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Chairman`s Address

Honourable Colleagues and Partners!

It makes me real happy to introduce Vnesheconombank`s Annual Report with this Address. For Vnesheconombank, the year 2005 was marked by substantial innovation and dedicated reorganisation preparations.

Over the past decade, reforming Vnesheconombank has been a challenging task. A number of efforts have been undertaken to address and accomplish the reorganisation goal, but with no actual success achieved. In our judgement, the main reason for it was that a particular emphasis was, first and foremost, placed on bringing the Bank`s legal status in compliance with the Russian legislation in force. Such an approach left out of the focus the actual reorganisation priorities, namely, the tasks and functions, which a well-established sound state financial institution of an international dimension, targeted on activities in the priority sectors of the country`s economy, might and should perform within the framework of Russia`s financial infrastructure. Historically, Vnesheconombank, noted for its unique experience of operating on global financial markets, has been actually fulfilling the functions of such a financial institution.

Throughout its history, that stretched over almost a century, Vnesheconombank, serving as a financial vehicle of state economic policy, playing the role of an intermediary between the state and business, has gained enormous experience in arranging financing for major state dimension projects, servicing cash flows, as well as exercising control over a targeted use of funds. In this respect, the major highlights are the construction of giant car plants, such as AvtoVAZ and KAMAZ, the exploration of oil and gas deposits in Siberia, the construction of a number of industrial and energy facilities abroad (the Asuan dam, the metallurgical works in Bhilai, the nuclear power stations in India and the People`s Republic of China).

The Bank possesses in-depth expertise gained when acting as an agent of the Russian Government to service the former USSR and the Russian Federation sovereign foreign debt, ensure centralised foreign economic operations of the Russian Federation, manage external financial assets of the former USSR and the Russian Federation, as well as settle problem debts of the



Russian borrowers towards the federal budget. In this context, Vnesheconombank's initiatives to devise and apply new schemes and mechanisms that draw on the best global practices would considerably contribute to enhancing the efficiency of the sovereign debt and financial assets management.

Management acknowledges, it's on the decisions taken by the Bank as the State Trust Management Company to manage the pension savings funds of the citizens that the ultimate success of the pension reform largely depends. Actually, Vnesheconombank's efficient work in this respect in conjunction with an effort to further develop and upgrade the legal framework for the State Trust Management Company activities enabled the Bank to ensure the yield on the pension savings funds invested that exceeded the level of inflation.

Vnesheconombank's proactive participation in meeting the task of ensuring the development of public-private partnership (PPP) is another critically important new component of the Bank's activities. As of the year-end 2005, actually, 21 agreements on cooperation with major foreign financial institutions, as well as 6 cooperation agreements with regional administrations and various federal executive bodies of the Russian Federation were signed. Encouragingly, each of the agreements signed holds out a prospect of the PPP development with Vnesheconombank's participation.

In 2005, the Bank's raising, for the first time in its post Soviet-era history, a USD 0.5 billion syndicated loan on terms and conditions, which, at that time, were the best for a Russian financial institution, might well be seen as a new facet of Vnesheconombank's activities. This meaningful event is additional evidence of a positive perception of the Bank by the global financial community.

Within the past five years, the Bank has been consistently raising its capitalisation level. To illustrate, starting from 2001, the Bank's total equity (including minority interest) has increased by 3.6 times to reach USD 862 million, as of December 31, 2005 (USD 620 million, as of December 31, 2004). Largely as a consequence of stepped-up activities in the commercial lending and investment banking area, the yearly average volume of the portfolio of loans extended to legal entities of the non-banking sector witnessed an almost 2 time increase, as compared to 2004.

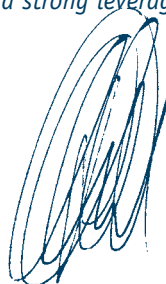
Notably, an important highlight of the past year was shaping up a uniform approach to meeting the two challenges: creating a major national financial development institution

and ensuring Vnesheconombank's reorganisation. The way we see it, there is every reason to believe that this plan could best be implemented through reforming Vnesheconombank into a federal development institution that would serve as an efficient vehicle of the state economic and social policy.

In our judgement, the priorities in the activities of such an institution could embrace enhancing the efficiency of the state investment, raising, in the volumes required, the funds of private investors both on domestic and foreign markets, ensuring the upturn in the real economy sector, primarily, through developing infrastructure, promoting industrial exports, as well as making the best use of the public-private partnership capabilities. These goals could best be achieved through a systematic approach to identifying the list of priority projects and the respective forms of participation in their implementation, the sources and schemes of project financing. Also, this approach would envisage addressing the above issues in close interrelation with the intent to enhance the efficiency of managing the sovereign foreign debt, the state external financial assets and the resources of the state and off-budget funds, as well as to ensure the reduction of the Russian enterprises' debt towards the federal budget.

We are fairly confident that the experience gained by Vnesheconombank makes us well-equipped to rise to the challenge of applying a systematic approach to meet the goal of Russia's economic development, making the best use of all the mechanisms available to manage financial resources.

Established more than 80 years ago, Vnesheconombank is presently on the threshold of a new stage that would enable it to draw on its experience and enhance its capitalisation. That, we acknowledge, would give a fresh impetus to creating in Russia a financial institution designed to ensure the consolidation of the public and private resources to finance nationally important projects, whose implementation would serve as a strong leverage for the country's intensive and innovative economic development.



V. Dmitriev

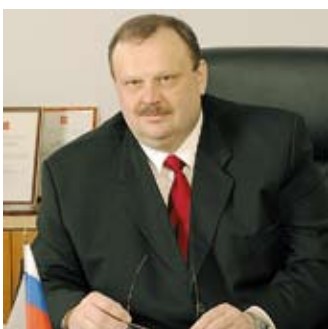
Board of Directors



Chairman of the Bank
Dmitriev Vladimir Alexandrovich



First Deputy Chairman
Kosov Nikolay Nikolaevich



First Deputy Chairman
Zaostrovtssev Yuriy Yevgenievich



Deputy Chairman
Zabaznov Anatoliy Pavlovich





Deputy Chairman
Imamaliyev Mirza Abdulkerim Ogly



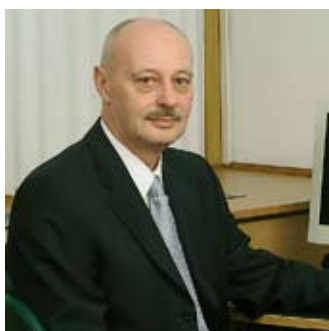
Deputy Chairman
Lykov Sergey Petrovich



Deputy Chairman
Smirnov Alexey Vladimirovich



Chief Accountant
Shaprinskiy Vladimir Dmitrievich



Security Director
Gruzinov Alexander Sergeevich



economy

The data revealed by the Central Bank of Russia on capital movement in 2005 contained information that was interpreted in the majority of business publications as a sensation.

The estimates did not only state the fact of a considerable drop in the net capital outflow from Russia, but also marked the reversal of the trend.

Contrary to the recent forecasts, it was for the first time that the statistics showed a net capital inflow into the country (USD 0.3 billion).

1

- Economy of the Russian Federation: highlights of the year 2005
- Vnesheconombank 2005 – financial highlights and operating statistics

Economy of the Russian Federation: highlights of the year 2005

In 2005, the Russian economy continued to witness its most sustained and intensive upturn for the past quarter of the century.

To illustrate, as compared to 2004 ¹, Russia's economy demonstrated the following results: the GDP growth stood at 4 percent (7.2 percent in 2004 against 2003), the growth of the output of goods and services under basic economic activities was posted at 6.1 percent (6.9 percent), the growth of industrial production² - 4.0 percent (8.3 percent). The volume of fixed capital investment reached RUB 3.43 trillion, while the second consecutive year high growth rates (+10.5 percent in 2005 against +10.9 percent in 2004) were maintained, with the share of foreign investment in the structure of this indicator being 4.8 percent (in 2004 - 5.9 percent).

Remarkably, Russia's foreign trade turnover saw a 32 percent growth to reach USD 370.4 billion, the retail trade turnover increased by 12 percent, while the volume of paid services rendered to households rose by 7.5 percent. Also, the real household incomes showed an 8.9 percent growth.

Essentially, it is a most benign environment inherent to the global raw materials markets in the past few years that substantially contributed to the growth of key development indicators of the Russian economy.

In 2005, the global economic environment was marked, to a great extent, by unprecedented growth of oil prices that actually reached their record high levels for the whole period of observations started in the mid of the XXth century. In 2005, the price for the Russian 'Urals' crude was hovering within the range of USD 40.1 - 58.6 per barrel, the average price within the period under review standing at USD 50.6 per barrel (+46.9 percent). The Ministry for Economic Development and Trade of the Russian Federation believes that the major factors underlying and impacting changes in oil prices on the global oil market were the dynamics of global demand for oil (primarily, increased volumes of oil consumption in China and the USA), the availability of crude oil and oil products in the US reservoirs, depreciation of the dollar versus other major global currencies, as well as the ongoing geopolitical situation.

The average contract price for the Russian natural gas also demonstrated a considerable rise (+27.6 percent against the year 2004).

The period under review is also characterised by a substantial rise in prices for ferrous metals. By way of example, as compared to 2004, average prices for copper, nickel and aluminium rose by 28.3, 6.8, and 10.6 percent respectively. Notably, the above prices posted in 2005 were record high for the past 10 years. Increased prices for aluminium were conditional on its growing consumption in the USA, while rising prices for copper - on enhanced consumption volumes in China. Information about reduced output of nickel by the 'Norilsk Nickel' led to increased nickel prices.

The positive price dynamics witnessed on global energy and metal markets not only led to an increase in the value of the Russian exports goods volumes to USD 245.3 billion (+33.9 percent against 2004), but also contributed to a rise in volumes of trade and investment into fixed capital, as well as to the growth of household incomes. Overall, on the estimates of the Ministry for Economic Development and Trade, the foreign economic factor ensured almost half of the GDP growth, with a third of it attributable to high oil prices. At the same time, even against the backdrop of a most favourable market environment, a certain slowdown in the GDP growth rate was noted.

A distinctive feature of the GDP utilisation structure observed in the past year was a substantial slowdown of the external demand growth rates (from 11.9 percent in 2004 to 5.6 percent in 2005), with the growth rates of domestic demand being steadily high (9.5 and 9.2 percent respectively). Reduced exports growth rates resulting from a slowdown in the growth rates of physical volumes of exports of goods (+4.7 percent versus +10.7 percent in 2004), primarily

- ¹ Here and thereafter in this section, unless specified otherwise, comparison of the indicators for the years 2005 and 2004 is made. In this section, the data and information of the Federal State Statistics Service and the Ministry for Economic Development and Trade of the Russian Federation are used.
- ² By following types of activities: 'extraction of natural resources', 'manufacturing', 'production and distribution of electrical energy, gas and water'.

of oil exports, restrained economic development in Russia in 2005. Obviously, it was one of the major factors that brought about a slowdown in the GDP growth rates. Yet, reduced growth rates of physical volumes of oil exports alongside increased annual volumes of oil extraction ensured increased deliveries to the Russian oil-refining plants and, as a consequence, a rise in the production of oil products to meet the demands of both domestic and external markets. Also, maintaining a strong dynamics of exports of services (+18.3 percent versus 22.5 percent in 2004) was among the favourable factors that contributed to a diversification of foreign economic activities.

The growth rates of physical volumes of imports witnessed a slowdown (to 16.2 percent from 22.5 percent in 2004), but still outstripped the growth rates of domestic production and consumption. The share of imports in the structure of resources needed to meet the domestic demand decreased to 44.9 percent (2004 - 64.1 percent), remaining, however, substantial enough. Clearly, one of the major causes accounting for a persistent preference shown by individuals and enterprises for imported goods is a lower competitiveness of domestic products in comparison with the similar foreign ones (particularly, vehicles and equipment). It should be noted that a relatively high rate of the rouble real effective appreciation (in 2005 - by more than 10 percent) definitely had its role to play.

A moderate enough dynamics of the industrial production growth could also be seen as a factor contributing to a slowdown in the GDP growth rates in 2005. Actually, the dynamics slowdown could well be attributed to:

- low growth rates of fuel and energy resources extracting, inclusive of oil (2.2 percent in 2005 against 9.0 percent in 2004) due to a focus by companies on a passive development strategy in view of limited opportunities for extraction growth on the old deposit sites, enhanced tax pressures, reduced attractiveness of exported oil transportation by railway and waterway means (as a result of increased transport tariffs³);
- unstable dynamics of the manufacturing industries output volume that is attributable to serious pressures by imports. In particular, manufacturing of cars suffered a drop (-3.8 percent, while the increase in imports of new foreign cars stood at 58 percent and second hand cars imports posted a 29 percent rise), freight railway cars (-1.4 percent), railway carriages (-1.3 percent), alternating current electric engines (-10.2 percent), metal-cutting machine tools (-11.4 percent), forging press machines (-13.4 percent).

The factor that 'outweighed' reduced industrial output growth rates and a drop in the growth of physical volumes of exports was the transformation of exports revenues predominantly into enhanced consumer demand.

Encouragingly, a positive trend of reinforcing the financial standing of the Russian enterprises and organisations persisted. To illustrate, the net positive profit generated by them (profits less losses) by 36.6 percent exceeded the similar indicator for the year 2004.

Also important is that the results of the year 2005 budget execution demonstrated the actual volume of the revenues obtained as standing at 102.8 percent to the adjusted revenue projections and almost at 154 percent to the originally envisaged revenue volume⁴. The budget surplus to the GDP ratio stood at 7.5 percent (the federal budget figures calculated through a cash flows method). In the circumstances of positive price market conditions and a net influx of capital, the volume of Russia's gold and foreign currency reserves grew by USD 57.7 billion to reach USD 182.2 billion at the year-end 2005.

Considerable accumulation of resources in the Stabilisation Fund (RUB 1,237 billion, as of the year-end 2005) assisted in sterilisation of the excessive money supply, as well as enabled the Russian Federation to effect an early redemption of a considerable part of indebtedness owed to the Paris Club creditors, thereby enhancing the country's debt repayment sustainability.

The rate of inflation in 2005 reached 10.9 percent, that was less than the similar indicator for the year 2004 (11.7 percent), but exceeded the originally planned inflation target of 8.5 percent. The major causes underlying high inflation rates were as follows:

3 *Within 2005, on average, tariffs for all kinds of transportation (exclusive of pipelines) witnessed a 13.2 percent rise (the same is true of the year 2004).*

4 *According to the preliminary data of the Ministry of Finance of the Russian Federation.*

- growth of demand for goods and services (on the back of strong dynamics of household incomes) outstripped the growth of the respective supply;
- excessive growth of money supply (as a result of high global prices for oil) exceeded money demand, even despite getting the bulk of super high exports profits sterilised through the Stabilisation Fund;
- sharp increase in tariffs for household utility services (the average figure for Russia running at 32.7 percent) in the aftermath of the decision to render these services 100 percent payable, a considerable increase in the prices set by the natural monopolies⁵.

Important decisions adopted at the state level to practically address institutional reforms were the hallmarks of the year under review. In accordance with the instructions of V. Putin, the President of the Russian Federation, work designed to assist in implementing such national projects as 'Agricultural Complex', 'Health-care', 'Education' and 'Housing' was actually launched. Within 2005, 53 targeted federal programs approved by the Russian Government were being realised. In comparison with the year 2004, the volume of the respective programs financing increased by more than 1.5 times and totaled RUB 319.6 billion⁶. Work on the draft program of social-economic development of the Russian Federation for the mid-term period (2006-2008) was completed.

Over the year under review, a number of legislative documents designed to help implement institutional reforms in Russia's economy, including those on the basis of public-private partnership (PPP), were adopted. Among the most important ones are the federal laws 'On Concessionary Agreements', 'On Special Economic Zones in the Russian Federation', as well as Directive №694 dated November 23, 2005, approved by the Russian Government on the Investment Fund of the Russian Federation.

Encouragingly, the growth of Russia's major macroeconomic indicators, as well as dedicated efforts of the state to implement structural reforms in the area of economy and finance were highly evaluated by the major international rating agencies that upgraded Russian sovereign foreign currency long-term debt ratings to 'BBB' (Standard & Poor's and Fitch Ratings) and Baa2 (Moody's).

Moreover, stepped-up foreign partners' business activities are also reflective of Russia's enhanced investment attractiveness. During the year 2005, the volume of foreign investment into Russia's economy reached USD 53.7 billion, by 32.4 percent exceeding the year 2004 level, inclusive of the foreign direct investment (FDI) that posted a 38.8 percent rise to reach USD 13.1 billion. The FDI was mainly channelled into the raw materials extracting sector, some manufacturing industries, retail and wholesale trade.

