfully concluded a capital raising exercise, raising a total of USD 15 million from ICICI Bank Limited as additional contribution to the equity capital from the parent company.

SUBSIDIARY COMPANIES

At March 31, 2006, ICICI Bank Eurasia LLC had no subsidiaries.

DIRECTORS

The Supervisory Board has been gradually transforming from the moment of acquisition of ICICI Bank Eurasia LLC by ICICI Bank Limited in June 2005. Currently there are four Members of the Supervisory Board (Directors):

- K. V. Kamath (Chairman)
- Lalita D. Gupte
- Bhargav Dasgupta
- Sanjay Kumar Maheshka

The above mentioned members were elected members of the Supervisory Board on June 18, 2005 by the general meeting of participants of ICICI Bank Eurasia LLC.

R-D Montag Girmes has been brought out of the membership of the Supervisory Board of ICICI Bank Eurasia on September 6, 2005 by a resolution of the Sole Participant pursuant his own application to the same.

AUDITORS

Bank's Audit Service has been appointed as auditor of ICICI Bank Eurasia LLC auditor on February 28, 2006 for the financial years 2005-2006 by a resolution of the Sole Participant pursuant recommendation of the Audit Committee of the Bank.

PERSONNEL

As of March 31, 2006 number of the Bank's employees was 96.

CORPORATE GOVERNANCE

ICICI Bank Eurasia is building a tradition of best practices in corporate governance. The corporate governance framework in ICICI Bank Eurasia is based on an effective Supervisory Board, Executive Board and the constitution of the Committees of the Bank, to oversee critical areas.

Supervisory Board

ICICI Bank Eurasia LLC has a Supervisory Board, constituted in compliance with the Law on Limited Liability Companies, Law on Banks and Banking activities and Regulations and Recommendation of the Bank of Russia in accordance with good practices of corporate governance.

The Supervisory Board's main function is to oversee management activities of the Bank. The Supervisory Board functions either as a full Board or through various committees constituted to oversee specific areas. The Board is supported by three committees, namely, Audit Committee, Governance Committee, Risk and Credit Committee.

At March 31, 2006, the Board of Directors consisted of 4 members. There were five meetings of the Supervisory Board during the period from the acquisition of ICICI Bank Eurasia LLC by ICICI Bank Limited till March 31, 2006 – on September 28, 2005, November 23, 2005, December 15, 2005, February 28, 2006 and March 31, 2006. The names of the members of the Supervisory Board, their attendance at Board Meetings during the year and the number of other committee memberships held by them in the mentioned period are set out in the following table:

Name of Member	Board Meetings attended during the year	Number of other committee memberships
K.V. Kamath (Chairman)	5	1
Lalita D. Gupte	5	2
Bhargav Dasgupta	4	2
Sanjay Kumar Maheshka	5	4

It has been a standard practice for Directors to participate in the meetings of the Supervisory Board and Committees by teleconference.

EXECUTIVE BOARD

ICICI Bank Eurasia LLC has a Executive Board which main function is day-to-day management of the Bank implementing main policies adopted by the General Meeting of Participants (Sole Participant) and the Supervisory Board. As of March 31, 2006 it was supported in its activities by five committees constituted to oversee specific areas: Executive Credit Committee, Asset and Liability Management Committee, Operations Committee.

Currently the Executive Board consists of 3 members:

- Sanjay Kumar Maheshka
- Vladislav Aleksandrovich Voitsehovich
- Galina Georgievna Kazanikova

(Decision of the Supervisory Board Nr 22 of July 5, 2005)

In view of the similarity of powers and functions of the previously formed Premises Committee and the Executive Board Premises Committee was dissolved effective March 3, 2006 and its powers vested in the Executive Board.

There were 30 meetings of the Executive Board during the mentioned period.

AUDIT COMMITTEE

Terms of Reference

The Audit Committee provides direction to the audit and risk management function and monitors the quality of internal and statutory audit. The responsibilities of the Audit Committee include

- Review internal and management reports
- Oversee financial reporting process to ensure fairness, sufficiency and credibility of financial statements
- Review financial statements before submission to the Supervisory Board
- Recommend the appointment and removal of auditors and fix their remuneration
- Review the adequacy of internal control systems and internal audit function
- Review CBR inspection and audit reports and reports of auditors
- Review quarterly reports of the Compliance Officer
- Review the scope of audit with external auditors and examine reasons for any substantial default to any stakeholder
- Review the monthly returns filed before CBR or any other regulatory authority

Composition

The Audit Committee comprises three Directors and is chaired by Lalita D. Gupte. There were two meetings of the Committee during the mentioned period. The details of the composition of the Committee and attendance at its Meetings are set out in the following table:

Name of Member	Number of meetings attended
Lalita D. Gupte (Chairman)	2
Bhargav Dasgupta	2
Sanjay Kumar Maheshka	2

Governance Committee

Terms of Reference

The functions of the Committee include:

- Review Senior Management appointments and nominations
- Review remuneration and compensation, including the Bank's performance bonus plan
- Approve corporate philosophy and mission
- Ensure ethical behaviour and compliance with laws and regulations

Composition

The Governance Committee comprises three members and is chaired by K. V. Kamath. There were no meetings of the Committee before March 31, 2006.

Name of Member	Number of meetings attended
K.V. Kamath (Chairman)	-
Lalita D. Gupte	-
Bhargav Dasgupta	-

RISK AND CREDIT COMMITTEE

Terms of reference

The functions of the Committee include

- Approve all new credit proposals in excess of USD 4 million to a single borrower or borrower group
- Review and approve Bank's Credit policy
- Approve all credit proposals not compliant with the bank's standard lending criteria as defined in the bank's internal credit policy
- Approve all new product proposals and their related limits
- Approve the formats for program lending and delegate authority under these programs
- Approve facility reviews where the aggregate group exposure exceeds USD 4 million
- Approve all credit proposals generally above the prescribed authority of the Executive Credit Committee
- Review the quarterly portfolio analyses prepared by the Head of Risk
- Approve any borrowings other than temporary loans taken in the ordinary course of business in accordance with Treasury policy dealing limits (acceptance of deposits of money shall not be deemed to be borrowings)
- Review and approve Bank's investment policy and associated limits
- Monitor Bank's market risk exposures through a suitable reporting package encompassing interest rate risk, exchange rate risk, liquidity risk and equity risk.
- Review of operations of the Executive Credit Committee

Composition

The Risk and Credit Committee comprises three Member Directors. It is chaired by Lalita D. Gupte. There were 8 meetings of the Committee during the mentioned period. The details of the composition of the Committee and attendance at its Meetings are as follows:

Name of Member	Number of meetings attended
Lalita D. Gupte (Chairman)	8
Bhargav Dasgupta	8
Sanjay Kumar Maheshka	8

Executive Credit Committee

Terms of Reference

The Committee reviews and sanctions credit proposals within the framework of the policy for the amount up to USD 4 million.