Favourable trends in Russia's economy contributed to further development of the domestic banking sector that is evidenced by sustained growth of major indicators characteristic of its ongoing state.

The year 2005 saw further development of the Russian banks' resource base. There was a considerable increase in the aggregate volume of balances on the accounts of enterprises and organisations of the non-banking sector (+48.7 percent), interbank loans and deposits taken (+47.4 percent), debt securities issued by banks (+16.3 percent). In view of the fact that banks commanded better customer confidence and trust, as well as due to customer enhanced inclination for savings, an influx of customer deposits placed with banks (+39.3 percent) outstripped an increase in household incomes (on average, +23 percent per head).

Equally important, the aggregate volume of the banking sector assets grew by 36.6 percent (by 2.4 times within the past 3 years). The trend of increasing the volumes of loans extended to the non-financial sector enterprises and organisations (+30.8 percent versus +37.1 percent in 2004) continued, with the share of overdue loans decreasing to 1.2 percent (2004 - 1.5 percent). The volume of the loans extended to households demonstrated a 90.6 percent growth.

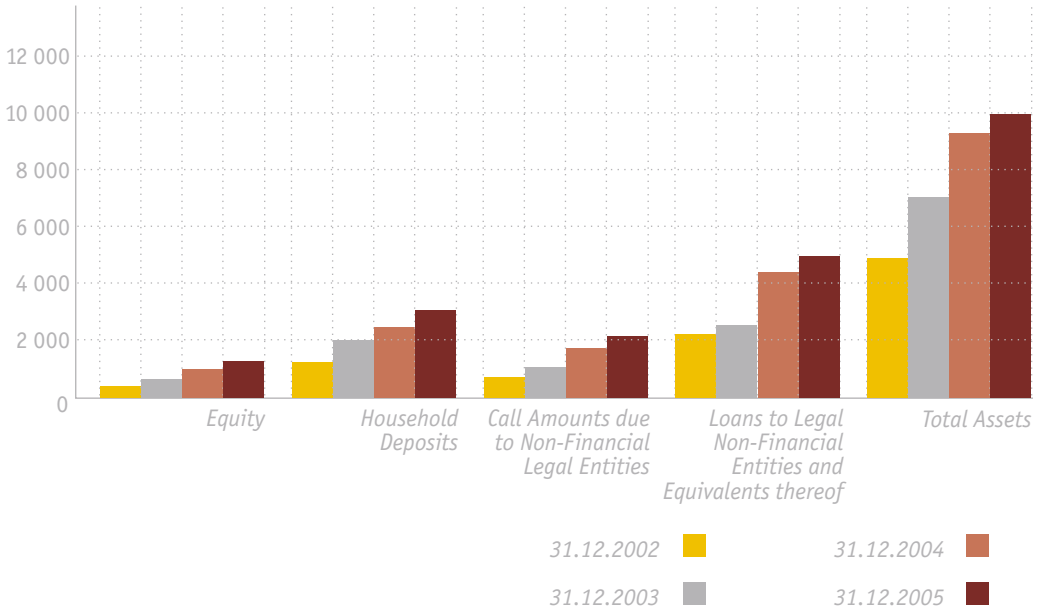
5 From January 1, 2005, federally regulated average wholesale prices for gas were raised by 23 percent for all the consumer categories. Within 2005, freed electricity prices for all the consumer categories grew by 11 percent, heating tariffs - by 13.7 percent, freight railway transportation - by 12.8 percent.

6 According to the data of the Russian Ministry for Economic Development and Trade.



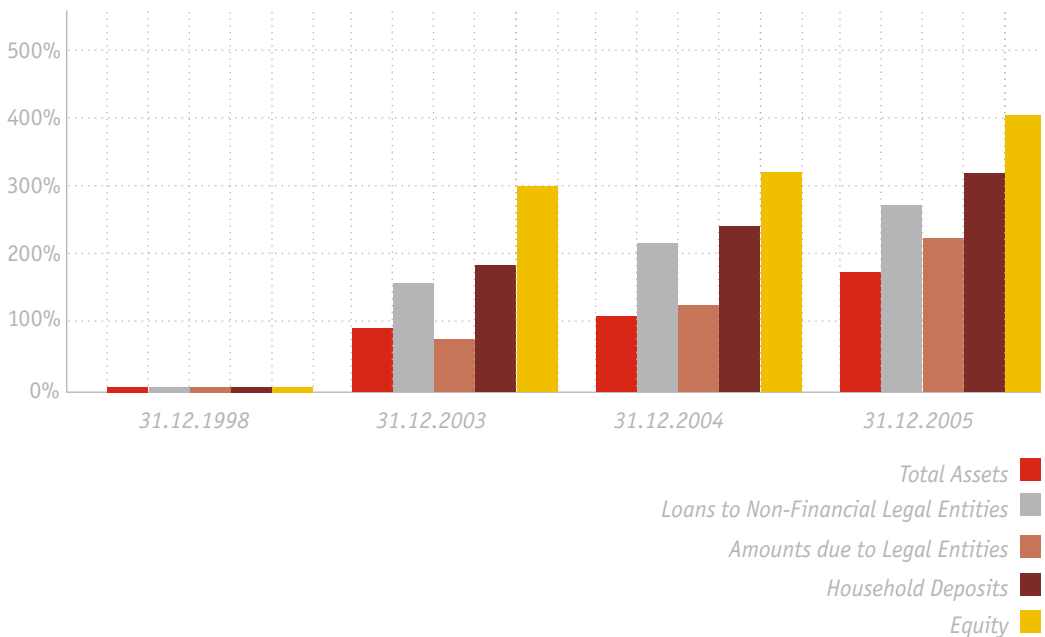
Vigorous growth witnessed on the Russian stockmarket (the closing RTS index at the year-start - 614.1, at the year-end - 1125.6) ensured a rise in the volume of debt securities by 37.7 percent to stand at RUB 1,036.6 billion, while the volume of equity market increased by 2.1 times to reach RUB 292.8 billion.

Major Development Indicators of Russia's Banking Sector, RUB Billion



In 2005, the aggregate volume of the banking sector capital posted a 31.2 percent increase against 16.2 percent in 2004, with the banks' income exceeding the previous year financial result by 47.3 percent. To be more specific, within the past 3 years, the banking sector capital grew by 2.1 times, while its income grew by 2.8 times.

Russia's Banking Sector Assets and Liabilities Growth Dynamics (Major Items, as compared to 31.12.1998, in real terms)



As of December 31, 2005, the banking sector return on assets (ROA) was standing at 2.7 percent, while return on equity (ROE) - at 21.1 percent, (01.01.2005 - 2.5 and 18.8 percent respectively).

At the same time, the level of the Russian banks' lending to the real economy sector remained low: the ratio of the volume of loans extended to Russian non-financial enterprises and organisations against GDP stood at 19.7 (2004 - 19.2 percent). Short-term resources still prevailed in the banks' resource base structure. Thus, the share of legal entities' deposits with maturities of more than 31 days in the overall volume of funds raised from these entities, as of December 31, 2005, equalled 26.2 percent, inclusive of deposits with maturities exceeding 1 year - 9.1 percent. The capitalisation of the Russian banking sector (USD 43.1 billion as of December 31, 2005) is only 1.3 - 1.5 times higher than the equity of Deutsche Bank and Morgan Stanley.

Certainly, limited capabilities of the domestic banks both in volumes and terms of financing, as well as lower cost of funds on the foreign financial markets predetermined an increase in the volumes of borrowing by the Russian non-financial enterprises and organisations from non-residents. As of 01.10.2005, the volume of the respective borrowing totaled USD 78.2 billion (as of 01.10.2004 - USD 10.7 billion).

With respect to investment into the fixed capital⁷ of Russian legal entities, the share of loans extended by Russian banks, as of the year-end 2005, ran at 5.6 percent (2004 - 6.8 percent), by foreign banks - 1.0 percent (1.1 percent), with a big share of the investment made from the enterprises' and organisations' own resources - 47.7 percent (45.4 percent).

Obviously, it is through enhanced export earnings, as well as the state investment (+37.2 percent on the year 2004) that ensuring significant growth of investment into the fixed capital was achieved. Regrettably, certain factors that were at work in 2005 had a restraining effect on the investment demand dynamics. In this specific instance, they were: higher construction costs (+12.1 percent), low mobility of transforming capital generated by raw materials industries into the manufacturing ones and the services, slow development of the mechanism designed to help transform household savings and the banks' liabilities into investments, that became evident in reduced 'contributions' of banks' loans into investment financing. Overall, it should be admitted, that no switch over from consumption-oriented to investment-oriented growth has been achieved.

All the things mentioned above only evidence the need to adopt strategic decisions designed to reform Russia's financial infrastructure to meet the challenge of intensively developing domestic economy, improving the living standards, as well as enhancing the economic security of the state.

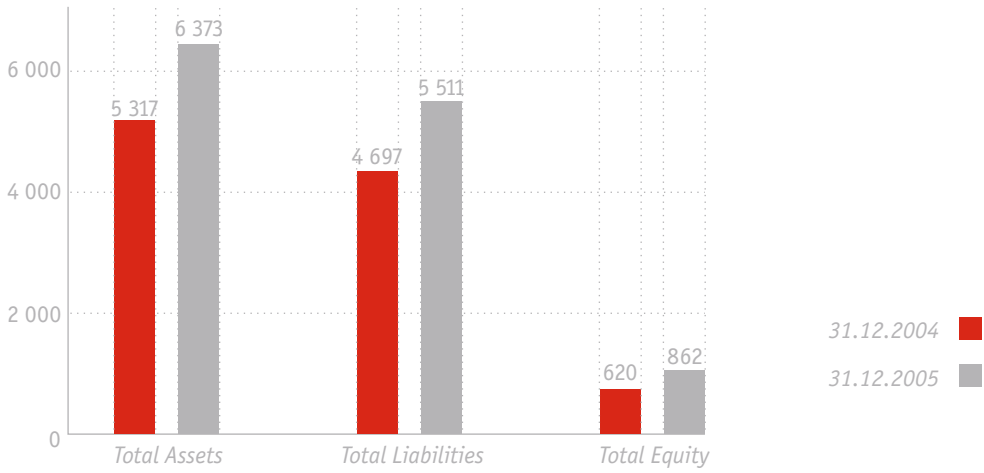
Vnesheconombank 2005 - financial highlights and operating statistics

Management recognises that the major financial indicators of Vnesheconombank's performance in 2005 do not only evidence the achievements in its core business areas, maintaining its position on the segments of the market traditional for it, as well as positive financial results generation dynamics, but also demonstrate the Bank's enhanced participation in reinforcing Russia's economic capability.

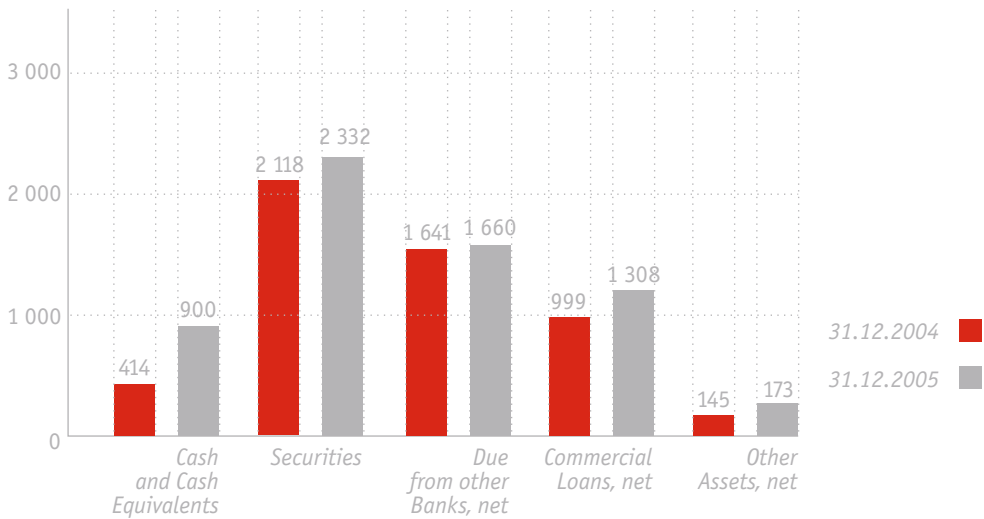
⁷ *By sources of financing (without entities representing small-sized businesses and various parameters related to informal activities).*



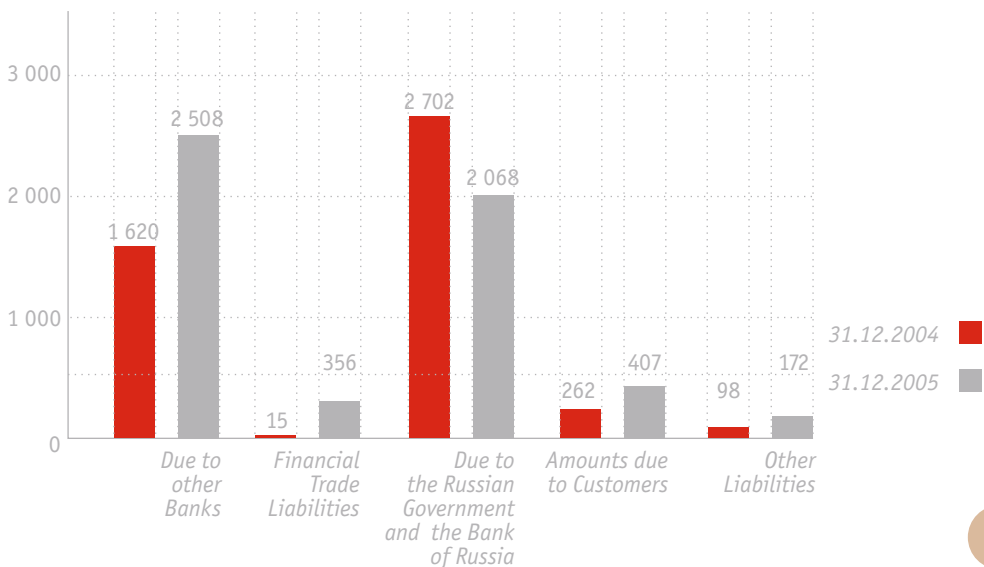
Assets, Liabilities, Equity, USD Million



Assets Breakdown, USD Million



Liabilities Breakdown, USD Million



As of December 31, 2005, the total assets of the Bank and its subsidiaries reached a historical maximum of USD 6,373 million, compared with USD 5,317 million, as of December 31, 2004 and USD 4,725 million, as of December 31, 2003.

A 19.9 percent increase in the Bank's total assets witnessed in 2005 could be directly attributed to a 1.3 time rise in the volume of the net commercial loans extended to legal entities of the non-banking sector organisations that, as of the year-end, reached USD 1,308 million.

Traditionally, the securities portfolio has been making a considerable part of the Bank's assets. Actually, its volume stood at USD 2,332 million, as of December 31, 2005 (+10.1 percent, as compared to December 31, 2004). The Bank, noted for its long-standing in-depth experience of operating on the securities market (primarily, on the segment of the market of the Russian government foreign currency-denominated bonds), views its proprietary operations with securities as an integral part of its activities. The gains under these operations are seen as one of the major income generating sources, while the securities themselves serve as a liquidity reserve.

A substantial enhancement of the assets volume became possible due to successfully meeting the task of the Bank's resource base development, the funds raised on foreign financial markets in 2005 being the major reason for its enhanced volumes and longer maturities.

Largely as a consequence of a dedicated effort to expand the scale and forms of cooperation with foreign financial institutions, the volume of interbank loans raised from them saw a 2.2 rise to run at USD 1,576 million, as of December 31, 2005. It should be noted that more than 74 percent of the above volume were loans raised from foreign banks with maturities falling within the period of 2008 - 2012.

Management acknowledges that a distinguishing feature of the year under review was raising a USD 0.5 billion debut syndicated loan, as well as obtaining credit resources within the frameworks of 'tied' credit lines opened on Vnesheconombank without the guarantees by the Government of the Russian Federation for the sum of USD 0.55 billion and EURO 0.38 billion.

The Bank's successful performance in the key business areas designed to ensure its sustainable development is also characterised by delivering the following financial results.

At the year-end 2005, income before income tax totaled USD 337 million (2004 - USD 60 million, 2003 - USD 202 million), while net income amounted to USD 239 million against USD 72 million in 2004 and USD 153 million in 2003. The Bank's total equity, with the sum of the Bank's statutory capital remaining unchanged, reached USD 862⁸ million, demonstrating a 1.4 and a 1.7 time increases on the years 2004 and 2003 respectively.

The Bank's top executives' commitment to improving the quality of management, inclusive of a set of organisational measures launched, as well as upgrading banking technologies, undoubtedly contributed to generating positive financial results.