Composition

The Executive Credit Committee comprises six members - President and CEO (Chairman), Deputy CEOs, CFO, Head of Retail department and Deputy Head of Operations.

There have been 43 meetings of the Executive Credit Committee during the reporting period from the acquisition of the Bank till March 31, 2006.

Asset and Liability Management Committee

Terms of Reference

- Implementation of risk mitigation measures
- New products (for investment purposes)
- Delegation of authority to functional authorities
- Empanelment of brokers
- Adherence to extant CBR guidelines on accounting, classification and valuation of investment portfolio

Continued

- Adherence to Internal Control guidelines and limits
- Investment transactions activity
- Business transacted through the brokers
- Maintenance of liquidity requirements
- Any other matter incidental to investment and treasury operations

In addition to the above, to determine and delegate to the Asset Liability Management Committee regulation of the asset liability management policy of the Bank and market risk management and for this purpose to authorise the Asset Liability Management Committee to:

- Put in place an effective liquidity management policy in conjunction with the Liquidity Policy statement approved by the CBR, including, *inter-alia*, the funding strategies, liquidity planning under alternative stress scenarios, prudential limits and review the same periodically
- Decide the deposit rates and the lending rates
- Monitor market risk limits including limits on liquidity and interest rate on the balance sheet
- Approve the system for liquidity management
- Consider and approve any other matters related to liquidity and interest risk management

Composition

The ALM Committee comprises of the following members: President and CEO (Chairman), Deputy CEOs and the CFO.

There has been 1 meeting of the ALM Committee during the reporting period from the acquisition of the Bank till March 31, 2006.

Operations Committee

Terms of reference

- To approve modifications to products and to procedures which have been approved by the Credit and Risk Committee.

Composition

The Operations Committee comprises of the following members: Deputy CEOs the CFO, Head of Risk Management Department, Head of Retail Business Group and Deputy Head of Operations & IT.

There has been one meeting of the Operations Committee during the reporting period from the acquisition of the Bank till March 31, 2006.

The Sole Participant

The Sole Participant of the Bank has taken a number of decisions on the composition of the Supervisory Board, increase of equity capital and investment into the property of the Bank, change of location of the Branch, approval of the yearly financial results and appointment of Auditors and of an Inspector of the Bank.

The Sole Participant of ICICI Bank Eurasia LLC holding 100% of its equity capital is ICICI Bank Eurasia LLC.

Disclosures

1. There are no materially significant transactions with related parties i.e., directors, management, subsidiaries, or relatives conflicting with the Bank's interests.

Means of Communication

It is ICICI Bank Eurasia's belief that all stakeholders should have access to complete information regarding its position to enable them to accurately assess its future potential. ICICI Bank Eurasia disseminates information on its operations and initiatives on a regular basis. The ICICI Bank Eurasia website (www.icicibankrussia.com) serves as a key awareness facility for all its stakeholders, allowing them to access information at their convenience. It provides comprehensive information on ICICI Bank Eurasia's strategy, business segments, financial performance, operational performance and the latest press releases.

ICICI Bank Eurasia's annual financial results are published in Russian financial media.

GENERAL SHAREHOLDER INFORMATION

Listing of equity shares/ADSs on Stock Exchanges (with stock code)

ICICI Bank Eurasia has no stock exchange listings.

Share Transfer System

Being a limited liability company shares in the equity capital of ICICI Bank Eurasia LLC is transferred upon resolution/decision of the General meeting of Participants and is effected by introducing of respective changed into the Charter.

Information on Shareholding

Shareholding pattern of ICICI Bank Eurasia LLC at March 31, 2006

Shareholder Category	Shares	%
ICICI Bank Limited	313 100 000	100

Plant Locations – Not applicable

Address for Correspondence

ICICI Bank Eurasia LLC
Russia 125047 Moscow
4th Lesnoi Lane 4
Capital Plaza Business Center
Tel No: +7 (495) 981 - 4988/89
Fax No: +7 (499) 500 - 8082

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

1. that in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
2. that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit or loss of the Bank for that period;
3. that they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Laws of the Russian Federation for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities; and
4. that they have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENTS

ICICI Bank Eurasia is grateful to the Bank of Russia for their continued co-operation, support and advice. ICICI Bank Eurasia LLC wishes to thank its investors, the domestic and international banking community for their support.

ICICI Bank Eurasia LLC would like to take this opportunity to express sincere thanks to its valued clients and customers for their continued patronage. The Directors express their deep sense of appreciation of all the employees, whose outstanding professionalism, commitment and initiative has made the organization growth and success possible and continues to drive its progress. Finally, the Directors wish to express their gratitude to the Members for their trust and support.

Compliance with the Code of Business Conduct and Ethics

I confirm that all Directors and senior management have affirmed compliance with ICICI Bank Code of Business Conduct and Ethics.

For and on behalf of the Board

Sanjay Kumar Maheshka,
President & CEO

Place : Kaluga Region, City of Balabanovo, May 24, 2006

independent auditors' report

to shareholders of ICICI Bank Eurasia Limited Liability Company

We have audited the enclosed balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital) of **"ICICI Bank Eurasia" Limited Liability Compan**y (hereinafter -Bank) as at December 31st, 2005. These financial statements are the responsibility of the Bank management. Our responsibility is to express an opinion on the balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital) based on our audit.

We conducted our audit in accordance with International Audit Standard. Those Standards require that we plan and perform the audit to obtain reasonable assurance of that the balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital)are free of material misstatement. An audit includes examining, on a sampling basis, of amounts and disclosures in the balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital). An audit also includes assessing the accounting principles used and significant estimates made by the Bank management, as well as evaluating the overall balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital)presentation. We believe that our audit provides a reasonable basis for our opinion on the balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital)of the Bank.

In our opinion, the submitted balance sheet, profit and loss statement, statement of cash flow, statement of changes in equity (capital) represent fairly, in all material respects, the financial position of the Bank as at December 31st, 2005 in accordance with International Financial Reporting Standards.

Moscow, Russian Federation

Director General

LLC "Bank's-Audit-Service" E.V. MOSTOVAYA

(Qualification Certificate No. K 006166 in the area of bank audit issued 18.07.2000 by CBR renewed for unlimited period from 01.08.2003)

June 27, 2006

balance sheet

as at December 31, 2005

	Notes	(Rs. in '000s)	2004
ASSETS			
Cash and cash equivalents	5	**188 020**	*22 966*
Obligatory reserves on accounts held with CBR	6	**1 999**	*1 607*
Loans and advances to banks	7	**332 989**	—
Loans to customers	8	**358 337**	*99 286*
Other assets	9	**69 152**	*435*
Income tax assets	21	**1 423**	*645*
Fixed assets	10	**16 520**	*4 810*
TOTAL ASSETS		**968 440**	*129 749*
LIABILITIES			
Loans and advances from banks	11	**168 993**	—
Customer accounts	12	**53 113**	*67 255*
Debt securities issued	13	**3 680**	*9 071*
Provision for contingent liabilities and credit commitments	23	**41**	—
Other liabilities	14	**33**	*136*
Income tax liabilities	21	**4 315**	*8*
TOTAL LIABILITIES		**230 175**	*76 470*
EQUITY (EQUITY DEFICIT)			
Authorized capital	15	**647 427**	*207 533*
Share premium	16	**230 354**	—
Profit (losses) of previous years		**(154 254)**	*(154 148)*
Foreign currency reserve		**440**	*1*
Profit (losses) for the period		**14 298**	*(107)*
Total equity (equity deficit)		**738 265**	*53 279*
TOTAL LIABILITIES AND EQUITY (EQUITY DEFICIT)		**968 440**	*129 749*

SANJAY KUMAR MAHESHKA
President & CEO

DMITRI KARPOV
Acting Chief Accountant

Balabanovo, May 24, 2006

Data of the Balance Sheet shall be considered along with the Notes to the financial statements which form their integral part.

profit and loss statement

for the year ended on December 31, 2005

	Notes	(Rs. in '000s)	2004
Interest income	18	**21 232**	*16 172*
Interest expenses	18	**(4 859)**	*(5 490)*
Net Interest Income (Negative Interest Margin)		**16 373**	*10 682*
Increase/decrease of provision for loan impairment losses	8	**(5 300)**	*(3 980)*
Net Interest Income (Negative Interest Margin) after creation of provision for impairment losses on the loan portfolio		**11 073**	*6 702*
Net gain (loss) from operations with financial assets recognized at fair value through gains and losses		**47**	*3 789*
Net gain on foreign exchange operations		**2 934**	*1 930*
Net gain on revaluation of foreign currencies		**8 734**	*(65)*
Dividend income		**—**	—
Commission income	19	**57 386**	*4 856*
Commission expenses	19	**(480)**	*(145)*
Provision for possible losses on contingent liabilities		**(42)**	*(50)*
Income from other operating activities		**6 775**	*1 006*
Net income (expenses)		**86 427**	*18 023*
Operating expenses	20	**(68 788)**	*(17 384)*
Operating income (expenses)		**17 639**	*(639)*
Profit (losses) before income tax		**17 639**	*(639)*
Income tax expense	21	**(3 341)**	*(746)*
PROFIT (LOSSES) FOR PERIOD		**14 298**	*(107)*

SANJAY KUMAR MAHESHKA
President & CEO

DMITRI KARPOV
Acting Chief Accountant

Balabanovo, May 24, 2006

Profit and Loss Statement shall be considered along with the Notes to the financial statements which form their integral part.

cash flow statement

for the Year Ended on December 31st, 2005

	Notes	(Rs. in '000s)	2004
Cash flow from operating activities			
Interest earned	18	**20 918**	*16 172*
Interest paid	18	**(5 564)**	*(4 765)*
Net gain (loss) from operations with financial assets recognized at fair value through gains and losses, with financial assets available-for-sale		**47**	*3 789*
Net gain on foreign exchange operations		**2 934**	*1 930*
Commission earned	19	**57 386**	*4 856*
Commission paid	19	**(480)**	*(145)*
Income from other operating activities		**6 776**	*1 006*
Operating expenses paid	20	**(70 669)**	*(19 163)*
Income tax paid	21	**158**	*(1 374)*
Cash flows from operating activities before changes in operating assets and liabilities		**11 504**	*2 306*
(Increase) decrease in operating assets and liabilities			
Net (increase) decrease in obligatory reserve with CBR	6	**(395)**	*(1 606)*
Net (increase) decrease in loans and advances to banks	7	**(332 902)**	*4 313*
Net (increase) decrease in loans and account receivable	8	**(264 371)**	*(100 442)*
Net (increase) decrease in other assets	9	**(68 719)**	*(1 147)*
Net (increase) decrease in loans and advances from banks	10	**169 380**	-
Net (increase) decrease in customer accounts	12	**(14 001)**	*66 430*
Net (increase) decrease in other liabilities	14	**(102)**	*121*
Net cash inflow/(outflow) from operating activities		**(499 606)**	*(30 025)*
Cash flows from investing activities			
Purchase of fixed assets	10	**(9 824)**	*(2 890)*
Net cash inflow/(outflow) from investing activities		**(9 824)**	*(2 890)*
Effect of foreign exchange rate changes on cash and cash equivalents		**8 850**	*(8)*
Cash flow from financing activities			
Issue of ordinary shares / increase in authorized capital	15	**440 328**	-
Share premium		**230 354**	-
Net increase (decrease) from issue of debt securities	16	**(5 048)**	*9 071*
Net cash inflow / (outflow) from financing activities		**665 634**	*9 071*
Net increase in cash and cash equivalents		**165 054**	*(23 852)*
Cash and cash equivalents, beginning of year	5	**22 966**	*46 818*
Cash and cash equivalents, end of year		**188 020**	*22 966*

SANJAY KUMAR MAHESHKA
President & CEO

DMITRI KARPOV
Acting Chief Accountant

Balabanovo, May 24, 2006

Statement of Cash Flow shall be considered along with the Notes to the financial statements which form their integral part.

Statement of changes in equity for the year ended on December 31st, 2005

	Authorized capital	Share premium	[Accrued deficit] Retained profits	Total shareholders' equity [deficit]
Balance as on 01.01.2004	*207 533*		*(154 148)*	*53 385*
Net profit [loss] for 2004			*(107)*	*(107)*
Foreign currency reserve			*1*	*1*
Balance as at 31.12.2005	**207 533**		**(154 254)**	**53 279**
Net profit [loss] for 2005			**14 298**	**14 298**
Issue of shares				
– Face value	**440 328**			**440 328**
– Share premium		**230 354**		**230 354**
Foreign currency reserve	**(434)**		**440**	**6**
Balance as at 31.12.2005	**647 427**	**230 354**	**(139 516)**	**738 265**

President & CEO

Chief Accountant

Statement of Changes in Equity shall be considered along with the Notes to the financial statements which form their integral part.