Certainly, taken all together, these factors favourably impacted the efficiency of the Bank's proprietary operations. To illustrate, Vnesheconombank's return on assets⁹ (ROAA) reached 4.1 percent (versus 1.4 percent for the year 2004), while return on equity¹⁰ (ROAE) was standing at 32.3 percent (versus 12.9 percent for the year 2004).

Upgraded ratings assigned to the Bank evidence and confirm its positive evaluation by the major international rating agencies, placing the Bank on the 2nd notch of the investment category ('BBB' – Fitch Ratings and Standard & Poor's, Baa2 – Moody's). The ratings assigned to Vnesheconombank are at par with those of the Russian Federation.

8 Of which USD 3 million was the minority interest.

9 Net income/average total assets.

10 Net income/average total equity.



industry

VSMPO-Avisma Titanium Corporation
switched over to manufacturing high-tech products.
The Corporation is starting mechanical processing
of titanium half-finished
products that would enable it to produce finished
aircraft parts and components.

The production of a new workshop – landing gear girders for huge aircraft is to be delivered to Goodrich firm, a major global company engaged in the production of landing gear, its plants located in Canada and the USA.

2

- Corporate banking
- Cooperation with financial institutions

Corporate banking

Admittedly, underlying and underpinning the Bank's forward-moving performance lies mutually advantageous and rewarding cooperation with its partners. In light of this, Vnesheconombank places increased emphasis on customer base development. Also, special energies are devoted to improving the quality of customer servicing in line with the approaches and standards generally accepted in international banking practices.

In 2005, a tight focus was adopted on enhancing the spectrum of products and services offered by the Bank to its customers, ensuring most competitive commission charges for the services rendered, and on upgrading banking technologies.

In the context of the political, economic and social importance of the Bank's activities, the following customer groups are viewed as strategically important:

- financially sound and/or possessing a high development capability large- and medium-sized domestic enterprises and organisations of any form of ownership:
 - participating in the implementation of international, intergovernmental, national investment programs and projects critically important for the development of the Russian economy (primarily those of infrastructure and/or innovative character);
 - engaging in exports of competitive goods, technologies and services, inclusive of those delivered in redemption of the sovereign foreign debt;
 - ensuring output of high-tech import-substituting goods;
 - acting within the frameworks of military-technical cooperation and the state defence contracts;
- ministries and agencies of various sectors of economy, the governments of the republics, the administrations of the Russian Federation regions and districts that participate in implementing major infrastructure projects.

Presently, the list of Vnesheconombank's strategic priorities by sectors of economy embraces high-tech industries, inclusive of aircraft and shipbuilding, car industries, instrument engineering, atomic sector, telecommunications. Business ties with the enterprises of fuel and energy, as well as the chemical sectors are being reinforced, while the relations with the specialised foreign trade organisations and the enterprises representing the defence complex also proved to be most reliable.

Vnesheconombank is committed to establishing a long-term and mutually rewarding cooperation with each of its partners. At the same time, first and foremost, for the Bank is fostering relations with either state enterprises or enterprises with the prevailing state ownership, as well as major private entities, their counterparties and subsidiaries that have a leadership position on the market and possess a high rating. Overall, it is those partners, whose activities fully respond to the Bank's selected strategic priorities.

Driven by the need to upgrade the forms and quality of services for strategically important customers, the Bank ensured a set of measures designed to establish an institute of personal managers.

As of the year-end 2005, Vnesheconombank was servicing 2,488 legal entities of the non-banking sector. The yearly turnovers over the accounts of these customers, residents of the Russian Federation, grew by 3.7 times on the year 2004 to exceed USD 56.5 billion.

We admit that, within the period under review, the Bank's commercial lending and investment banking activities related to financing the organisations of the non-banking sector were of primary concern. As of the year-end 2005, the volume of the Bank's proprietary commercial loans extended to the above legal entities witnessed almost a 96 percent increase on the year-end 2004, while the similar indicator for the whole of the Russian banking system posted a 31 percent growth¹¹.

¹¹ *In the absence of the IFRS data regarding the volume of the aggregate loan portfolio of the Russian banking sector, the data are presented in conformity with the Russian accounting standards.*

A greater emphasis on the above area, as well as Vnesheconombank's well-recognised by the Russian business community long-standing expertise and efficiency in customer servicing, helped it increase the volumes and numbers of passports of deals registered with the Bank and substantially contributed to a rise in the volume of settlement and guarantee operations effected.

Remarkably, more and more customers turn to the Bank for registering their contracts and servicing the respective cash flows. Thus, in the period under review, the total value of contracts with the respective passports made out by the Bank rose 4 times on the year 2004 to the equivalent of USD 15.9 billion.

True, in 2005, the Bank further solidified its position on the market of settlement services. Traditionally, Vnesheconombank has had the reputation of a reliable partner and a strong professional financial institution. The Bank has a unique expertise in effecting international settlements and is noted for a meticulous execution of its customers' orders and requests. It is invariably offering them a full range of services in the above area. For years, Vnesheconombank has been one of the leading Russian banks servicing the foreign economic activities of the residents of the Russian Federation. The sustained growth of funds transferred through the Bank is reflective of the above. Suffice it to say, the aggregate volume of receipts and payments related to international settlements¹² effected by the Bank saw a 13 percent rise on the year 2004 to reach USD 20.1 billion.

The year under review is marked by more than a double increase in the yearly turnover of rouble-denominated payments that was equivalent to USD 7.66 billion. And it is not just statistics for the Bank. It is actually data evidencing our partners' desire to expand the cooperation framework with the Bank that commands their confidence and trust in servicing cash flows related to the whole spectrum of settlement services effected both at home and abroad.

Also remarkable is the fact that the year 2005 witnessed an 11 time increase in the total sum of guarantees issued by Vnesheconombank, as compared to the similar figure of the year 2004, with the rise in the number of guarantees reaching 32 percent. In our judgement, it is solid proof that, with respect to guarantee business development, we were moving in the right direction. The particular policy envisages Vnesheconombank's continued cooperation with its long-standing partners (such as 'Atomstroieksport' and 'Zarubezhvodstroj' joint-stock companies, 'Technopromexport' and 'Mashinoimport' federal state unitary enterprises), as well as establishing partnership relations with new customers that would be interested in obtaining guarantees from one of the major financial institutions in Russia. Among them are: 'Mashpriborintorg' federal state unitary enterprise, 'Komplekt-Atom Izhora' joint-stock company, 'Razgulyai' group of companies, 'Thermoexport' joint-stock company. Special attention was devoted to meeting the challenge of enhancing the share of guarantees issued by the Bank that are accepted by foreign beneficiaries without guarantees by third banks.

Looking to the future, in the context of guarantee business development, Vnesheconombank aims to ensure a switch over to a comprehensive servicing of major customers' contracts that would envisage:

- extending customers a 'package' of guarantees, envisaged by the contract (by way of example, tender guarantees, performance bonds, the advance payment guarantees);
- extending syndicated guarantees within the frames of one and the same project, with several banks acting as guarantors of contract execution by a principal.

12 Exclusive of the volume of payments related to servicing the foreign debt of the Russian Federation.

Cooperation with financial institutions

The main underpinnings of Vnesheconombank's successful cooperation with Russian and foreign financial institutions are the Bank's long-standing experience of operating on domestic and foreign financial markets, the reputation of a reliable partner, meticulous fulfillment of its obligations and, as a consequence, counterparties' high confidence.

Vnesheconombank's top priority task in the given area is to develop relationships with banks that would best suit the Bank's own business interests and those of its clients. Vnesheconombank's active operations on the interbank market, as well as the Bank's stable relations with its partners, enable it to service the clients' cash flows on favorable terms, ensure and maintain a reasonable liquidity level and raise resources needed, among other things, to finance its clients.

Vnesheconombank on a continuous basis cooperates with international financial institutions: the World Bank and the specialised institutions comprising The World Bank Group, such as the International Bank for Reconstruction and Development (IBRD), The International Development Association (IDA), the International Finance Corporation (IFC), as well as the European Bank for Reconstruction and Development (EBRD).

Vnesheconombank's representatives regularly participate in the work of the sessions of the regional development banks - the Asian Development Bank, the Inter-American Development Bank, the Black Sea Trade and Development Bank. The Bank closely interacts with the following national development institutions: the China Development Bank, the Development Bank of Kazakhstan, the Croatian Bank for Reconstruction and Development, the Japanese Bank for International Cooperation, the Brazilian National Bank for Economic and Social Development (Brazil).

In October 2005, with Vnesheconombank's active participation Banks Consortium within the framework of the Shanghai Cooperation Organisation (SCO) was established, designed to ensure a financial mechanism to implement joint economic projects by the participants of this international regional organisation.

By the year-end 2005, correspondent relations with 791 foreign and 192 Russian banks were maintained by Vnesheconombank. A meaningful outcome of the year is an increased number of nostro accounts opened in hard currencies. Simultaneously, a number of nostro accounts in clearing currencies were closed. Thus, over the period under review, 18 nostro accounts were opened, 17 of which - with major foreign banks such as Deutsche Bank (Germany), Mediobanka (Italy), HSBC (Great Britain), Euroclear Bank (Belgium), China Development Bank (China). Alongside that, 13 nostro accounts in clearing currencies were closed.

Russian commercial banks opened 40 loro accounts with Vnesheconombank, thereby demonstrating their increased interest in cooperation with the Bank.

The increased number of the counterparties - financial institutions, as well as an enhanced volume of the limits set on them were reflective of the expansion in the Bank's activities. As of December 31, 2005, the number of the banks and financial companies, on which limits were set, reached 133 (against 124 at the beginning of the period under review). The overall amount of these limits stood at USD 7.8 billion, of which USD 5.6 billion worth are the limits set for foreign banks and financial companies.

With the view of ensuring financial support for the Bank's objectives to enhance the volumes of financing Russian enterprises and organisations, cooperation with major foreign export-import banks, export credit agencies and insurance companies was further stepped up.

As of the year-end 2005, 21 cooperation agreements with the above financial institutions, inclusive of those of all the G8 countries (with the exception of Canada) were entered into, with 6 of them made throughout the period under review. Besides that, in 2005, 8 loan agreements were concluded with the aim of financing export and import operations of the Bank's clients.

Entering into agreements with major foreign financial institutions not only ensures the Bank's access to mid- and long-term resources, but it is also most instrumental for improving the Bank's image. Actually, for the global business elite, it serves as an additional demonstration of Vnesheconombank's impeccable record.

The Bank's professionals continued to further enhance cooperation with the financial institutions on issues related to preventing money laundering of illicit gains and financing terrorism.



sports

In the course of an annual «Ski Track of Russia 2005» competition, 25 thousand of sports lifestyle enthusiasts started the race. Together with the spectators, the overall number of those, who visited this health-strengthening festivity event, exceeded 50 thousand people. That was an absolute record-breaking number of participants throughout the whole history of arranging «Ski Track of Russia» competitions.

3

- Commercial lending and investment banking activities

Commercial lending and investment banking activities

Management recognises that intensive development of the Bank's commercial lending and investment banking activities is one of the key strategic priorities. Overall, these activities are designed to assist the state in its structural reforms in the real sector of economy that envisage developing infrastructure and innovative technologies, reconstructing/modernising enterprises' fixed assets and creating new production facilities on the basis of advanced technologies. Ultimately, the reforms are intended to ensure increased volumes of goods and services that would be competitive both on the domestic and global markets.

In this context, substantially increasing the volumes of financing Russian enterprises' investment projects, as well as ensuring mid-term financing of exports-oriented and imports-substituting industries, with a simultaneous enhancement of the volumes and maturities of the underlying resource base, was an overriding task for Vnesheconombank in the year under review.

Obviously, adopting in the past year a number of strategic decisions to actively engage Vnesheconombank in implementing development programs for the Russian regions, infrastructure projects, as well as in projects of various enterprises that are still competitive on global market, had an important role to play. The decisions made not only predetermined the Bank's key priorities regarding commercial lending and investment banking activities, but also laid solid groundworks for Vnesheconombank's enhanced activities as a state development bank.

With this end in view, in 2005, Vnesheconombank entered into two cooperation agreements with the Administration Council of the Krasnoyarsk region on general principles to apply to financing projects on the territory of the region and on cooperation related to the development of the Nizhneye Priangariye industrial timber complex. Among the key agreements were: an agreement with the Government of the Chechen Republic on cooperation in the area of raising funds for the Republic, a cooperation agreement with the Russian Ministry of Foreign Affairs, an agreement with the Ministry of Transport of the Russian Federation on general principles of organising investment projects' financing, a cooperation agreement with the Federal Agency for Management of Special Economic Zones. Apart from it, in 2005, the documents signed by Vnesheconombank included:

- a cooperation agreement between the Ulyanovsk region administration, Vnesheconombank, the 'Aviastar SP' joint-stock company and 'Eclipse Aviation' (Luxembourg). The agreement envisages financing the construction of aircraft 'Eclipse 500' on the territory of the Russian Federation;
- a five-party memorandum of understanding (with the participation of the Eximbank of Russia), within the frames of which, an intention was expressed to participate in implementing the project of the Terminal III construction on the territory of the Sheremetyevo Airport;
- a five-party cooperation agreement with a view of Vnesheconombank's participation in the implementation of the project to create a Russian RRJ regional aircraft.

The year 2005 saw a sharp increase in the volume of credit resources extended by the Bank, inclusive of those of an investment character. Thus, within the period under review, the aggregate volume of loans extended to legal entities of the non-banking sector grew by 3.3 times on the year 2004 to reach USD 1.81 billion. Alongside that, there was a more than 12-time increase in financing earmarked for exports-oriented enterprises. Remarkably, as of December 31, 2005, loans with final maturities exceeding a 3-year term accounted for more than 41 percent of the Bank's net loan portfolio volume.

Hopefully, Vnesheconombank, seeking to enhance the volumes of financing and investment to support enterprises and organisations that are financially sound and/or with a strong development capability, has been consistently reinforcing its position as one of the major system-forming banks of Russia's financial infrastructure.

Special energies were devoted to increasing the volumes of operations to finance customers' investment projects with the utilisation of 'tied' credit resources, extended by foreign banks without the guarantees by the Government of the Russian Federation. On the one hand, this form of financing

enables the Bank to offer competitive services (both in terms of the pricing and tenor). On the other hand, it ensures an opportunity to maintain the required well-balanced structure of the Bank's assets and liabilities.

● Breakdown of Customer Loan Portfolio by Industry, as of 31.12.2005



Within 2005, the aggregate volume of 'tied' credit lines opened on Vnesheconombank totaled USD 0.55 billion and EURO 0.38 billion. Among the creditors are: China Development Bank (China), Mediobanka (Italy), HSBC (Great Britain), WestLB (Great Britain), HBOR (Croatia). The funds obtained were utilised for financing projects of major Russian enterprises. To illustrate, financing was provided for the 'Arsenyevskaya Aviation Company 'Progress' named after N.I. Sazykin', the 'Machine-engineering Design Buro 'Fakel' named after Ak. P.D. Grushin', the 'Moscow Machine-engineering Enterprise named after V.V. Chernyshev'.

In our judgement, the Bank laid serious foundations and underpinnings for a successful development of the commercial lending and investment banking activities in the years to come. Thus, Vnesheconombank's plans, just for the year 2006 alone, embrace implementing approximately USD 1 billion worth of 20 projects, including:

- infrastructure projects;
- projects in the area of aircraft - and ship-building;
- projects on modernisation of the existing and creation of new industrial facilities, which after being put into operation, would help reduce the volumes of imported goods consumption.

One of the areas of the Bank's investment activities is its participation in the statutory capital of organisations, whose activities are closely linked with the implementation of state programs and development of intergovernmental cooperation. By way of example, 'Ilyushin Finance Co.', 'the Eximbank of Russia' and 'Belvhesheconombank' joint-stock companies come within the group of such organisations.

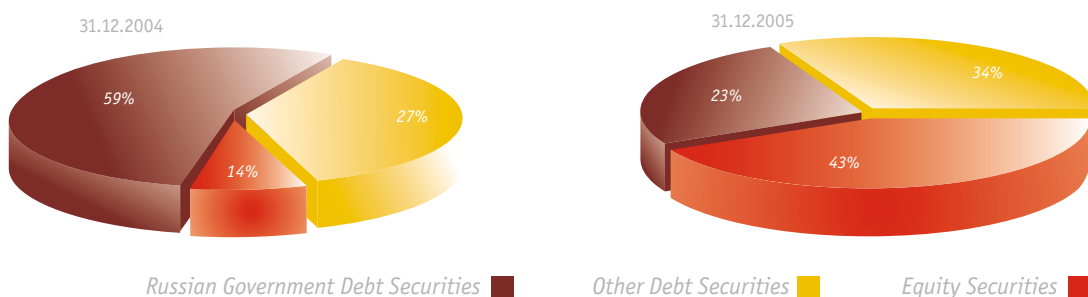
Also, Vnesheconombank continued considerable investment efforts on the securities market. At the year-end 2005, the aggregate turnover under operations with the securities reached its 4-year record high to stand at USD 46.7 billion (versus USD 37.4 billion in 2004).