NOTE 1 – CORE ACTIVITIES OF THE BANK

ICICI Bank Eurasia Limited Liability Company was incorporated in May 2005, when ICICI Bank Ltd., India, has acquired the entire share capital of Investisionno-Kreditny Bank (IKB), a Russian bank with its registered office in Balabanovo in the Kaluga region and a branch in Moscow. Investisionno-Kreditny Bank (IKB) was found in 1992. The Bank conducts its business under banking license issued by the Central Bank of Russian Federation on May 27, 1998, registration number 3329, for banking operations in Russian Rubles and foreign currencies from legal entities and individuals.

The registered office of the bank is located at: 249000, Kaluga region, Balabanovo, 50 Let Oktyabrya square, 3.

The Bank has 1 Branch located at: 4, 4th Lesnoy Lane, Moscow 125047.

The number of the bank staff was equal to 77 people as at December 31, 2005 (in 2004: 20 people).

NOTE 2 – ECONOMIC ENVIRONMENT

In 2005, the Russian economy continues to boom on soaring commodity prices and strong domestic demand. GDP growth surpassed the 6%year-on-year mark in 2005, while capital investment was above 10%up year-on-year (source: Rosstat).Russia 's external and fiscal accounts are among the strongest in the world. The Bank of Russia 's FX reserves reached an all-time high of more than USD 182 billion in 2005, having surpassed the amount of sovereign debt (source: Rosstat).This has been recognized by international rating agencies: Russian sovereign debt has full investment grade rating. Moody 's raised the outlook of Russia 's sovereign rating (at Baa2 currently) to "Positive "in October 2005,which suggests further upgrades in the medium term.

Despite significant growth in the economy, Russia still has the features of a developing country. These features include but not limited to nonconvertible national currency which cannot be freely converted outside Russia and comparatively high level of inflation.

(Rs. in '000s) March 31, 2004

Besides, political, statutory, financial and regulatory changes in Russian Federation have considerable influence on banking sector. Perspectives of future economic stability in Russia depend mostly on effective economic measures taken by the Government, Ministry of Finance of RF and other authorities. As before there is a possibility of unpredictable changes in financial and economic areas which may affect the activities of the Bank. The Bank management cannot foresee the degree and continuity of future economic difficulties, consequently, the attached financial statements do not include adjustments which might be made should any uncertainties occur. Such adjustments, if any, will be recorded in the financial statements of the Bank for the period within which they are evaluated and made.

Volume of operations in the financial markets is restricted due to the existing economic situation. Market rates may not reflect the value of financial instruments which might be determined on the existing market. Therefore, the Bank management uses the most precise information so that to adjust market rates if necessary and reflect own evaluation of fair value.

NOTE 3 – BASIS OF PRESENTATION

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS") and interpretations worked out by The International Accounting Standards Board. The Bank maintains its accounting records and prepares its financial statements in Russian rubles in accordance with the accounting methods established by the Central Bank of Russian Federation. These financial statements have been prepared on the basis of these statutory accounting records and have been adjusted to conform with IFRS.

The presentation currency of these financial statements is Indian Rupee. The functional currency of these financial statements is the Russian Rouble.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements have been prepared in accordance with historical cost accounting principal except for non-monetary assets and liabilities which have been adjusted to inflation, and financial assets and liabilities such as derivative instruments held-for-trade which have been recorded at amortized cost.

The attached financial statements of the Bank have been prepared on a going-concern basis providing that assets are realized and obligations are fulfilled in normal business environment. Nevertheless, liquidity of bank assets and future operations of the Bank may depend on current and future market conditions if we take into consideration the situation in the Russian banking market. So, results of the Bank will depend on the ability and readiness of its shareholders to provide the Bank with financial support.

NOTE 4 – ACCOUNTING PRINCIPALS

Basic accounting principals of the Bank used in preparation of theses financial statements are given below.

Inflation accounting

Before January 1, 2003 the Russian economy was classified as "hyperinflationary" in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements be stated in terms of the measuring unit current at the reporting date. Consequently, the financial statements of the Bank for the periods prior to January 1, 2003 were recalculated on the basis of changes in purchasing power of the Russian ruble and price indexes effective on the reporting date. The specified indexes are calculated on the basis of the inflation rates published by the Russian Statistics Agency.

	Indexes
31.12.1992	2.642
31.12.1993	25.023
31.12.1994	78.470
31.12.1995	182.046
31.12.1996	221.597
31.12.1997	245.949
31.12.1998	453.704
31.12.1999	619.691
31.12.2000	744.425
31.12.2001	884.504
31.12.2002	1.018.277

Since January 1, 2003 the Russian economy has stopped being "hyperinflationary". Hence, net present value of assets, liabilities and equity shown in financial statements of the Bank was not recalculated on the basis of changes in purchasing power of the Russian ruble.

Cash and Cash Equivalents

Cash and cash equivalents are items which may be converted to cash within a day. All short term interbank operations except for "overnight" placements are included in loans and advances to banks. Restricted amounts are excluded from cash and cash equivalents, e.g. obligatory reserves deposited with the Central Bank of Russian Federation. Obligatory reserves deposited with the Central Bank of Russian Federation shall not be used to finance current operations of the Bank due to restrictions on their availability. Consequently, they are excluded from cash and cash equivalents for the purpose of statement of cash flow.

Originated Loans to customers, and provision for loan impairment

Loans originated by the Bank by providing money directly to the borrower, are categorized as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the profit and loss statement as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the profit and loss statement using the effective yield method.

As on December 31, 2005 there are no loans originated at interest rates different from market rates.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms.

The provision for loan impairment also covers loans where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

(Rs. in '000s) March 31, 2005

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the profit and loss statement.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the profit and loss statement.

The Bank did not enter into transactions for purchases of loans with third parties during the year 2005.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Fixed assets

Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at December 31, 2002 for assets acquired prior to January 1, 2003, 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 profit and loss statement. The estimated recoverable amount is determined as the higher of an asset's net selling price or its value in use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss).

Repairs and maintenance are charged to the profit and loss statement when the expenditure is incurred.

Depreciation

Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

Fixed assets group	Depreciation rate, %
Premises	2
Office and computer equipment	25
Motor vehicles	20
Intangible assets	10

Debt securities issued

Debt securities issued include promissory notes issued by the Bank. Debt securities in issue are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the profit and loss statement over the period of the security issue using the effective yield method.

If the Bank acquires own debt securities issued they are excluded from the balance and the difference between the balance value of the liability and the paid sum is included in profit (loss) from the prepayment (repayment) of debt.

Share capital and share premium

Share capital is accounted at historical cost, if paid up by monetary funds before January 1, 2003 – restated for inflation.

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

Income tax

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force.

Income tax charge (recovery) in the profit and loss statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date.

Taxes, other than on income, are recorded within operating expenses.

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

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are offset.

Deferred taxation related to revaluation at fair value of financial assets available for sale charged directly to equity, is also dealt with in equity. At realization of these financial assets the respective amounts of deferred taxation are reflected in profit and loss statement.

Income and expense recognition

Interest income and expense are recorded in the profit and loss statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. At calculation of effective interest rate the Bank evaluates cash flows taking into consideration all contractual terms and conditions relating to financial instrument. Such calculation includes all fees and commissions, paid and received by the parties to the contract being an integral part of effective interest rate, expenses on transaction as well as all other premiums and discounts.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan.

Accrued interest income and accrued interest expense, and accrued discount are included in the respective assets and liabilities of the balance sheet.

Foreign currency translation

Transactions denominated in foreign currency are recorded 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 profit and loss statement 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. Translation differences are included in profit and loss statement as net foreign exchange translation gains and losses.

Translation from functional currency to reporting currency:

Assets and liabilities are translated at the closing rate of the reporting currency, on the balance sheet date. Income and expenses are translated at the rate of the day of transactions. The net exchange differences resulting are classified as equity.

As at December 31, 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825, EURO 1 = RR 34.1850 and 1 RR = INR 1,5726 (2004: USD 1 = RR 27.7487, EURO 1 = RR 37.8104 and 1 RR = INR 1,5759). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

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.

Provisions

Provisions are recorded 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.

NOTE 5 – CASH AND CASH EQUIVALENTS

	2005	2004
Correspondent accounts and deposits "overnight" with other banks	151 142	1 242
Cash balances with the CBRF (other than mandatory reserve deposits)	32 248	15 099
Cash on hand	4 630	6 625
Total cash and cash equivalents	**188 020**	*22 966*

Geographic analysis as well as analysis of cash and cash equivalents by currency and interest rate structure are represented in Note 22.

NOTE 6 – ACCOUNTS AND DEPOSITS WITH THE CENTRAL BANK OF RUSSIAN FEDERATION

	2005	2004
Mandatory reserve deposit	1 999	1 607
Total mandatory deposits with the Central Bank of Russian Federation	**1 999**	*1 607*

Minimum reserve deposited with the Central Bank of Russian Federation is an interest-free deposit required by the Central Bank of Russian Federation the availability of which is restricted.

NOTE 7 – LOANS AND ADVANCES TO BANKS

	2005	2004
Current term deposits and loans to banks	332 903	—
Accrued interest income	86	—
Total loans and advances to banks	**332 989**	—

As on December 31, 2005 the Bank had term deposits and granted loans to other credit institutions such as JSC CB (Petrocommerz), LLC CB (HOMOS), LLC CB (Absolutbank).

NOTE 8 – LOANS AND ADVANCES TO CUSTOMERS

	2005	2004
Current loans	364 560	103 270
Overdue loans	2 865	—
Accrued interest income	230	—
Less provision for loan impairment	(9 318)	(3 984)
Total loans and advances to customers	**358 337**	*99 286*
Movements in provision for impairment losses on loans and advances to customers are disclosed hereunder:		
Provision for loan impairment as at the beginning of the period	3 984	—
Provision for loan impairment during the period	5 334	3 984
Provision for loan impairment as at December 31, 2005	9 318	3 984

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

	2005		2004	
	Amount	%	Amount	%
Individuals	23 797	6.47	1 576	1.53
Trade	223 995	60.93	34 881	33.78
Construction and development	79 210	21.54	—	—
Industry	—	0	22 851	22.13
Real estate	—	0	12 599	12.20
Other	40 653	11.06	31 363	30.37
Total loans and advances to customers	**367 655**	**100.00**	*103 270*	*100.00*

As on December 31, 2005 the Bank had two borrowers with the total amount of loans granted to each of them above 73 827 thousand rupees. Total loan amount comes to 236 274 thousand rupees or 64.26% of the total amount of the loan portfolio. The Bank has 16 borrowers with the total amount of loans granted to them being less than 73 827 thousand rupees. Total amount of these loans comes to 131 381 thousand rupees.

Geographic analysis as well as analysis of loans and advances to customers by currency and interest rate structure are represented in Note 22.

NOTE 9 – OTHER ASSETS

	2005	2004
Prepayments on operational lease	57 530	—
Prepayments and other debtors	10 496	325
Tax settlements, other than income tax	904	39
Insurance debtors	115	65
Other	107	6
Total other assets	**69 152**	*435*

Geographic analysis as well as analysis of other assets by currency and interest rate structure are represented in Note 22.

NOTE 10 – FIXED ASSETS

	Furniture and equip-ment	Motor vehicles	In-tangible assets	Construc-tion in progress	Total
At initial/indexed/revalued cost					
At December 31, 2003	205	277	—	—	482
Additions	2 358	780	1 800	33	4 971
At December 31, 2004	2 563	1 057	1 800	33	5 453
Additions	2 423	1 585	7 271	1 560	12 839
Disposals	—	—	—	(33)	(33)
At December 31, 2005	**4 986**	**2 642**	**9 071**	**1 560**	**18 259**
Accumulated depreciation					
At December 31, 2003	(143)	(197)	—	—	(340)
Charge for the year	(158)	(69)	(76)	—	(303)
At December 31, 2004	(301)	(266)	(76)	—	(643)
Charge for the year	(881)	(36)	(179)	—	(1 096)
At December 31, 2005	**(1 182)**	**(302)**	**(255)**	**—**	**(1 739)**
Net book value					
At December 31, 2005	**3 804**	**2 340**	**8 816**	**1 560**	**16 520**
At December 31, 2004	2 262	791	1 724	33	4 810

NOTE 11 – LOANS AND ADVANCES FROM BANKS

	2005	2004
Correspondent accounts and deposits «overnight» with banks	**168 606**	—
Accrued interest expenses	**387**	—
Total loans and advances from banks	**168 993**	—

Geographic analysis as well as analysis of other borrowed funds by currency structure and repayment periods are represented in Note 22. The Bank has loans and advances from related parties. Corresponding information on related parties is represented in Note 25.

NOTE 12 – CUSTOMER ACCOUNTS

	2005	2004
Legal entities		
Current/settlement accounts	**48 987**	*16 069*
Term deposits	**—**	*840*
Individuals		
Current account / on-demand accounts	**2 420**	*2 792*
Term deposits	**1 706**	*47 554*
Total customer accounts	**53 113**	*67 255*

NOTE 13 – DEBT SECURITIES ISSUED

	2005	2004
Bonds	**3 680**	*9 071*
Total debt securities issued	**3 680**	*9 071*

As at December 31, 2005, the estimated fair value of debt securities issued amounted to 3 680 thousand rupees (2004: 9 071 thousand rupees).