Drawing on the market research and analysis, the Bank drastically changed the structure of its securities portfolio, while retaining its position of a major market maker on the Russian government foreign currency-denominated bonds market.

For the most part of the year under review, the segment of the market embracing the Russian MinFin bonds and the Russian Federation eurobonds was marked by considerable growth (mostly reflecting narrower yield spreads in view of improved indicators that characterised the Russian economic environment and as a result of upgrading the Russian Federation rating to the 2nd notch of the investment category). At the same time, the policy of consistently raising the fed funds target rates, pursued by the US Federal Reserve System, created risks of enhanced yield for the long-term US Treasury bonds. In the circumstances, Vnesheconombank was continuously withdrawing funds from the Russian Federation foreign currency-denominated bonds market, these instruments' price invariably following the trend in the price movements of the benchmark US Treasury bonds.

A reduction in investment into Russian foreign currency-denominated bonds in H1 of the year 2005 and a moderately positive market environment in H2 impacted the volume of operations

Securities Portfolio Breakdown



with foreign currency-denominated government bonds. Thus, the year 2005 saw a drop in MinFin operations turnover to USD 2.2 billion (-70 percent, as compared to 2004), while the volume of operations with the Russian Federation eurobonds was practically maintained on the previous year level of USD 21.7 billion. Obviously, an improved investment outlook on the corporate eurobonds market and the Bank's positive experience of making up a respective portfolio in 2004 offered enhanced opportunities for the purchase of higher yield instruments of the Russian corporate sector. To minimise credit exposure, priority in the investment structure was given to eurobonds of the financially sound Russian issuers controlled by the state. Notably, the share of the respective securities in the aggregate volume of the corporate eurobonds portfolio, as of the year-end 2005, was standing at 83 percent.

Investment into credit-linked notes, issued by non-residents and 'linked' to the Russian sovereign risk or the corporate risk of the Russian companies closely aligned with the state, was viewed by the Bank as an alternative source of income.

Throughout the year under review, Vnesheconombank expanded the number of its counterparties on the foreign currency-denominated debt instruments market. Thus, the Bank entered into general agreements on REPO transactions (ISMA GRMA) and general agreements on the procedure to apply to operations with derivatives (ISDA Master Agreement) with a number of foreign counterparties, ABM Amro Bank, WestLB and Barclays Bank being among them. Also, Vnesheconombank continued work to expand the range of its counterparties on the domestic market. Largely as a consequence, 73 new general agreements with Russian banks and financial companies were signed. These agreements envisaged purchase/sale and borrowing/lending transactions with securities.

A particularly speedy, exceeding all anticipation, growth of the Russian equity market was a distinctive feature of the year under review. Against the backdrop of a rising trend for equity prices, the Bank adhered to the investment strategy of managing these instruments' portfolio that envisaged a rise in their market value.

In the context of its investment activity, Vnesheconombank's participation in IPOs and originations of the Russian residents' securities both on the domestic and foreign market appears to be very promising. The period under review was distinguished by increased effort in this area. Principally, it could be attributed to stepped-up activities of both banks and non-banking organisations related to the origination of bonds on the domestic and foreign financial markets.

The Bank acted as an arranger or co-arranger of bonds originations for its major customers. Among them the Bank counts such leading and most important for the Russian economy enterprises and organisations with the prevailing participation of the state as 'Gasprom', 'Vneshtorgbank' and the 'Agency for Mortgage Lending' joint-stock companies.

Apart from it, the Bank actively participated in the project of the debut IPO of the 'Razgulyai' group of companies' shares listed on the Russian Trading System Stock Exchange (RTS) and the Moscow Interbank Currency Exchange (MICEX) in Q1 2006.

Another component of Vnesheconombank's investment activities is offering customers highly professional advisory financial services, the underlying aim being to ensure raising funds for their projects. In 2005, to better accommodate customers, the Bank's professionals were providing financial advisory services under all the projects that were submitted for the Bank's consideration.



science

On July 13, 2005, the Moscow State Technical University named after Bauman (MSTU) marked its Jubilee, **the 175th anniversary of its foundation.**

Among its graduates the University proudly counts outstanding scientists, **including 50 academicians and 38 corresponding-members.**

The followers of the scientific school of the University are noted for a considerable contribution to **the development of global science and technique.**

It is the University graduates who developed in Russia the first helicopter, a wind tunnel, a special vehicle for gas turbine transportations and many other things.

The «Bauman University» graduates deserve credit for creating systems of defense, **missiles and aerospace systems,** as well as for developing domestic machine- and instrument- engineering industries.

4

- Operations on money and forex markets
- Depository

Operations on money and forex markets

In 2005, the major macroeconomic trends impacted the FX and money markets conditions, with the major indicators being as follows.

The FX market witnessed a certain depreciation of the rouble against the US dollar (from RUB 27.82 versus USD 1 to RUB 28.78 versus USD 1). Concurrently, the rouble exchange rate remained under a strict enough control of the Bank of Russia that used its authority to define FX rates as a most important instrument of pursuing monetary policy. Simultaneously, a switch over in February of 2005 to a bi-currency basket (USD-90 percent, EURO-10 percent) to calculate the effective rouble rate weakened the rouble peg to the US dollar. Rather, throughout the year, the rouble rate followed that of the EURO. Though, as the share of the EURO in the currency basket was growing (40 percent starting from December 2005), the link between the two currencies was getting less distinct. Interest rates on the money market were fluctuating within a broad range (from 0.1 - 0.2 percent to 8 - 10 percent for interbank overnight loans), mostly depending on the rouble FX rate fluctuations. The rising interest rates on the global market (from 2.25 percent to 4.25 percent for dollar overnights) restrained the rouble liquidity. The volume of interbank deposit operations with longer maturities (from a week to a month) also rose. Such operations appeared to attract investors in periods of liquidity squeeze and enhanced interest rates on the interbank deposit market.

Within the year, Vnesheconombank, aiming to fund its proprietary operations, regulate liquidity, as well as ensure arbitrage profit, effected transactions with the Russian counterparties - participants in the interbank money market. The overall volume of the Bank's money market operations totaled USD 98.2 billion. A considerable volume of operations, effected on the domestic market (despite a relatively low rouble liquidity of Russian banks) makes it reasonable to assert that the Bank succeeded in maintaining its position of a leading participant on the respective segment of the market.

A qualitative change in the structure of the resources raised by Vnesheconombank from financial institutions is a distinctive feature of the past year. Against a background of a more than 2.2 time rise in the volume of interbank loans raised from them, their maturities have become considerably longer. Thus, if at the start of 2005, the maturities of the interbank loans raised by the Bank were not going beyond the year 2005 timeframe, then by the end of the period under review, the Bank's interbank borrowings included loans with maturities of up to 2012.

The past year, Vnesheconombank, acting on its customers' instructions, as well as effecting its proprietary arbitrage transactions, was engaged in foreign exchange operations both on the OTC market and the MICEX, the overall volume of the respective operations totaling USD 89.98 billion.

Being one of the leaders of the domestic FX market, the Bank was continuously seeking to broaden its opportunities to effect FX operations with foreign counterparties. Apart from major Russian banks, among Vnesheconombank's counterparties that have clean FX lines set on it are leading European and American banks. As of the year-end 2005, the volume of clean FX lines set on the Bank by foreign financial institutions was estimated as approximating to USD 0.5 billion.

Depository

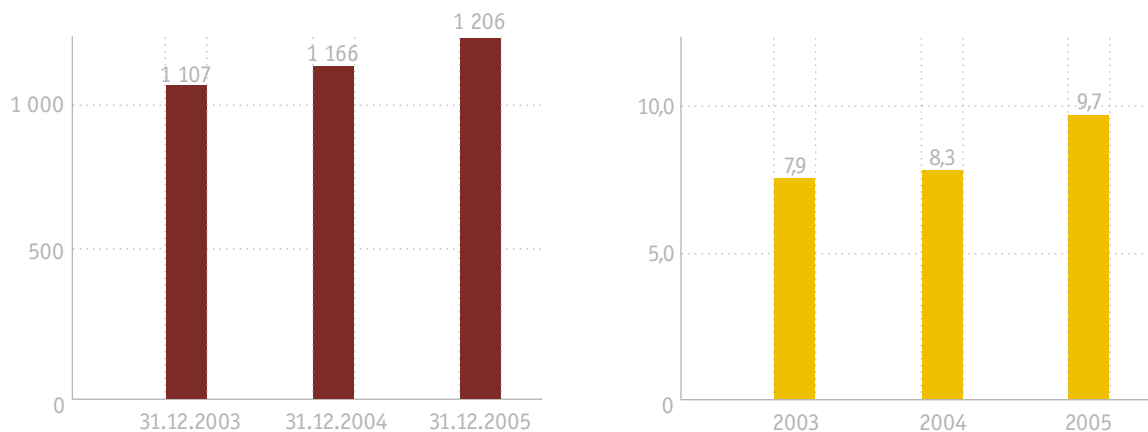
Vnesheconombank's Depository provides its customers with a whole spectrum of custody services in all types of securities traded both on the Russian and foreign markets and presently has become one of the leading Russian depositories.

Servicing the Russian Government securities is a major component of the Bank's custody activities. Vnesheconombank's Depository is the main depository for the 1999 MinFin bonds, servicing the Global Certificate of the given bonds, as well as an authorised depository and the main payment agent of the Ministry of Finance of the Russian Federation to service other MinFin bonds.

In its custody activities, Vnesheconombank's priority is to help further improve the Russian Federation sovereign debt instruments market infrastructure, enhance investment activities on this market. Apart from this, the Bank invariably strives to ensure the state interests and concerns, as well as those of investors and professional market participants.

● Number of Depository Accounts

● Yearly Average Volume of Securities at Face Value, USD Billion




As of December 31, 2005, the number of the Bank's depository customer accounts exceeded 1200. Among the customers are the Ministry of Finance of the Russian Federation, the Bank of Russia, about 200 Russian banks. The Depository serviced 137 interdepository accounts of other Russian depositories.

The average volume of securities serviced by the Depository throughout 2005 increased, as compared with the previous period under review, by 17 percent to reach USD 9.7 billion (at face value). The Russian Federation foreign currency- and rouble-denominated bonds accounted for more than 80 percent of the above volume.

To diversify the spectrum of supporting services for clients investing into foreign securities, the Depository, acting on the basis of interstate agreements designed to help avoid double taxation, started to deliver services on formalising the respective documents to ensure full or partial tax exemption for gains under foreign securities.

Increased emphasis was placed on elaborating technologies designed to facilitate custody operations and aimed, first and foremost, at reducing risk. In particular, a comprehensive set of measures was introduced with a view of upgrading the pledged securities record keeping.

The Depository attached increased importance to enhancing and improving information and analytical services delivered to its clients. To this end, Vnesheconombank's professionals carried out scrupulous work to study and analyse the practices of foreign securities markets. The outcome of the above research effort was presented as surveys and analytical reviews and made available for clients on a regular basis.



Thus, in 2005, a reference book on the most actively traded foreign sovereign securities was published, comprising detailed data on government bonds, circulating on more than 20 foreign markets. Also, the market surveys of sovereign securities of Canada, Japan, Great Britain, Brazil and Mexico were issued. The brochure 'Settlement Practices under International Securities' actually became a manual for the Russian operators on the international securities markets. In the context of the clients' increased interest in foreign securities transactions, in March 2005, a presentation on the issues related to settlements under securities on the domestic markets of foreign countries was held jointly by Vnesheconombank's Depository and the international clearing and settlement centre Clearstream Banking (Luxemburg). Vnesheconombank's initiative was highly appraised and widely welcomed by the business community: representatives of about 30 commercial banks and financial companies took part in the above conference.



s o c i e t y

The representatives of major charity funds and public organisations, supported by famous Russian public figures, came up with an initiative to proclaim 2006 the «Year of Charity» in Russia. The initiative is designed to get the Russian people involved in charitable activities for the benefit of the country and its citizens.

5

- Acting as an agent for the Government of the Russian Federation
- Acting as the State Trust Management Company

Acting as an agent for the Government of the Russian Federation

Vnesheconombank's traditional functions as an agent of the Russian Government embrace servicing of the Russian Federation and the former USSR sovereign foreign debt, centralised foreign economic operations of the Russian Federation, managing external financial assets of the Russian Federation and the former USSR, as well as settling problem debts of Russian borrowers towards the federal budget. In 2005, the main goals of the above activities remained the following:

- ensuring reconciliation and proper record-keeping of the sovereign foreign debt and the state external financial assets of the Russian Federation, as well as effecting relevant payments;
- participating in developing and negotiating with foreign creditors/debtors the terms and conditions of settling sovereign foreign debt obligations/claims of the Russian Federation;
- resolving the issues related to recovery of debts owed by legal entities, the subjects of the Russian Federation, and municipal entities under credits extended out of federal budget funds, as well as recovery of indebtedness arising out of targeted financing provided for Russian legal entities in exchange for the equities transferred into the Russian Federation ownership;
- participating in the preparation and devising the respective documentation, inclusive of that of methodological character;
- upgrading the internal regulatory framework and the technologies in the areas related to the agency capacity.

We are happy to note that, throughout the period under review, Vnesheconombank acting as an agent of the Russian Government successfully coped with the tasks set.

An unprecedented in scale reduction of the debt burden of the Russian Federation that received a wide coverage in the press was a meaningful event for the country's economy. The debt relief was achieved as a result of an early partial redemption in 2005 of the former USSR indebtedness towards the Paris Club creditors for the total sum equivalent to USD 15 billion. The operation effected not only contributed to the improvement of a major indicator characterising debt sustainability of a state, that is the ratio of sovereign foreign debt volume against the GDP, but also ensured, according to our estimates, a USD 5.4 billion decrease in foreign debt servicing costs (in the form of future interest payments).

To accomplish the goal, with an active participation of Vnesheconombank, time-consuming and scrupulous work to analyse possible ways and financial terms of an early debt redemption, as well as to coordinate and agree the respective deal parameters in the course of negotiations with the creditor-countries was carried out. Thus, within the preparatory stage, the Bank reviewed and analysed more than 250 loan agreements, as well as the data on the debt amounts and categories eligible for redemption. Moreover, the Bank forwarded to the Russian Ministry of Finance several versions of the relevant estimates and calculations. Apart from this, the proposals were devised on multilateral intergovernmental agreements that later were signed by the Russian Federation with each Paris Club creditor participating in the operation.

Admittedly, the Bank views proposals elaborated with regard to patterns and terms of the final settlement of the former USSR indebtedness towards the People's Republic of China as another critical and meaningful outcome of its activities over the year 2005, inclusive of:

- forwarding to the Ministry of Finance calculations, analytical and reference reports, as well as the drafts of the respective intergovernmental documentation;
- devising and agreeing the necessary banking documentation with the bank designated by the Chinese party.

It is most evident that enhanced activities in the above area give a fresh impetus to further bolstering partnership relations between Russia and the People's Republic of China.

The benefits derived by Vnesheconombank from the volume of data the Bank had accumulated, while performing agency activities, and targeted study and analysis of the best global practices enable the Bank to come up with initiatives and proposals designed to upgrade and improve the sovereign debt and financial assets management approaches. Thus, in 2005, Vnesheconombank submitted to the Ministry of Finance:

- proposals on the contents, structure and the key parameters of the draft document 'Major Guidelines of the Russian Federation Government Policy with respect to Sovereign Debt for 2006 - 2008';

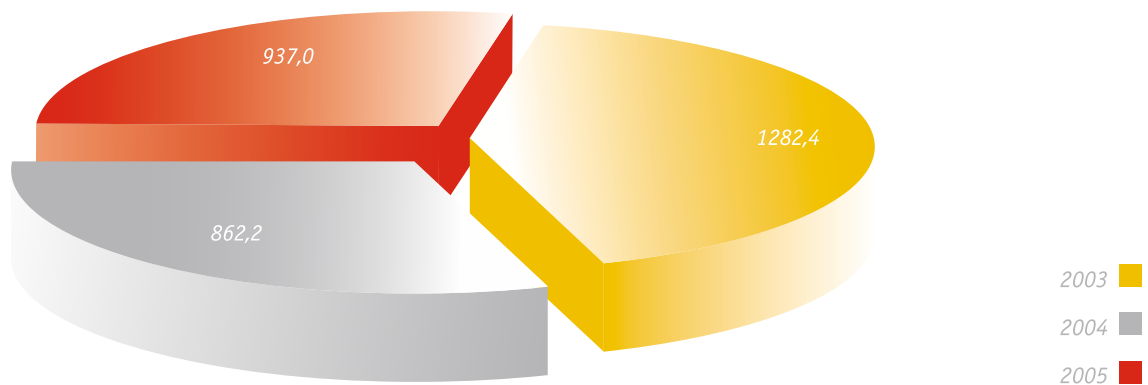
- information and analytical surveys and reports, containing the estimate of the development prospects of the Russian Federation sovereign debt instruments market for 2006 - 2008. The data that the document comprises were used in elaborating the draft Mid-term Financial Plan of the Russian Federation for 2006 - 2008.

Being an active participant in the negotiations on the issues related to the settlement of the Russian sovereign foreign debt and indebtedness owed to the Russian Federation by debtor-countries, the Bank developed more than 70 reports and analytical surveys, inclusive of the reports on solvency of debtor-countries and the respective conclusions in relation to the methodological documentation of the Paris Club Secretariat. The conclusions and proposals presented in the above documents were taken account of when shaping up Russia's negotiating stance.

With the aim of utilising uniform terms and definitions when interacting with the Ministry of Finance, Vnesheconombank professionals developed the second revised and amended edition of 'Glossary of the Main Terms and Definitions to Be Used in the Course of the Sovereign Debt Settlement'. The glossary comprises a considerably expanded spectrum of globally used financial terminology. The glossary issued by the Bank was highly appraised by the professionals of the Ministry of Finance of the Russian Federation and is widely used by them in their work-practices.

Settlement of problem debts owed by Russian borrowers to the federal budget is another important component of the Bank's activities as an agent for the Government of the Russian Federation. Vnesheconombank places special emphasis on implementing a set of measures designed to ensure a recovery of resources owed by legal entities, the subjects of the Russian Federation, as well as municipal entities, under credits extended to them out of the federal budget.

● Volume of Indebtedness Settled, USD Million



The volume of borrowers' settled liabilities towards the federal budget only within the period of 2003 - 2005 exceeded USD 3 billion. Admittedly, it is solid evidence of Vnesheconombank's successful effort in this area that can largely be attributed to the creation of a special department of the Bank staffed with highly qualified lawyers and economists.

Within the period under review, Vnesheconombank's professionals participated in 390 court hearings. largely as a consequence, the sum of USD 850 million worth of indebtedness towards the federal budget was acknowledged under the court rulings (in 2004 - USD 830 million). As of the year-end 2005, claims for the sum of USD 1.4 billion were subject to arbitration courts consideration.

In accordance with the federal law 'On the Federal Budget for the Year 2005' the sum totaling USD 700 million was settled through amicable agreements.

In 2005, the Bank's professionals ensured redeeming more than USD 88.2 million worth of indebtedness by way of recourse of claims on the respective guarantors, the subjects of the Russian Federation. As a result of court rulings and out of court procedures, the sum of USD 105 million was transferred to the federal budget.

Efficient work in the above area gave a fresh impetus to further bolstering cooperation with a number of federal executive bodies, as well as major entities with the prevailing state participation. With this end in view, the Bank entered into and prepared for concluding agency agreements on effecting legal and other proceedings, aimed at settling the indebtedness of the Russian enterprises.

Acting as the State Trust Management Company

In 2005, Vnesheconombank to efficiently embrace the functions of the State Trust Management Company to manage the pension savings funds of the citizens was intent on meeting the following major tasks and goals:

- elaborating an adequate investment strategy in strict compliance with the provisions of Vnesheconombank's Investment Declaration approved by the Directive of the Government of the Russian Federation №540 dated 01.09.2003 and with full account of the market conditions;
- making up a securities portfolio out of pension savings funds transferred to the Bank for trust management in compliance with the investment strategy approved;
- devising proposals related to upgrading and enhancing the respective legislative framework.

Trust management of the pension savings funds is effected in strict conformity with the legislation in force, the key principle of separation of Vnesheconombank's proprietary operations and those effected on the customers' instructions from operations with the pension savings funds being inevitably observed.

In 2005, the Pension Fund of the Russian Federation transferred to Vnesheconombank for trust management RUB 67.84 billion worth of pension savings funds formed by insurance payments for the year 2004. More importantly, the Bank invested all the funds transferred to it within the timeframes specified by the Agreement on pension savings funds trust management.

As of December 31, 2005, the market value of the assets portfolio made up out of pension savings funds (hereinafter referred to as the 'investment portfolio') totaled RUB 176.5 billion, inclusive of RUB 149.1 billion - the market value of the securities portfolio¹³ and RUB 27.4 billion - the aggregate balance of cash on the trust manager's accounts.

Admittedly, the structure of the investment portfolio did not undergo any drastic changes. The State Trust Management Company continued the practice of making up the portfolio through investing into the federal government bonds (OFZs). Simultaneously, the Bank was seeking to enhance the volume of investment into the Russian Federation eurobonds, with the respective share reaching 9.6 percent of the investment portfolio volume, as of December 31, 2005 (1.4 percent, as of December 31, 2004).

Notably, for the State Trust Management Company, the portfolio diversification, mainly achieved through investment into Russian eurobonds, served as a key factor contributing to a rise in return on investment.

Within the period under review, the aggregate investment income stood at RUB 14.46 billion. More importantly, the Bank succeeded in ensuring the yield on the pension savings funds invested that actually exceeded the level of inflation in 2005 (10.9 percent). To illustrate, the average yearly yield on the investment portfolio¹⁴ presently runs at 12.22 percent per annum. Throughout the period under review, the yield on the pension savings funds invested, calculated under the method of time-weighted yield (discounted by cash flows¹⁵), as of December 31, 2005, stood at 12.07 percent per annum (as of December 31, 2004 - 7.33 percent per annum).

Despite improved results delivered throughout the period under review, the amount of the reward received by the Bank as the State Trust Management Company for the year 2005 was decreased and totaled RUB 199 million (RUB 324.6 million – 2004).

The decrease in the reward amount is directly attributable to an amended procedure to apply to the calculation of the reward, the State Trust Management Company is entitled to, that was approved by the Directive of the Government of the Russian Federation №859 dated 31.12.2005.

Reports under operations with the pension savings funds were prepared in accordance with the format and within the timeframes specified in the regulatory documents of the designated federal bodies.

In 2005, the efficiency of Vnesheconombank acting in the capacity of the State Trust Management Company was subject to a check by the Auditing Chamber of the Russian Federation. Encouragingly, throughout the inspection, no materially significant remarks were made. Besides that, in conformity with the legislative requirements, the accounting procedures of Vnesheconombank, its financial reports regarding the formation and investment of the pension savings funds, as well as financing payments out of these funds, were subject to an annual auditing procedure made by the 'Ernst & Young' independent auditing company on a special instruction. The accuracy of the reports presented by the State Trust Management Company was confirmed by a respective auditor's opinion.

13 Inclusive of coupon payments accrued.

14 The percentage ratio of the aggregate investment income within the year under review to the average yearly value of net assets.

15 In compliance with the calculation method set forth in the document 'Standards of Information Disclosure with respect to Pension Savings Funds Investment', approved by the Directive of the Ministry of Finance of Russia №107 n dated 22.08.2005.



arts

To celebrate an outstanding jubilee – the 100th birthday anniversary, Igor Moiseev, a famous Russian choreographer, was awarded an Order «For Merits and Dedicated Service to the Country», I Degree. The award to mark such a significant event was conferred on him by V. Putin, the President of the Russian Federation.

6

- Corporate governance
- Participation in the activities of non-commercial organisations
- Information and technology infrastructure

Corporate governance

The positive dynamics of the major indicators characterising Vnesheconombank's activities, a favourable evaluation of the results delivered by the Bank that is evidenced by the respective ratings assigned to it, its recognition by the business community both in Russia and abroad as a professional and reliable partner might all be seen as a direct consequence of the Bank's sharp focus on corporate governance challenges.

Vnesheconombank adheres to the generally accepted principles of corporate governance and, in all its activities, it is guided by the following policies observing:

- business ethics code;
- third parties' rights specified in legislative and external regulatory acts, as well as the Bank's internal regulatory documents;
- the principle of information openness and transparency.

Principally, Vnesheconombank's corporate governance system is reflective of its legal status specifics. Also, it draws on the advanced principles and approaches towards the organisational structure of such systems, inclusive of those set forth in the Corporate Governance Code that is recommended by a designated state body¹⁶.

The Bank is headed by the Chairman of Vnesheconombank appointed to the office by the President of the Russian Federation on the nomination of the Russian Government. The Bank is managed by the Board of Directors, a collegiate body, whose members are appointed by the Government of the Russian Federation on the nomination of the Chairman of the Bank.

The main aim of the Board of Directors' activities is to make management decisions that ensure the Bank's sustainable development and control over its financial and economic activities, as well as an appropriate execution by the Bank of its function of an agent of the Government of the Russian Federation to manage the sovereign foreign debt and external state financial assets of the Russian Federation.

Among the working bodies created under the auspices of the Board of Directors are the Finance, the Credit and the Technology Committees operating on a continuous basis. The tasks and objectives each of the Committees embraces, the procedures to apply to their formation and performance regulation are defined by Vnesheconombank's internal documents that are approved by the Board of Directors.

The system of Vnesheconombank's internal controls is organised in full compliance with the legislation of the Russian Federation and the Bank of Russia's regulatory documents, the major underlying principles being its continuity, autonomy, impartiality and professional competence. Actually, the system of internal controls runs through the Bank's whole management structure starting from the Board of Directors down to units and professionals engaged in internal controls procedures, inclusive of those to counteract money laundering of illicit gains and financing terrorism. Control over the Bank's activities as a professional participant operating on the securities market is also ensured. To achieve enhanced work efficiency of the internal controls system, a commission for coordination of internal controls issues and a controller's group to monitor the Bank's professional activities on the securities market operate on a continuous basis.

At the Bank's units level, internal controls are exercised through special control procedures that are in-built into various business processes and separate operations. A specialised internal controls unit is charged with the task of monitoring an appropriate functioning of the system, spotting problems and analysing the underlying causes, as well as elaborating proposals designed to perfect the system and make it more efficient and reliable. Within the period under review, major internal controls work-practices embraced daily monitoring of most critically important business processes, as well as ensuring checks of the activities carried out by the Bank's units. Actually, in 2005, 21 checking procedures were executed, inclusive of a comprehensive review and analysis of all the Bank's operational units activities. Also, checks were made with respect to the specifics of various business areas and compliance with the external and internal regulatory documents. Information on the corrective set of measures undertaken by the respective units to remove all the breaches spotted was made duly available for the Bank's top executives.

¹⁶ Directive by the Federal Commission for Financial Markets dated 04.04.2002 №421/r 'On Recommendations to Apply to Corporate Governance Code'.

Obviously, it is the installation of specialised software integrated into the Bank's information system that contributes to improved procedures of information disclosure and presentation both for the management and external users. It enables the Bank to present financial statements in compliance with the International Financial Reporting Standards (IFRS).

Expanding the Bank's activities in various business areas in 2005 predetermined the need to adapt the corporate governance system to new realities and adopt the respective decisions.

Strategically, central to the Bank's performance was to give the ongoing risk management system a new quality dimension, with a centralised risk management model put in place. Underlying and underpinning such a model is concentration of all risk management functions¹⁷ (inclusive of identifying and evaluating risk exposures, devising recommendations to limit risks, elaborating respective risk management methodologies and technologies) within an independent specialised unit that was created at Vnesheconombank in 2005.

The Bank's increased activities related to financing major investment programs and projects brought about the need to restructure Vnesheconombank's commercial lending and investment banking business area. Largely as a consequence, a structural unit engaged, among other things, in expert analysis of all the projects submitted for the Bank's consideration was established.

Among the Bank's priority strategic objectives comes the task of giving a new quality touch to relationships with employees. In the context of improving personnel management procedures, the Bank aims to draw on the best global practices. To this end, the list of priority tasks and best ways of meeting them was clearly set out in an internal regulatory document 'Major Guidelines of Vnesheconombank's Personnel Management Policy'.

To further develop the ideas specified in the above document, in 2005, a uniform program designed to ensure a systematic approach to personnel management and the Bank's organisational development tasks was elaborated. The program concerns such central issues as personnel selection and recruiting, job motivation, training, career development. The major aim of the program is to ensure a switch over to new quality standards in managing human resources. Fundamentally, it would enable the Bank to best ensure the creation of a professional and dedicated team that could readily adapt to changes in Vnesheconombank's activities. We recognise that the work, carried on within the frames of Vnesheconombank's Personnel Management Club that includes linear managers - heads of units, considerably helped to efficiently implement the program objectives.

The results of 'My Bank' social poll served as a good basis to finely tune the system of human resources management.

To best address Vnesheconombank's strategic and ongoing tasks, a program 'Employee Career Management' was devised. It is personnel reserve-oriented and envisages a set of measure designed to help spot, develop and make the best use of the Bank's employees' management and professional capabilities. Actually, the year 2005 witnessed a switch over to a new concept of targeted human resources development. This should be achieved, first and foremost, through continuous improvement and enhancement of professional knowledge and skills. The focus was also placed on such non-pay-related personnel motivation instruments as a 'Book of Honour of Vnesheconombank' and a 'Board of Honorary Employees of Vnesheconombank'.

The Bank has a special program to ensure additional (non-governmental) pension insurance for employees put in place. The program is realised through two non-governmental pension funds: the 'Support' non-governmental pension fund, where Vnesheconombank acts as one of the participants, and the 'Vnesheconomfund' non-governmental pension fund that was established by the Bank.

To enhance team spirit among Vnesheconombank's employees corporate events are regularly held. By way of example, in 2005, a special sporting event arranged by the Bank was devoted to the 'Homeland Defender Day' and the 'Women's Day'. Also among popular sporting highlights of the year were 'Partners of the XXI Century' and 'Travelling on the Planet of Sports' events.

Remarkably, at the year-end 2005, at the First All-Russia Competition, in appreciation of its efficiency and professional achievements, the Bank's Personnel Management Department was recognised as the 'Best Russian Personnel Management Service'. Also encouraging is the fact that the heads of 3 of the Bank's units were awarded

¹⁷ Exclusive of functions related to the Bank's collegiate bodies' competencies, as well as operational management functions performed by business units.

honorary titles of the 'Best Accountant of the Year 2005', the 'Best Performing Representative of the Russian Personnel Management Service' and the 'Banking Industry Manager of the Year'.

The Bank's corporate governance priorities for the year 2006 embrace:

- enhancing the quality of corporate governance by ensuring a new quality technological dimension to the Bank's performance analysis and planning systems. That, among other things, envisages their implementing on a uniform software platform, as well as upgrading both methodological and technological support for risk management;
- further implementing the provisions set forth in an internal regulatory document 'Major Guidelines of Vnesheconombank's Personnel Management Policy'.

The scale and scope, as well as the importance of Vnesheconombank's objectives predetermine its information policies, the major aims and goals being to increase the awareness of the partners and general public of the Bank's performance. Underlying the Bank's information policy are the principles of transparency, openness and accessibility. The volume and regularity of publishing information related to the Bank's acting as a the State Trust Management Company fully meet the standards of the disclosure of information on the investment of pension savings funds approved by the Russian Ministry of Finance.

To better highlight Vnesheconombank's activities, the Bank extensively draws on the resources and capabilities offered by the leading Russian news agencies, both Russian and foreign periodicals, as well as TV and radio. To speedily deliver credible information, the best use is made of modern telecommunication technologies.

Vnesheconombank's website¹⁸ makes information on the Bank's activities, current tariffs for the services rendered, as well as various analytical surveys, readily available for the site users.

The Bank's profile in the information area is also maintained through regular meetings with the representatives of business circles and mass media during the Bank's top executives visits abroad, including those made as members of the official delegations accompanying the President of the Russian Federation in his visits to foreign states.

In pursuit of the information openness and transparency goal, the Bank's top executives and specialists proactively interact with mass media representatives in the course of press-conferences, round tables, briefings, forums and seminars arranged both in Russia and abroad, making comments on all publicly significant decisions and actions of the Bank. Also, a primary focus is placed on particular aspects of Vnesheconombank's activities, as well as the events on financial markets and in the banking sector. The number of publications and press releases about the Bank's activities in 2005 made 5500, which is a 1.7 time increase on the year 2004.

Participation in the activities of non-commercial organisations

Vnesheconombank is a member of 39 non-commercial organisations, unions, funds, partnerships and public associations both in Russia and abroad. The benefits derived by the Bank from its membership in these organisations ensure its better and more streamlined integration into the economic community, contribute to efficient cooperation with partners and facilitate establishing new business contacts.