Geographic analysis of debt securities issued by currency structure and repayment periods as well as interest rate analysis are given in Note 22.

NOTE 14 – OTHER LIABILITIES

	2005	2004
Other taxes payable	**3**	—
Settlements with buyers and customers	**—**	*50*
Other	**30**	*86*
Total other liabilities	**33**	*136*

Geographical analysis, analysis of other liabilities by currency structure and repayment periods are represented in Note 22.

NOTE 15 – SHARE CAPITAL

As on December 31, 2005 authorized, issued and fully paid share capital of the Bank amounted to 647 427 thousand rupees. During the year of 2005 authorized capital was increased by 440 328 thousand rupees.

Within 2002-2005 the Bank participants did not declare their wish to withdraw from the membership and according to the information obtained from the Bank management, neither cessation of membership is planned in 2006. In connection with the above there are no grounds for reclassification of Charter capital of the Bank into financial liabilities of the Bank.

As at December 31, 2005 and December 31, 2004 or any other date within 2004-2005 the Bank did not have stakes purchased from the participants.

NOTE 16 – SHARE PREMIUM

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

NOTE 17 – OBLIGATORY RESERVE

In accordance with the requirements of the Russian law the Bank forms reserve out of the retained earnings to cover allied perils and future losses. Common bank reserve may be allocated subject to approval of the general meeting of participants.

NOTE 18 – INTEREST INCOME AND EXPENSES

	2005	2004
Interest income		
Loans and advances to customers	**15 158**	*15 175*
Loans and advances to banks	**2 366**	*482*
Correspondent accounts with other banks	**3 708**	*515*
Total interest income	**21 232**	*16 172*
Interest expenses		
Term deposits of individuals	**3 178**	*930*
Term deposits of other banks	563	—
Term deposits of legal entities	544	*754*
Promissory notes issued	574	*3 806*
Total interest expenses	4 859	*5 490*
Net interest income	16 373	*10 682*

NOTE 19 – FEE AND COMMISSION INCOME AND EXPENSES

	2005	2004
Fee and commission income		
Commission on settlement transactions	**10 561**	*4 452*
Commission on cash transactions	**480**	*285*
Commission on guarantees issued	**53**	*79*
Other	**46 292**	*40*
Total fee and commission income	**57 386**	*4 856*
Fee and commission expenses		
Commission on cash collection	**176**	—
Commission on cash transactions	**137**	*19*
Commission on settlement transactions	**100**	*105*
Other	**67**	*21*
Total fee and commission expense	**480**	*145*
Net fee and commission income	**56 906**	*4 711*

NOTE 20 – OPERATING EXPENSES

	2005	2004
Staff costs	43 159	*9 613*
Rent expenses	8 558	*1 673*
Professional services	5 492	*3 222*
Taxes other than on income	3 064	*1 188*
Administrative expenses	1 811	*286*
Depreciation of fixed assets	1 096	*303*
Other	5 608	*1 099*
Total operating expenses	**68 788**	*17 384*

NOTE 21 – INCOME TAX

Income tax expenses incurred during the year ended on December 31, 2005 are given below.

	2005	2004
Current tax charge	**4 925**	*1 380*
Deferred taxation movement due to origination and reversal of temporary differences	**(774)**	*(634)*
Adjustment of current income tax for the previous periods	**(810)**	—
Income tax expense for the year	**3 341**	*746*

Russian legal entities shall submit income tax reports to relevant tax authorities on their own.

Rate of income tax payable to Federal budget except for income from operations with securities comes to 6,5%; with rate of income tax payable to Budget of constituent entities RF being equal to 17,5 %. Rate of interest income tax on operations with securities comes to 15%.

	2003	Movement	2004	Movement	2005
Tax effect of items which are not deductible or assessable for taxation purposes:					
Loan impairment provision	—	2 803	2 807	3 987	**6 820**
Fixed assets	39	(157)	(118)	(767)	**(892)**
Effect of temporary differences on the tax base	39	2 646	2 688	3 220	**5 929**
Tax effect of temporary differences	9	634	645	774	**1 423**

Net deferred tax assets are income tax amounts which might be offset against future income tax and shown in the balance sheet as deferred tax assets.

Russian tax, exchange and customs regulations provide for various interpretations and are subject to frequent alterations. Corresponding local and federal authorities may contest interpretation of laws by the management regarding operations and Bank activities. On the basis of latest events in the Russian Federation we may conclude that tax authorities are inclined to assume more conservative position in the interpretation of laws and their estimates, consequently, it is possible that operations and activities which caused neither claims in the past would be contested. It may result in charging additional taxes, considerable penalties and penalty fees. It is not practical to determine the amount of possible claims and cases of unfavorable outcomes. Tax periods remain open for tax audit by corresponding authorities for three calendar years immediately preceding the year of audit. In separate cases longer periods may be audited.

As on December 31, 2005 the management is considered to abide by adequate interpretation of the law and position of the Bank on tax, exchange and customs issues is supposed to be supported by relevant regulatory bodies.

NOTE 22 – FINANCIAL RISK MANAGEMENT

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counteragent will fail to discharge an obligation in full on time. The Bank manages credit risk by setting limits on the amount of risk accepted in relation to one borrower or group of borrowers and to geographical and industry segments. The Bank performs regular monitoring of such risks and reviews limits annually or more frequently. Credit risk limits by a borrower or industry sector are approved by the Board.

The exposure to a borrower is further restricted by sub-limits covering on and off-balance sheet exposures as well as daily limits covering daily exposures on delivery of trade instruments, e.g. forward foreign exchange contracts. Actual observance of limits on the level of accepted risks is monitored on a daily basis. Credit risk is managed through regular analysis of the ability of existing and potential borrowers to effect interest payments and repay the principal amount of the loan as well as through changes of credit risk limits if necessary. Moreover, The Bank manages credit risks by means of collateral, corporate or personal guarantees.

As a rule, maximum level of credit risk is shown in the book value of financial assets within consolidated balance sheet. Ability to offset assets or obligations does not mitigate potential credit risk.

The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to failure of the counterparty to comply with the contractual terms and conditions. The Bank applies the same credit policy to contingent liabilities as it does to the balance sheet financial instruments based on the procedures of transaction approval, limits applied to mitigate risks and monitoring.