Obviously, among the most well-recognised international non-commercial organisations is the International Chamber of Commerce (ICC). For years, Vnesheconombank has been its active member. Within the framework of the Commission on Banking Technique and Practice that is a working body of the ICC, the Bank's professionals applied their specialised knowledge in the preparation of a new wording of 'Uniform Customs and Practice for Documentary Credits (UCP 600)'. Also, they took an active part in arranging an international forum 'Annual Survey of Global L/C Practices'. It should be noted that it was actually the first time that such a forum was held on the territory of Russia. Apart from it, the Bank's staff made a translation into Russian of an ICC document 'International Standard Banking Practice for Examination of Documents under Documentary Credits', which after its approval by the ICC, was ensured the status of an official translation. The document has been submitted for printing to be published in H1 2006.

Vnesheconombank's participation in the work of such well-established and representative international organisations as the International Securities Market Association (ISMA), Emerging Markets Traders Association (EMTA), ACI - the Financial Market Association enables the Bank to effect operations on the securities, money and FX markets in line with the standards and practices generally accepted by the global financial community, contributes to its cooperation with foreign partners.

The Bank's relentless efforts to increase awareness and understanding by the Russian business community of its position on corporate ethics issues, the principles and conditions underlying an appropriate operation of the participants in the domestic financial market is realised through the Bank's participation in the following non-commercial organisations: the Association of Russian banks, the Russian Trading System Stock Exchange (RTS), the National Foreign Exchange Association, the National Association of Securities Market Participants, the National Securities Market Association, the Association of Bill Market Participants, the Professional Association of Registrars, Transfer Agents and Depositories. In the course of discussions related to such legislative bills as 'On the Central Depository', 'On Clearing and Clearing Activities', 'On Competition Protection', the Bank's professionals put forward a number of respective proposals.

Information gained through participation in global cooperation-oriented organisations (the World Economic Forum, the Russo-British Chamber of Commerce, the Italian-Russian Chamber of Commerce, the American-Russian Business Council, the Russian-American Business Council, the Russian-Chinese Business Council, etc.), numerous business contacts with other members of these organisations are primarily used by the Bank to meet its commercial lending and investment banking development goals.

Information and technology infrastructure

Over the past few years, Vnesheconombank, guided by the principle of reasonable conservatism, attached great importance to upgrading the Bank's information and technological infrastructure. Simultaneously, another strategic project the Bank was proactively involved in envisaged further improving the quality of IT activities management.

Over the period under review, the most meaningful achievements in the area of information technologies development embraced:

- devising and introducing an analytical software product - Market Risks Assessment Module. The underlying functional capacities of the Module comprise input of original data from external and internal sources, their processing and storage, assessment of current and projected risk exposure values (inclusive of scenario analysis), as well as the preparation of the respective reports;
- developing a specific software package designed to ensure an early redemption of the Russian Federation indebtedness towards the Paris Club creditors. The given software is integrated with the foreign debt analytical database, which is the information basis for the record-keeping system of the Ministry of Finance of the Russian Federation. This enables Vnesheconombank to efficiently perform agency functions to service foreign debt;
- introducing a system that ensures preparation and submission of tax and accounting reports to the Federal Tax Service through electronic delivery channels. The above system is integrated with the Bank's information systems and considerably simplifies the reports producing procedure.

Apart from this, a technical project of an electronic archives system for the Bank's business day documents was developed. The system is to be integrated into the Bank's major information systems, thereby providing the Bank's professionals with an instant access to information directly from their workstations.

The existing IT infrastructure of the Bank is created on the basis of leading-edge banking technologies and overall meets the current needs of Vnesheconombank. The task of its further upgrading is closely interrelated with the strategic challenge of giving a new quality touch to the IT activities management system. To this end, the following aspects should obviously be taken full account of:

- 'Quality Management System' state standards;
- accepted by the global community principles and approaches of Information Technology Service Management (ITSM), that are fully reflected in the library of the best global practices - Information Technology Infrastructure library (ITIL).



To accomplish the goal set, Vnesheconombank's professionals devised Policies designed to improve the Bank's IT activities. Underlying the Policies is a modern globally accepted approach to IT activities management. The above approach envisages a shift of focus from IT infrastructure management to IT services management and offers an opportunity to create a sustainable and transparent IT activities management system. Following an independent examination and a positive evaluation of the document made by the Gartner Group, the Bank's top executives in conformity with internal regulatory procedures approved it.

The program of implementing the Policies was developed and adopted, with the respective financing envisaged. The program defines 11 interrelated projects designed to help put in place, on a continuous basis, 15 processes of the IT activities management system within 2006-2007. The program provides for a priority introduction, in every management process, of control and upgrading mechanisms, created on the basis of the IT activities measurable parameters. A meaningful role is to be played by the participants in the processes, ensuring further development of the given system through making the best use of the program mechanisms.

In 2005, to have the respective specialists trained the Bank sent a number of its employees to study the course 'The Basics of ITIL'. After finishing the course, they got international certificates (EXIN). As of the year-end 2005, 19 employees were awarded the ITIL basics international certificates, with the two of them being assigned the highest grade (IT Service Manager).

In October 2005, according to the 'TOP-200 Most Professional IT Directors of Russia' rating list by the rating agency of the Association of Managers of Russia, Vnesheconombank was assigned the 5th position (1st in the financial sector).



medicine

The scientists of the Petrozavodsk State University invented an efficient remedy designed to ensure treatment of bronchial asthma.

The idea is to implant a special microchip into a patient's body, which would sharpen the reflexes of the human organism. When the patient is seized with an asthma fit, the microchip would trigger off the process of bronchiectasis and control the fit to never let it reach a critical stage. Currently such operations are being performed in Petrozavodsk on a scheduled basis.

7

- Representative offices
- Charitable activities
- Vnesheconombank's representative offices legal addresses

Representative offices

At the year-end 2005, Vnesheconombank's representative offices network consisted of one Russian and eight foreign representative offices. In November 2005, a decision was made to establish Vnesheconombank's representative office in Great Britain (London).

The representative offices play a key role in ensuring and facilitating Vnesheconombank's strategic and current missions, serve as a source of information on the prospects of enhancing its activities in the countries of location of the representative offices. Also, they are viewed as a leverage to promote the Bank's positive image, establish fruitful business contacts with the business community, inclusive of those maintained in the interests of the Bank's customers.

A priority area of the activities of Vnesheconombank's representative offices was preparing and devising proposals on implementing investment projects jointly with foreign partners both abroad and on the territory of Russia.

In the period under review, the Bank's program on improving the representative offices' activities was approved. The program is designed, in particular, to help diversify the areas of the representative offices' operation, identify new promising projects with the participation of Vnesheconombank, as well as enhance activities to help develop the Bank's resource base.

Charitable activities and sponsorship

The year 2005 saw a continued tradition of active participation of Vnesheconombank in the social and public life of the Russian society that was started more than 8 years ago. The Bank devoted special attention to implementing the program of sponsorship and charitable activities scheduled for the year 2005. Its charitable priorities embraced support for health-care, culture and arts, as well as for various projects in the area of education, science and sports. A special emphasis was placed on relations with the Russian Orthodox Church, as well as organisations for veterans and disabled people. Overall, in 2005, Vnesheconombank rendered financial support to 66 organisations and institutions.

Traditionally, child health-care has been in the focus of the Bank's charitable activities. Thus, throughout the year, on a regular basis, with the view of providing better medical treatment for patients with cancer problems, financial aid was rendered to the first Moscow hospice for children. Also, the Bank financed purchasing of endoscope equipment for the Children's Oncology and Hematology Blokhin Research Institute of the Russian Oncology Science Centre, as well as organised a traditional festive event as a rehabilitation support for small patients. Moreover, the most necessary medical materials were purchased for the hematology department of the Morozovskaya Municipal Children's Hospital.

Last year 39 ambulances equipped for mountainous areas exploitation were donated by the Bank to the Ministry of Public Health of the Republic of Northern Ossetia - Alania.

Continuous financial support was ensured to orphanages. Baby nutrition products were purchased for the Baby-Care Centre No.14. The Bank paid for the sanatorium treatment of the children from the Saltykov orphanage. Financial aid was rendered to the Baby-Care Centre in the town of Shuya.

Remarkably, one of the most meaningful events of the year 2005 was celebrating the 60th anniversary of Russia's victory in the Great Patriotic War. Vnesheconombank actively participated in implementing a number of projects to mark this significant anniversary. To illustrate, the Bank was a general sponsor of exhibitions held at the Central Museum of the Great Patriotic War on the Poklonnaya Hill. Another example is financing an international creative works contest devoted to the Victory Day, which was held by the 'Senator' magazine. Also, the Bank sponsored a big celebration festival event organised in the Krasnoselsky district of Moscow. Within the framework of the charitable activities program, a considerable volume of funds was transferred to the Russian veterans' organisations.

Furthermore, the Bank maintained focus on patronage of arts. It actively participated in carrying out more than 30 projects. The key charity achievements in this area included the International Moscow Film Festival and the National Academy of Cinema awards ceremony, as well as financing the Tretyakov Gallery to purchase canvases by V. Nasedkin, a Russian artist.

Besides, the staging of the 'Tzar's Bride' opera at the Mariinsky State Academic Theatre was sponsored. Also, Vnesheconombank financed the 'Mariinsky II' project for the construction of a new stage of the theatre. In cooperation with the Mariinsky Theatre Development Fund, the Bank continued rendering financial support to the Academy of young opera singers of the Mariinsky Theatre. The most distinguished and talented performers were awarded traditional annual prizes of Vnesheconombank. Over the past few years, the Bank provided the 'ROSIZO' State Museum-Exhibition Center with free of charge vaults to store a state collection of unique musical instruments and paid the respective insurance for the instruments. Also, Vnesheconombank maintained a close relationship with the Moscow State Water-Color Painting School of S. Andrijaka, as well as, among other sponsors, financed the School's exhibition project at the Manege Exhibition Centre.

Vnesheconombank participated in sponsoring the concerts given within the framework of the festival 'Early Music' of the Russian Ancient Music Fund, the State Borodin Quartette jubilee performances, the Venetian Carnival in St. Petersburg, the jubilee concert in honour of Boris Alexandrov. A contest of young opera singers was jointly held with the 'Cultural Centre of Elena Obratzova'. On a regular basis, the Bank rendered financial aid to the two Moscow theatres: 'the Pyotr Fomenko Studio' Moscow Theatre' and 'the Moscow Drama Theatre' headed by Armen Dzigarkhanjan.

Recognising the need to further preserve Russia's intrinsic spiritual and historical values, Vnesheconombank participated in financing the restoration of the Russian New Martyrs and Confessors Church (the town of Zheleznodorozhny) and the Archangel Mikhail Church in the village of Sharapovo, jubilee events on the occasion of the 625th anniversary of the Kulikovskaya Battle, as well as rendered support in publishing a book about the Sviato-Troitskij Cathedral.

Just as before, Vnesheconombank supported the development of Russian sports. Within the framework of cooperation with the Russian Handball Union, the Bank financed the Russian national teams' participation in international competitions. Besides, the Bank sponsored the Women's World Handball Championship held in St. Petersburg. A new impetus was given to cooperation with the All-Russia Volleyball Federation. Acting as a sponsor, Vnesheconombank undertook to financially support the Women's National Team over the whole period of training in the run up to the Olympic games in Beijing, as well as to finance the Russian volleyball development program. With the financial aid of Vnesheconombank, a major international mass skiing event 'The Ski Track of Russia' and a competition 'The National Cross-Country Race' were held.

Furthermore, the Bank fostered cooperation with Rosssport of Russia, the Russian Chess Federation, as well as the Moscow Fencing and Hockey Federations.

Active support was ensured to Russian scientific organisations. The Bank participated in financing numerous scientific and practical conferences, exhibitions, forums and symposiums. In 2005, the Bank financed scientific activities of the State Academy of Advanced Professional Training for Investment Area Specialists, the 'Center of Strategic Research' and 'Global Economy' Funds, the National Securities Markets Association, as well as ensured aid for the Support Fund of the Financial Academy under the Government of the Russian Federation and the Guild of Investment and Financial Analysts. The best students of the leading Russian universities received students' grants from Vnesheconombank. Financial assistance was given to those arranging a number of major international conferences, inclusive of those organised by such well-known agencies as Interfax, Euromoney Institutional Investor and RIA 'Novosti'.

To promote exports of Russian high-tech goods, Vnesheconombank contributed to ensuring Russian exporters participation in the international industrial fair held in Hanover, as well as participated in sponsoring the International Aerospace Show in the town of Zhukovsky.

Recognising the importance of environmental protection, the Bank financed a whole number of special measures designed to ensure restoration and reproduction of ecosystems in the national parks and forest reserves in the central regions of Russia.

Seeking to increase the range of charitable and sponsorship aid recipients every year, Vnesheconombank considers its financial support to them to be an investment that would ultimately contribute to Russia's prosperity and strength.

Vnesheconombank's representative offices

legal addresses and telephone numbers

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s p a c e

Russia intends to start extracting on the Moon the energy resources of the future which, to quote the scientists, would address the energy needs of the planet for more than a thousand years to come.

Presently, work is carried out by the Russian Rocket and Space Corporation «Energia» to create in the forthcoming decade a permanently operating workstation on the surface of the Moon.

By 2020, the extraction of scarce isotope of Helium-3 might be started.

8

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Report of Independent Auditors

To the Board of Directors
Bank for Foreign Economic Affairs of the USSR

We have audited the accompanying consolidated balance sheet of the Bank for Foreign Economic Affairs of the USSR and its subsidiaries ("Vnesheconombank" or the "Bank") as of December 31, 2005, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

April 5, 2006

Ernst & Young Vneshaudit

Consolidated Balance Sheets

(in millions of US dollars)

		December 31	
	Notes	2005	2004
Assets			
Cash and cash equivalents	7	\$ 900	\$ 414
Trading securities	8	1,362	1,347
Due from other banks, net	9	1,660	1,641
Available-for-sale securities	11	970	771
Commercial loans, net	12	1,308	999
Receivable from the Russian Government under London Club arrangements	5	37	37
Due to London Club creditors	5	(37)	(37)
Due from the Russian Government	14	29	17
Current income tax assets		23	12
Property and equipment	16	88	82
Other assets, net	17	33	34
Total assets		\$ 6,373	\$ 5,317
Liabilities and equity			
Due to other banks	18	\$ 2,508	\$ 1,620
Financial trade liabilities	19	356	15
Due to the Russian Government and the Bank of Russia	5	2,068	2,702
Amounts due to customers	20	407	262
Debt securities issued	21	14	9
Deferred income tax liabilities	15	110	38
Provisions	13	2	4
Other liabilities	17	46	47
Total liabilities		\$ 5,511	\$ 4,697
Russian Government charter capital and retained earnings		\$ 835	\$ 596
Unrealized revaluation of available-for-sale securities		22	17
Translation differences		2	4
Russian Government equity	22	859	617
Minority interest		3	3
Total equity		\$ 862	\$ 620
Total liabilities and equity		\$ 6,373	\$ 5,317
Financial commitments and contingencies	24	\$ 1,163	\$ 681

Signed and authorized for issue in accordance with the decision of the Chairman of the Bank

Vladimir A. Dmitriev

Chairman of the Bank

Vladimir D. Shaprinsky

Chief Accountant

April 5, 2006

The accounting policies and explanatory notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

(in millions of US dollars)

	Notes	Year ended December 31	
		2005	2004
Interest income:			
Placements with other banks		\$ 10 8	\$ 21
Commercial loans		107	46
Securities		75	81
		290	148
Interest expense:			
Due to other banks		(91)	(21)
Amounts due to customers		(13)	(9)
Debt securities issued		(0)	(4)
		(104)	(34)
Net interest income		186	114
Reversal of (provision for) impairment of interest earning assets	13	32	(23)
Net interest income after reversal of (provision for) impairment of interest earning assets		218	91
Fee and commission income, net	23	37	28
Gains/losses from securities		247	(6)
Gains/losses from foreign currencies		(25)	43
Other operating income		10	21
Total other income		269	86
Payroll and other staff costs		(71)	(64)
Occupancy and equipment		(20)	(20)
Depreciation		(7)	(6)
Taxes other than income taxes		(3)	(4)
Reversal of other impairment and provisions	13	2	7
Other operating expenses		(51)	(30)
Total operating expenses		(150)	(117)
Income before income tax		337	60
Income tax (expense) benefit	15	(98)	12
Net income		\$ 239	\$ 72
Attributable to:			
- Equity holder of the parent		239	72
- Minority interests		0	0
		\$ 239	\$ 72

The accounting policies and explanatory notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

(in millions of US dollars)

	Attributable to the Russian Government					
	Russian Government charter capital and retained earnings	Unrealized revaluation of available-for-sale securities	Translation effect	Russian Government equity	Minority interest	Total equity
December 31, 2003	\$ 524	\$ (30)	\$ -	\$ 494	\$ 3	\$ 497
Net change in fair value of available-for-sale securities, net of tax	-	47	-	47	0	47
Currency translation differences	-	-	4	4	0	4
Total income and expense recognized directly in equity	-	47	4	51	0	51
Net income	72	-	-	72	0	72
Total income for the year	72	47	4	123	0	123
December 31, 2004	\$ 596	\$ 17	\$ 4	\$ 617	\$ 3	\$ 620
Net change in fair value of available-for-sale securities, net of tax	-	5	-	5	0	5
Currency translation differences	-	-	(2)	(2)	0	(2)
Total income and expense recognized directly in equity	-	5	(2)	3	0	3
Net income	239	-	-	239	0	239
Total income for the year	239	5	(2)	242	3	242
December 31, 2005	\$ 835	\$ 22	\$ 2	\$ 859	\$ 3	\$ 862

The accounting policies and explanatory notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Year ended December 31	
	2005	2004
Cash flows from operating activities		
Net income	\$ 239	\$ 72
Adjustments for:		
Depreciation and amortization	8	7
Deferred income taxes	75	(41)
Impairment and provisions (reversal)	(34)	16
Changes in unrealized appreciation of securities and derivatives	(331)	74
Other changes	(7)	31
Operating income before changes in net operating assets	(50)	159
(Increase) decrease in operating assets:		
Due from other banks	6	(793)
Trading securities	477	260
Available-for-sale securities	(188)	(326)
Commercial loans	(273)	(603)
Due from the Russian Government	(12)	(7)
Other assets	(11)	(15)
Increase (decrease) in operating liabilities:		
Due to other banks	874	469
Financial trade liabilities	173	-
Due to the Russian Government and the Bank of Russia	(634)	146
Amounts due to customers	144	(111)
Other liabilities	(12)	2
Net cash used in operating activities	494	(819)
Cash flows from investing activities		
Purchases of premises and equipment	(9)	(15)
Purchases of equity participations	(3)	(0)
Net cash flows from investing activities	(12)	(15)
Cash flows from financing activities		
Debt securities issued	4	(8)
Net cash flows from financing activities	4	(8)
Net change in cash and cash equivalents	486	(842)
Cash and cash equivalents at beginning of period	414	1,256
Cash and cash equivalents at end of period (Note 7)	\$ 900	\$ 414
Supplemental information:		
Income taxes paid	\$ 35	\$ 38
Interest paid	\$ 86	\$ 34
Interest received	\$ 258	\$ 153

The accounting policies and explanatory notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 2005 and 2004

(In millions of US dollars, unless otherwise stated)

1. Principal Activities

The Bank for Foreign Economic Affairs of the USSR ("Vnesheconombank" or the "Bank") is a specialized state bank of the Russian Federation servicing, in an agency capacity, the foreign debt and assets of the former Union of Soviet Socialist Republics (the "USSR") and the Government of the Russian Federation and its authorized institutions (the "Russian Government") under its charter approved by Decree No. 745 of the Council of Ministers of the USSR dated June 14, 1988, Decree of the Presidium of the Supreme Soviet of the Russian Federation No. 2172-1 dated January 13, 1992, Decree of the Supreme Soviet of the Russian Federation No. 3875-1 dated November 12, 1992, and Decree No. 2261 of the President of the Russian Federation dated December 22, 1993. Besides that the Bank conducts its own banking operations.

The power to conduct banking operations and transactions is granted by the Decision of the Board of Directors of the Central Bank of the Russian Federation (the "CBR" or the "Bank of Russia") dated October 1, 1997. Currently the Bank of Russia supervises the operations of Vnesheconombank in accordance with the Agreement dated March 24, 2004. The Bank's Chairman is appointed by a Decree of the President of the Russian Federation, and his service term is also defined in this Decree.

At December 31, 2005, the Bank was party to three separate agency agreements (collectively, the "Agency Agreements"), as follows:

- An agreement dated July 30, 1992 (amended March 17, 1993) with the Ministry of Finance of the Russian Federation (the "Ministry of Finance") requires the Bank to carry out banking operations necessary to service the centralized foreign economic activities of the Russian Federation. The agreement has an indefinite term, and provides for certain commissions and fees to be paid to the Bank based upon the volume of transactions serviced. Additionally, the amendment stipulates that the Russian Government will provide such resources in roubles and foreign currencies as necessary for servicing the external debt of the former USSR, and managing and using the assets of the former USSR.
- An agreement dated September 30, 1993 with the Ministry of Finance requires the Bank to service bonds issued to replace funds on frozen accounts with Vnesheconombank held by Russian legal entities. The agreement has an indefinite term, and provides for certain servicing fees to be paid to the Bank based upon the nominal value of bonds issued.
- An agreement dated January 31, 2000 with the Ministry of Finance requires the Bank to act as the general agent in restructuring the MinFin Bonds Tranche III and service the Global certificate of MinFin Bonds Tranche VIII issued in 1999 and process all payments there under on behalf and at expense of the Ministry of Finance. The agreement has an indefinite term (it will be terminated automatically when MinFin Bonds Tranche VIII are redeemed by the Ministry of Finance in 2007), and provides for certain servicing fees to be paid to the Bank based upon the nominal value of Global certificate deposited with the Bank.

As more fully described in Note 5, at December 31, 2005 and 2004, the Russian Government owed the Bank \$37 million relating to the London Club debt obligation of the Bank. These amounts have been presented in the Bank's balance sheet and are not subject to offset. No allowance has been provided with respect to the Russian Government receivable under the London Club debt.

In January 2003, the Bank was nominated as the State Trust Management Company for the trust management of the funds of the State Pension Fund of the Russian Federation. As the State Trust Management Company, the Bank is entitled to invest accumulated pension system funds in accordance with Investment Declaration approved by the Resolution of the Government of the Russian Federation No. 540 dated September 1, 2003. During 2004 and 2005 investments were limited to Federal Loan Bonds (OFZs) and Eurobonds issued by the Russian Federation nominated in Russian Rubles and \$, respectively. At December 31, 2005 total assets managed by the Bank were \$6.1 billion (2004 – \$3.4 billion).

The Bank makes loans to its customers and different institutions within the framework of major state programs and projects implemented under various intergovernmental agreements. The Bank receives deposits from legal entities, and is one of the leading operators on the Russian Eurobonds market. During 2005 and 2004 the Bank obtained new customers in many regions of the Russian Federation and is cooperating with international development banks and foreign institutions with export credit and loan guarantee functions to locate funds for direct investment purposes.

The Bank's head office is located in Moscow, Russia, and it has representative offices in St. Petersburg, Russia, the United States of America, India, Hungary, Italy, China, Republic of South Africa and France. At December 31, 2005 and 2004, the Bank had 1,538 and 1,537 employees, respectively. The Bank's principal offices are located at prospect Sakharova 9, Moscow.

On January 5, 2003, the Bank contributed RUR 1,582 million (\$50 million) in payment of 90,000 shares of CJSC State Specialized Russian Export-Import Bank (Roseximbank). The second issue of Roseximbank 90,000 shares, 10,000 RUR par value was registered by the Central Bank of the Russian Federation on February 10, 2003. As the result of the contribution, the Bank has become the owner of 94.64% shares of Roseximbank share capital. Roseximbank was created in 1994 as a special state bank for providing guarantee and credit services to Russian exporters aimed to decrease export risks. Roseximbank holds a general license of the Central Bank of the Russian Federation and all licenses of the professional participant of the Russian securities market.

During the third quarter of 2005 the Bank participated in the foundation of Interfax – Center of economic analysis LLC by contributing RUR 70 million (\$2.5 million), which represent 49% of ownership.

The Bank's other subsidiaries and associates include Russian Leasing Company LLC (100% ownership), Bumofin KFT (98.8% ownership), A.F.C. s.r.l. (37.5% ownership), Konsultbankir CJSC (29% ownership) and Oboronimpeks LLC (25% ownership).

2. Basis of Preparation

General

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

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

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

Functional Currency and Foreign Currency Translation

The accompanying consolidated financial statements have been presented in millions of United States Dollars ("\$") as the majority of the Bank's transactions are denominated, measured, or funded in this currency and the \$ is the primary currency in which the Bank generates and expends cash.

Transactions denominated in RUR are recorded at the official exchange rate on the date of the transaction or by using a monthly average of the daily official exchange rates. The RUR is not a fully convertible currency outside the Russian Federation, and the official exchange rates are determined daily by the Bank of Russia. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the Bank of Russia.

London Club debt amounts denominated in currencies other than the \$ are recorded at the official rates of the Bank of Russia at December 31, 2005 and 2004.

Clearing currencies are the settlement currencies for bilateral trade between the Russian Federation and designated countries. Clearing currencies are regularly traded on special auctions held by the Bank under the supervision of the Ministry of Finance. Clearing currencies-denominated assets and liabilities have been translated into \$ at the official rates of the Bank of Russia at December 31, 2005 and 2004.

Transactions denominated in other currencies are recorded at the market exchange rates prevailing on the date of the transaction or by using a monthly average of the daily market exchange rates.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";

IAS 1 (revised) "Presentation of Financial Statements";

IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
IAS 10 (revised) "Events after the Balance Sheet Date";
IAS 16 (revised) "Property, Plant and Equipment";
IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
IAS 24 (revised) "Related Party Disclosures";
IAS 27 (revised) "Consolidated and Separate Financial Statements";
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure"; and
IAS 39 (revised) "Financial Instruments: Recognition and Measurement".

The effect of adoption of new and revised standards on the financial statements of the Bank was not material, except for the presentation matters, which are discussed in respective accounting policies.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective. The adoption of new pronouncements will have no significant impact on the Bank's financial statements in the period of initial application.

Segregation of Operations

In its agency capacity, the Bank maintains and services certain assets and liabilities on behalf of the Russian Government. Such balances have been excluded from the accompanying balance sheets given the agency nature of the relationship and in accordance with the underlying Agency Agreements and specific guidelines (the "Guidelines") approved by the Bank's Board of Directors and the Ministry of Finance in 1997.

The Guidelines stipulated the following assets and liabilities are the responsibility of the Ministry of Finance and have, therefore, been excluded from the accompanying balance sheets:

1. Liabilities to foreign creditors including all accrued interest which are serviced and redeemed at the expense of the Russian Government, except some remaining London Club obligations (Note 5);
2. Internal foreign currency debt to residents of the former USSR;
3. Claims to legal entities for foreign currency government and commercial loans granted to Russian Federation regions, former republics of the USSR, and other foreign countries representing both government external and internal foreign currency assets;
4. Clearing, barter, and mutual settlements, including corresponding settlements with clients, executed on the basis of intergovernmental agreements;
5. Participation claims and liabilities related to the reorganization of former USSR-owned foreign banks, which are subject to trilateral settlement by the CBR, the Ministry of Finance, and Vnesheconombank, and equity participations financed by borrowings, the responsibility for which was assumed by the Ministry of Finance;
6. Claims against Russian commercial banks and other commercial entities for guarantees in favor of the Ministry of Finance under centralized operations as well as other claims and liabilities that resulted from, or arise as a result of operations conducted at the expense of the Russian Government.

Reconciliation of RAL and IFRS Equity and Net Income for the year

Russian Government equity and net income are reconciled between RAL and IFRS as follows:

	2005		2004	
	Russian Government equity	Net income	Russian Government equity	Net income
Russian Accounting Legislation	\$ 635	\$ 197	\$ 469	\$ 128
Translation differences	36	(13)	39	32
Initial recognition of financial instruments	(31)	-	(31)	-
Expenses recorded directly to equity	-	(13)	-	(11)
Impairment and provisions	70	79	(9)	42
Accrued interest income and expense	26	12	14	(18)
Taxation	(110)	(72)	(38)	46
Effect of consolidation	9	0	2	1
Derivatives	(185)	(175)	(10)	(10)
Fair value re-measurement of trading securities	377	235	142	(142)
Fair value re-measurement of available-for-sale securities	27	-	23	-
Other income and expense	5	(11)	16	4
International Financial Reporting Standards	\$ 859	\$ 239	\$ 617	\$ 72

Reclassifications

Certain reclassifications were made to 2004 balances to conform to the 2005 presentation. Such reclassifications had no impact on net income or Russian Government equity.

3. Summary of Significant Accounting Policies

Subsidiaries and Related Parties

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

Minority interest is the interest in subsidiaries not held by the Bank. Effective January 1, 2005 minority interest is presented in the consolidated balance sheet within equity, separately from the Russian Government equity. Previously, minority interests were presented separately from liabilities and the Russian Government equity in the Bank's consolidated balance sheet. To conform to this presentation minority interest at December 31, 2004, was reclassified to the Bank's equity.

In addition, the Bank discloses on the face of the consolidated income statement, the allocation of the result for the year between net income for the year attributable to the Russian Government and net income for the year attributable to minority interest.

Starting January 1, 2005, revised IAS 24 expands the definition of "related party" by removing the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, all state-controlled entities are considered to be related parties of the Bank. Accordingly, starting from 2005, the

Bank disclosed transactions and outstanding balances with such entities in the notes to financial statements. Comparative figures have been amended accordingly.

Recognition and Presentation of Financial Instruments

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

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

When financial assets and liabilities are initially recognized, they are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial assets and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income within gains less losses from securities. Interest earned on trading securities is reported as interest income in the statement of income.

In determining fair value, marketable securities are valued at last deal prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or using discounted cash flow models.

Due from Other Banks

In the normal course of business, the Bank maintains current accounts or places deposits for various periods of time with other banks. Amounts due from other banks with fixed maturity are subsequently measured at amortized cost using the effective interest method. Amounts due from other banks are carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading or available-for-sale securities. The corresponding liability is presented within amounts due to other banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from other banks or commercial loans as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities received under reverse repurchase agreements are not recorded in the consolidated financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as a financial trade liability.

Derivative Financial Instruments

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

Available-for-sale securities

Securities not classified as trading are designated as investment securities available-for-sale. Investment securities

available-for-sale are initially recognized in accordance with the policy stated above and subsequently measured at fair value, which is equal to the estimated fair value at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized in equity, net of income taxes, in the period that the change occurs. Realized gains and losses on available-for-sale securities are computed on a specific security basis and included in the statement of income within gains less losses from securities.

In determining fair value, marketable securities are valued at last deal prices on stock exchange. Securities traded over-the-counter are valued at last bid prices. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions.

Promissory Notes

Promissory notes purchased are included in commercial loans or in amounts due from other banks, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

Commercial Loans

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recorded in accordance with the policy for initial recognition of financial instruments. The difference between the nominal amount of the consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as gain/loss from initial recognition of loans to customers in the statement of income. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those loans that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Allowance for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued and other financial assets, which are carried at cost or amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

The allowances are based on the Bank's own loss experience and management's judgment as to the level of losses incurred in assets in each credit risk category. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of current economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets.

Changes in allowances are reported in the statement of income of the related period. When an asset is not collectable, it is written off against the related allowance for impairment; if the amount of impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Russian Federation and the city of Moscow.

Deferred income taxes are calculated under the balance sheet liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at



the balance sheet date. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Russia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of income.

London Club Receivable and Debt

The London Club receivable and debt represent the Bank's receivable from the Russian Government and payable to London Club creditors (primarily international banks) for outstanding debts relating to the former USSR.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-40
Computers and equipment	2-8
Furniture and fixtures	2-8
Motor vehicles	2-5

Leasehold improvements are amortized over the life of the related leased asset.

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

Amounts Due to Other Banks and to Customers

Amounts due to other banks and to customers are initially recognized in accordance with the policy for recognition of financial instruments. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank to its customers. They are accounted for according to the same principles used for amounts due to other banks and to customers. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in net interest income.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

The Bank participates in the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of income in the period the related contributions are paid to the State Pension Fund and included into payroll and other staff costs in the statement of income.

In addition, the Bank operates two separately administered defined contribution pension schemes, where the Bank's obligation for each period is determined by the amounts to be contributed for that period. Contributions made by the Bank are recognized as expense in the respective period.

There are no other post-retirement benefits or significant other employee benefits requiring accrual.

Contingencies

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

Income and Expense Recognition

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

Gains and losses arising from the translation of other than \$-denominated assets and liabilities are included in the accompanying statement of income within gains less losses from foreign currencies.

4. Significant accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. The actual results may differ from these estimates and it is possible that these differences may have a material effect on the financial statements.