Market risk

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

Geographical risk

Geographical analysis of Bank assets and liabilities as on December 31, 2005 is given below:

	Russia	**OECD**	**Non OECD**	**Total**
ASSETS				
Cash and cash equivalents	**188 020**	**—**	**—**	**188 020**
Obligatory reserves on accounts held with CBR	**1 999**	**—**	**—**	**1 999**
Loans and advances to banks	**332 989**	**—**	**—**	**332 989**
Loans to customers	**279 127**	**—**	**79 210**	**358 337**
Fixed assets	**16 520**	**—**	**—**	**16 520**
Income tax assets	**1 423**	**—**	**—**	**1 423**
Other assets	**61 462**	**—**	**7 690**	**69 152**
TOTAL ASSETS	**881 540**	**—**	**86 900**	**968 440**
LIABILITIES				
Loans and advances from banks	**7 173**	**161 821**	**—**	**168 993**
Customer accounts	**52 666**	**—**	**447**	**53 113**
Debt securities issued	**3 680**	**—**	**—**	**3 680**
Provision for contingent liabilities and credit commitments	**41**	**—**	**—**	**41**
Income tax liabilities	**4 315**	**—**	**—**	**4 315**
Other liabilities	**33**	**—**	**—**	**33**
TOTAL LIABILITIES	**67 908**	**161 821**	**447**	**230 175**
Net balance sheet position as at December 31, 2005	**813 632**	**(161 821)**	**86 453**	**738 265**

Geographical analysis of Bank assets and liabilities as on December 31, 2004 is given below:

	Russia	*OECD*	*Total*
ASSETS			
Cash and cash equivalents	22 966	—	22 966
Obligatory reserves on accounts held with CBR	1 607	—	1 607
Loans to customers	86 813	12 473	99 286
Fixed assets	4 810	—	4 810
Income tax assets	645	—	645
Other assets	435	—	435
TOTAL ASSETS	117 276	12 473	129 749
LIABILITIES			
Customer accounts	67 255	—	67 255
Debt securities issued	8 910	161	9 071
Income tax liabilities	8	—	8
Other liabilities	136	—	136
TOTAL LIABILITIES	76 309	161	76 470
Net balance sheet position as at December 31, 2004	40 967	12 312	53 279

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 Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values. Currency derivative financial instruments are used to minimize the risk in case of fluctuation of the currency exchange rate.

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

	RR	USD	Euro	Other currencies	Total
ASSETS					
Cash and cash equivalents	**69 702**	**111 651**	**6 629**	**38**	**188 020**
Obligatory reserves on accounts held with CBR	**1 999**	—	—	—	**1 999**
Loans and advances to banks	**174 565**	**158 424**	—	—	**332 989**
Loans to customers	**34 224**	**324 113**	—	—	**358 337**
Fixed assets	**16 520**	—	—	—	**16 520**
Income tax assets	**1 423**	—	—	—	**1 423**
Other assets	**69 152**	—	—	—	**69 152**
TOTAL ASSETS	**367 585**	**594 188**	**6 629**	**38**	**968 440**
LIABILITIES					
Loans and advances from banks	—	**168 993**	—	—	**168 993**
Customer accounts	**3 643**	**41 602**	**7 193**	**675**	**53 113**
Debt securities issued	**3 523**	—	**157**	—	**3 680**
Provision for contingent liabilities and credit commitments	**41**	—	—	—	**41**
Income tax liabilities	**4 315**	—	—	—	**4 315**
Other liabilities	**33**	—	—	—	**33**
TOTAL LIABILITIES	**11 555**	**210 595**	**7 350**	**675**	**230 175**
Net balance sheet position as at December 31, 2005	**356 030**	**383 593**	**(721)**	**(637)**	**738 265**

As at December 31, 2004, the Bank had the following positions in currencies:

	RR	*USD*	*Euro*	*Other currencies*	*Total*
ASSETS					
Cash and cash equivalents	*16 936*	*5 143*	*846*	*41*	*22 966*
Obligatory reserves on accounts held with CBR	*1 607*	-	-	-	*1 607*
Loans to customers	*80 158*	*13 111*	*6 017*	-	*99 286*
Fixed assets	*4 810*	-	-	-	*4 810*
Income tax assets	*645*	-	-	-	*645*
Other assets	*435*	-	-	-	*435*
TOTAL ASSETS	*104 591*	*18 254*	*6 863*	*41*	*129 749*
LIABILITIES					
Customer accounts	*41 106*	*17 623*	*7 139*	*1 387*	*67 255*
Debt securities issued	*8 910*	-	*161*	-	*9 071*
Income tax liabilities	*8*	-	-	-	*8*
Other liabilities	*136*	-	-	-	*136*
TOTAL LIABILITIES	*50 160*	*17 623*	*7 300*	*1 387*	*76 470*
Net balance sheet position as at December 31, 2004	*54 431*	*631*	*(437)*	*(1 346)*	*53 279*

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.

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

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
ASSETS						
Cash and cash equivalents	**188 020**	—	—	—	—	**188 020**
Obligatory reserves on accounts held with CBR	—	—	—	—	**1 999**	**1 999**
Loans and advances to banks	**77 078**	**6 842**	**90 606**	**158 463**	—	**332 989**
Loans to customers	**95 158**	**717**	**203 793**	**58 669**	—	**358 337**
Fixed assets	—	—	—	—	**16 520**	**16 520**
Income tax assets	**1 423**	—	—	—	—-	**1 423**
Other assets	**69 152**	—	—	—	—	**69 152**
TOTAL ASSETS	**430 831**	**7 559**	**294 399**	**217 132**	**18 519**	**968 440**
LIABILITIES						
Loans and advances from banks	—	**156 518**	**12 475**	—	—	**168 993**
Customer accounts	**51 446**	**638**	**1 029**	—	—	**53 113**
Debt securities issued	—	—	—	**3 680**	—	**3 680**
Provision for contingent liabilities and credit commitments	**41**	—	—	—	—	**41**
Income tax liabilities	**4 315**	—	—	—	—	**4 315**
Other liabilities	**33**	—	—	—	—	**33**
TOTAL LIABILITIES	**55 835**	**157 156**	**13 504**	**3 680**	—	**230 175**
Net liquidity gap	**374 996**	**(149 597)**	**280 895**	**213 452**	**18 519**	**738 265**
Cumulative liquidity gap as at December 31, 2005	**374 996**	**225 399**	**506 294**	**719 746**	**738 265**	

At December 31, 2004 the Bank had the following positions in liquidity:

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*No stated maturity*	*Total*
ASSETS						
Cash and cash equivalents	*22 966*	—	—	—	—	*22 966*
Obligatory reserves on accounts held with CBR	—	—	—	—	*1 607*	*1 607*
Loans to customers	—	*67 940*	*17 423*	*13 923*	—	*99 286*
Fixed assets	—	—	—	—	*4 810*	*4 810*
Income tax assets	*645*	—	—	—	—	*645*
Other assets	*435*	—	—	—	—	*435*
TOTAL ASSETS	*24 046*	*67 940*	*17 423*	*13 923*	*6 417*	*129 749*
LIABILITIES						
Customer accounts	*23 209*	*31 852*	*12 194*	—	—	*67 255*
Debt securities issued	*8 595*	*315*	—	*161*	—	*9 071*
Income tax liabilities	*8*	—	—	—	—	*8*
Other liabilities	*136*	—	—	—	—	*136*
TOTAL LIABILITIES	*31 948*	*32 167*	*12 194*	*161*	-	*76 470*
Net liquidity gap	*(7 902)*	*35 773*	*5 229*	*13 762*	*6 417*	*53 279*
Cumulative liquidity gap as at December31, 2004	*(7 902)*	*27 871*	*33 100*	*46 863*	*53 280*	

In the opinion of the Bank management match and/or controlled maturity mismatch of assets and liabilities are very important issues. As a rule, full match is not available as operations usually have indefinite terms to maturity. Mismatch of these positions contributes to potential increase in profitability with greater exposure to risk of loss. Maturity of assets and liabilities and possibility to replace interest bearing liabilities on the maturity date are very important factors for evaluation of the Bank liquidity and its risks in case of fluctuation of interest and foreign exchange rates.

The management considers that in spite of the significant number of demand deposits of individuals diversification of such deposits by quantity and borrower category as well as Bank experience show that these deposits form long-term and stable source of financing.

Demand in liquidity under guarantees and letters of credit is lower than the amount of these liabilities due to the fact that the bank does not expect assets under these transactions to be requested by third parties. Total amount of contractual liabilities is not represented only in cash assets payable in the future as most of those liabilities are not payable within the term of their validity.

Interest rate risk

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

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

The following table presents an analysis of interest rate risk by currency for major balance sheet items. Analysis is based on contractual effective interest rates as at the reporting date.

	RR	USD
ASSETS		
Loans and advances to banks	**3,69%**	**7,44%**
Loans to customers	**14 %**	**10,88%**
LIABILITIES		
Loans and advances from banks	**—**	**5,20%**
Customer accounts	**7%**	**5%**
Debt securities issued	**13,5%**	**10%**

NOTE 23 – CONTINGENT LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

Tax legislation

Russian tax system is considerably new and is characterized by substantial number of taxes and frequently changing regulations, that can be retroactive and in many cases contain ambiguous, contradictory wordings. It is not infrequent that various regulatory bodies interpret one and the same provisions of regulatory documents in a different way. Correct calculation of taxes is a matter of consideration and detailed audits on the part of bodies whose powers include imposition of substantial penalties, penalty interest and other sanctions.

These facts create tax risks in the RF, significantly exceeding analogous risks in other countries. In the opinion of the Bank management tax liabilities were fully reflected in these financial statements based on interpretation of RF tax legislation. Nevertheless, the risk remains that tax bodies may take another position concerning matters having ambiguous interpretation, and effect of this risk can be significant.

Contingent liabilities

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees, Letters of credit that are not in the filed of application of IFRS 4 “Insurance contracts” carry the same degree of credit risk as loans.

Documentary letters of credit being written obligations of the Bank to make payments on behalf of clients within the agreed limits subject to certain conditions, are secured by respective supplies of goods or cash covers and, accordingly, carry lower degree of risk than direct lending.

Bank’s contingent liabilities comprised:

	2005	*2004*
Letters of credit	**2 082**	*—*
Guarantees issued	**3 900**	*3 908*
Provision for contingent liabilities and credit commitments	**(41)**	*—*
Total contingent liabilities	**5 941**	*3 908*

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

The Bank monitors the term to maturity of contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Total amount outstanding for guarantees, letters of credit and unused credit lines does not necessarily represent future monetary claims because it is likely that the said obligations will expire or will be cancelled without drawdown of funds.

NOTE 24 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Loans and advances to banks

Fair value of funds placed at floating rate is equal to their balance value.

In opinion of the Bank, fair value of loans to banks as on reporting date of December 31, 2005 and December 31, 2004 does not significantly differ from their balance value. This is explained by current practices of reviewing interest rates with a view to reflect current market conditions; as a result interest on most balances is accrued at rates approximately equal to market interest rates.

Loans to customers

Loans are presented less provision for impairment losses.

In opinion of the Bank, fair value of loans to customers as on reporting date of December 31, 2005 and December 31, 2004 does not significantly differ from their balance value. This is explained by current practices of reviewing interest rates with a view to reflect current market conditions, as a result interest on most balances accrue at rates approximately equal to market interest rates.

Liabilities recognized at amortized cost

Fair value of instruments having market price is based on market quotations. Estimated fair value of instruments with undefined maturity represents an amount repayable on demand.

NOTE 25 – TRANSACTIONS WITH 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 Disclosure”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with Banks shareholder, and its subsidiaries. The table below represents the list of related parties with outstanding balances as at December 31, 2005:

ICICI Bank Limited, India, the shareholder of the Bank, and its subsidiary:

— ICICI Bank UK, United Kingdom.

These transactions are priced at market rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

	2005
Loans from banks	**161 816**
Net interest income (expense)	**(381)**
Commission income on consultancy services	**44 449**

NOTE 26 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES

Bank makes estimates and allowances, affecting the recognized amounts of assets and liabilities over the next financial year. Estimates and judgements are made and based on historical experience and other factors including expectation of future events that may arise under certain circumstances.

Impairment losses on loans to customers

The Bank analyses the loan portfolio for impairment minimum as on reporting date. If it is necessary to recognize impairment loss in profit and loss statement the Bank uses motivated judgements on presence of evidence of reduction in future expected cash flows on loan portfolio before the reduction can be determined for a certain loan in this portfolio.

Such evidence includes information about the debtors’ solvency, national and local economic trends and conditions affecting the value of the Bank assets.

The Bank uses estimates, based on historical experience of losses from assets with credit risk characteristics and objective evidence of impairment, similar to those contained in the portfolio in planning future cash flows.

Methods and allowances used for estimation of amounts and terms (periods) of cash flows are analyzed on a regular basis in order to reduce differences between estimated losses and actual impairment losses.

Income tax

Bank is a taxpayer in a lot of jurisdictions. Professional judgements are needed to define income tax provisions. For many transactions and settlements the final definition of payable tax is not practicable in the course of normal activities.

NOTE 27 – EVENTS AFTER THE BALANCE SHEET DATE

Effective from May 31, 2006 Central Bank of Russia approved the subordinated term debt of USD 8 000 000 received from ICICI Bank Limited, which is included in Tier 2 Capital since then.