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

Allowance for impairment of loans and receivables

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

Taxation

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

At December 31, 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

5. Operations with the Russian Government and its Authorized Institutions

Amounts due to the Russian Government and its agencies were predominantly non-interest bearing and consisted of the following:

	2005	2004
Settlements related to redemption of Russian Government loans	\$ 1,642	\$ 1,816
Proceeds from export sales	314	322
Interest bearing deposits from the Bank of Russia	66	90
External debt payment funds	38	66
Current accounts of the Russian Government	3	401
Other	5	7
	\$ 2,068	\$ 2,702

Settlements related to redemption of Russian Government loans represent amounts deposited by the Ministry of Finance with the Bank to facilitate the servicing and redemption of the external debt obligations of the Russian Government and the former USSR. These deposits and the processing of payments are managed and conducted by the Bank in accordance with the Agency Agreements. The balance also includes funds received from borrowers as repayment for loans granted by the Russian Government. At December 31, 2005, these amounts are regarded as due to the Russian Government.

Proceeds from export sales represent the receipts in foreign currencies for export operations by former USSR foreign trade companies. The ultimate ownership of these amounts was subject to a trilateral agreement between the CBR, the Ministry of Finance, and Vnesheconombank dated August 21, 1997. At December 31, 2005 and 2004, these amounts were regarded as subject to further negotiation between the Ministry of Finance and Vnesheconombank and were included in the amounts due to the Russian Government.

Interest bearing deposits from the Bank of Russia are used by the Bank to provide lending to certain targeted industries. Such deposits are \$-denominated and carry interest at approximately 5% per annum.

London Club

The Bank is a party to certain rescheduling agreements with various foreign commercial bank creditors (the "London Club"). The London Club represents liabilities of the former USSR due to foreign banks and financial institutions. These liabilities were primarily reconciled and restructured under a series of agreements and other legal documentation between the Bank and foreign creditors dated October 6, 1997, which became effective on December 2, 1997. These agreements required the original debts and the accrued interest thereon, denominated in various currencies, to be converted into Restructured Loans ("PRINs") and Interest Arrears Notes ("IANs") in base currencies (Swiss Francs, Japanese Yen, Deutsche Marks, European Currency Units, and \$).

The London Club debt was issued as a legal obligation of the Bank. Based on Russian Government resolution No. 1167 "Concerning the Settlement of the Indebtedness of the Former USSR to Foreign Commercial Banks and Financial Institutions (the London Club)" dated September 15, 1997 and the Declaration of Support dated November 28, 1997, the Russian Government expressed its willingness, without right of legal recourse from creditors or specific commitment, to provide financial resources to enable the Bank to honor its London Club obligations as they became due. The Declaration of Support remains in force as long as any debt under the London Club restructuring agreements remains outstanding.

On February 11, 2000, an agreement was reached between representatives of the London Club creditors and the Russian Government, under which the outstanding London Club debt of approximately \$31.7 billion (at March 31, 2000) was exchanged for a new issue of Eurobonds issued by the Government of the Russian Federation and maturing in 2010 and 2030. As the exchange process substitutes obligations of the Bank with obligations of the Russian Government, receivables from the Russian Government under London Club and amounts due to London Club have been excluded from the Bank's balance sheet to the extent that the bondholders have presented their PRINs and IANs for exchange.

At December 31, 2004 and 2005, most holders of PRINs and IANs have participated in the exchange, with 99.8% of the face value of PRINs and IANs being submitted for exchange to Eurobonds. The remaining 0.2% of the face value of the PRINs and IANs continues to be carried as a liability of the Bank, along with the corresponding receivable from the Russian Government.



The London Club debt was comprised of the following amounts at December 31:

	2005	2004
IANs	\$ 33	\$ 33
PRINs	1	1
Accrued interest on the PRINs and IANs, including overdue and default interest	3	3
	\$ 37	\$ 37

Premises

The Bank's headquarters building is owned by the Federal Agency for Federal Property Management (the "Federal Agency") and is provided to the Bank for its use under an agreement dated October 24, 1996 (the "Premises Agreement"). The Premises Agreement stipulates that the Bank can use the building until the Bank's liquidation, reorganization, or privatization and is not required to make rental payments. The Bank cannot dispose of, sell, or lease out these premises without the express permission of the Federal Agency.

6. Agency Operations

Paris Club

The Bank serves as the debt manager and maintains the applicable records related to the Paris Club debt of the former Soviet Union. Paris Club debt represents the obligations contracted or guaranteed on behalf of the Government of the former Soviet Union which are due to foreign official creditors including the governments of most European countries, Australia, Canada, Japan and the United States of America, among others (the "Participating Creditor Countries") which were recognized in a Memorandum of Understanding dated October 28, 1991 on the Debt to Foreign Creditors of the USSR and Its Successors and a subsequent Agreement on the Deferral of the Debt of the USSR and Its Successors to Foreign Official Creditors dated January 4, 1992 (the "Paris Club Agreement").

The Russian Government has agreed to be responsible for these debts as evidenced by a declaration acknowledging the foreign debts of the former USSR signed by the Russian Government on April 2, 1993.

The Bank acts as the debt manager and keeps records of the indebtedness. The Bank is not, however, a legal obligor under the Paris Club Agreement; therefore, the related amounts outstanding have been excluded from the accompanying balance sheets.

The principal amount of debt under the Paris Club Agreement and five principal agreements dated between April 2, 1993 and August 1, 1999, were equal to approximately \$22.1 billion and \$43.3 billion at December 31, 2005 and 2004, respectively, including amounts rescheduled according to the agreement dated July 26, 2000 (Sovcomflot, Germany) equal to \$0.49 billion and \$0.52 billion, respectively. During 2005 and 2004, the Bank, acting as Paying Agent of the Ministry of Finance of the Russian Federation, made payments of approximately \$18,925 million and \$4,275 million, respectively, to the Paris Club creditors.

Other Agency Operations

At December 31, 2005, other assets and liabilities maintained by the Bank under the applicable Agency Agreements of approximately \$99 billion represent predominantly claims against foreign governmental and corporate debtors, former USSR companies, Russian state companies, and non-club debt to foreign creditors, which were excluded by the Bank from the accompanying balance sheets since the Bank is not the legal obligor.

Commercial Indebtedness

The Russian Government has announced its intention to assume the legal responsibility for certain commercial indebtedness (also referred to as the "trade indebtedness") of the former USSR, identified as obligations of the Government of the former USSR and other bodies and entities acting on its behalf, within the Declaration of the Government of the Russian Federation dated October 1, 1994 "On the Restructuring of Commercial Indebtedness of the former USSR to Foreign Creditors" (the "Declaration"). This commercial indebtedness of the former USSR includes contracts requiring installment payments, short-

2005

term or medium-term suppliers credits evidenced by bills of exchange and promissory notes, bills of exchange and promissory notes payable at sight, revocable and irrevocable letters of credit including installment letters of credit, collection of payments, and other trade liabilities that can be referred to by the Russian Government as settlement in conformity with the Declaration.

The Bank is not a legal obligor under the Declaration and has excluded commercial indebtedness from the accompanying balance sheets.

The Government of the Russian Federation has authorized the exchange of Russian Federation Eurobonds for eligible uninsured trade debt of the former USSR in accordance with the Resolution No. 931 dated December 29, 2001 "On the Settlement of the Trade Indebtedness of the Former USSR to Foreign Trade Creditors".

As of December 31, 2005, the outstanding commercial indebtedness amount was estimated at approximately \$2 billion. The actual amount cannot be fully determined until completion of the reconciliation process.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2005	2004
Cash on hand	\$ 14	\$ 14
Due from the Bank of Russia	73	97
Correspondent nostro accounts with Russian banks	60	24
Correspondent nostro accounts with OECD based banks	107	78
Correspondent nostro accounts with other banks	20	17
Interest-bearing loans and deposits with Russian banks	73	115
Interest bearing loans and deposits with OECD based banks	271	64
Interest bearing deposits with a non-OECD based bank	232	-
Reverse repurchase agreements	50	5
	\$ 900	\$ 414

Interest-bearing loans and deposits with Russian banks, at December 31, 2005, are represented predominantly by short-term RUR and \$ placements that bear annual interest rates from 3.5% to 7% for RUR deposits (2004 – from 0.9% to 4.5%) and from 3.5% to 5.5% for \$ deposits (2004 – from 2.3% to 4.8%).

Interest-bearing loans and deposits with OECD based banks, at December 31, 2005, are represented by short-term \$ and EURO deposits that bear annual interest rates from 3.3% to 4.4% for \$ deposits (2004 – from 1% to 1.4%) and 2.3% for EURO deposits (2004 – 2.1%).

At December 31, 2005, interest-bearing deposits with a non-OECD based bank include \$-denominated short-term placements that bear annual interest from 4.7% to 4.9%. These placements were related to a deposit of \$232 million received from a Russian bank on similar terms (Note 18).

At December 31, 2005, reverse repurchase agreements include a loan of \$39 million granted to an OECD based bank, which is collateralized by ADRs of a Russian company, and a loan of \$11 million granted to a Russian bank, which is collateralized by equity securities. At December 31, 2004, reverse repurchase agreements of \$5 million comprise a loan issued to an OECD based bank, which is collateralized by Eurobonds of an OECD based company.

8. Trading Securities

Trading securities owned comprise:

	2005	2004
Debt Securities:		
Russian Government securities:		
Federal Loan Bonds (OFZs)	\$ 8	\$ 7
Russian Ministry of Finance bonds:		
Tranche VI, maturing in May 2006	-	3
Tranche V, maturing in May 2008	107	108
Tranche VII, maturing in May 2011	0	88
Other debt securities	21	7
	136	213
Eurobonds issued by the Russian Federation	359	885
	495	1,098
Equity Securities:		
OJSC "Gazprom"	436	193
OJSC "Novatek"	405	-
Other marketable equity shares	26	56
	\$ 1,362	\$ 1,347

Federal Loan Bonds (OFZs) are Russian Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, and have a medium to long-term maturity period with a coupon rate at December 31, 2005 up to 10% (2004 – up to 12%).

Russian Ministry of Finance bonds are \$-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. At December 31, 2005 the portfolio of Russian Ministry of Finance bonds consists of securities with maturity from May 2008 to May 2011 (2004 – from May 2006 to May 2011). The bonds were purchased at a discount to nominal value and carry an annual coupon of 3%.

Eurobonds issued by the Russian Federation are \$-denominated securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Bank's portfolio of Eurobonds at December 31, 2005 consists of 4 tranches of securities with maturity dates from 2010 to 2030. At December 31, 2005 the annual coupon rates on these bonds are from 5% to 12.8% and interest is payable semi-annually. At December 31, 2004 the Bank's portfolio of Eurobonds consisted of 8 tranches of securities with maturity dates from 2005 to 2030, and with annual coupon rates from 5% to 12.8%.

Other marketable equity shares consist of blue chip Russian companies. At December 31, 2005 and 2004 equity securities of the Bank are stated at fair value.

9. Due from Other Banks

Amounts due from other banks comprise:

	2005	2004
Non-interest bearing deposits with other banks	\$ 2	\$ 5
Non-interest-bearing deposits in clearing currencies	1,045	1,025
Interest-bearing deposits with Russian banks	70	115
Interest-bearing deposits with non-OECD banks	580	554
	1,697	1,699
Less allowance for impairment	(37)	(58)
	\$ 1,660	\$ 1,641

Usage of non-interest-bearing deposits in clearing currencies (gross \$1,045 million and \$1,025 million at December 31, 2005 and 2004, respectively) is subject to certain restrictions as stipulated in the agreements between governments of the respective countries. The funds can be used for purchase of goods and services by Russian importers who purchase clearing currencies in tenders organized by the Bank under the supervision of the Ministry of Finance.

At December 31, 2005 interest-bearing deposits with Russian banks are \$ and RUR-denominated and carry annual interest ranging from 5.5% to 8.8% for RUR-denominated deposits and 8% for \$ denominated deposits. At December 31, 2004, interest-bearing deposits with Russian banks are \$ and RUR-denominated and carry annual interest ranging from 6.5% to 6.7% for RUR deposits and 6% for \$ deposits.

At December 31, 2005 interest-bearing deposits with non-OECD banks are denominated in \$ and EURO and bear interest from 8% to LIBOR plus 6.9% for \$ deposits and 4% for EURO deposits. At December 31, 2004 interest-bearing deposits with non-OECD banks are \$-denominated and bear interest of LIBOR plus 6.9%.

10. Derivative Financial Instruments

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

	Notional principal	2005		Notional principal	2004		
		Asset	Liability		Asset	Liability	
Foreign exchange contracts							
Swaps – domestic	\$ 50	\$ 0	\$ 0	\$ 190	\$ 0	\$ 0	
Swaps – foreign	12	0	-	16	0	0	
Securities contracts							
Forwards							
Equity securities	405	-	183	-	-	-	
Russian Eurobonds	126	0	1	-	-	-	
US Treasury Bonds	54	0	0	62	0	0	
Vneshtorgbank bonds	-	-	-	27	-	2	
Minfin bonds	0	0	-	-	-	-	
Other	1	0	-	-	-	-	
Options							
Russian Eurobonds	-	-	-	266	-	8	
		\$ 0	\$ 184		\$ 0	\$ 10	

11. Available-for-sale securities

Available-for-sale securities comprise:

	2005	2004
Debt Securities:		
Russian Ministry of Finance bonds:		
Tranche VIII, maturing in November 2007	\$ 69	\$ 159
Eurobonds issued by governments of OECD countries	34	5
Debt obligations issued by governments of non-OECD countries	65	-
Eurobonds and other debt obligations issued by OECD based financial institutions	73	112
Eurobonds issued by the Russian entities	169	128
Municipal and Russian corporate bonds	105	65
Credit linked notes	320	246
	835	715
Equity Securities:		
Corporate equities	135	56
	\$ 970	\$ 771

Russian Ministry of Finance bonds are \$-denominated bearer securities, which are guaranteed by the Ministry of Finance of the Russian Federation. At December 31, 2005 and 2004 the Bank's portfolio of Russian Ministry of Finance bonds consists of Tranche VIII securities, which mature in November 2007. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%.

At December 31, 2005, Eurobonds issued by governments of OECD countries are \$ and EURO-denominated securities. Interest rates for \$-denominated Eurobonds issued by governments of OECD countries range from 4% to 4.3% with maturity dates from February 2015 to August 2015. EURO-denominated securities earn annual interest of 3.8% and have maturity in January 2015. At December 31, 2004, Eurobonds issued by governments of OECD countries are \$-denominated with interest rates from 4% to 5.4% and with maturity from February 2014 to February 2031.

Debt obligations issued by governments of non-OECD countries are denominated in Indian Rupees for clearing settlements and mature in January 2006. These securities are purchased at a discount to nominal value and carry no coupon.

At December 31, 2005 Eurobonds and other debt obligations issued by OECD based financial institutions are denominated in \$ with annual interest of 9.6% and maturity in October 2014. These securities are linked to Russia's performance under the Paris Club debt restructuring agreements. At December 31, 2004 Eurobonds and other debt obligations issued by OECD based financial institutions are \$- and EURO-denominated securities. \$-denominated securities bear interest rates from LIBOR plus 0.4% to LIBOR plus 0.8% and mature from March 2007 to April 2009. EURO-denominated securities bear interest rate 3.9% and have maturity in April 2006.

Eurobonds issued by Russian entities are denominated in \$ and EURO with interest rates at December 31, 2005 from 5.6% to 10.5% for \$-denominated securities (2004 – from 3.9% to 10.8%) and 7.8% for EURO-denominated securities (2004 – 7.8%), and with maturity from June 2006 to July 2035 for \$-denominated Eurobonds (2004 – from December 2005 to April 2034) and September 2010 for EURO-denominated Eurobonds (2004 – September 2010).

Municipal and Russian corporate bonds mainly consist of RUR-denominated bonds of Russian banks and companies with interest rates from 6.2% to 15% (2004 – from 7.3% to 16%) and with maturity from April 2006 to July 2014 (2004 – from November 2005 to October 2010).

At December 31, 2005, credit linked notes are issued by OECD based financial institutions and are linked to debt obligations of Russian Federation, OJSC Gazprom, OJSC Eurofinance Mosnarbank, OJSC Vneshtorgbank and OJSC Avtovaz. These notes are denominated in \$ with interest rates at December 31, 2005 from LIBOR plus 1.5% to LIBOR plus 7.3% (2004 – from LIBOR plus 1.5% to 7%) and with maturity from July 2006 to March 2030 (2004 – from December 2006 to March 2030).

At December 31, 2005, corporate equities are mainly represented by shares of automobile production company OJSC "Avtovaz" and of leasing company OJSC "Ilyushin Finance Co." (2004 – OJSC "Ilyushin Finance Co.").

12. Commercial Loans

Commercial loans comprise:

	2005	2004
Loans to customers	\$ 1,302	\$ 731
Reverse repurchase agreements	66	-
Promissory notes	32	375
	1,400	1,106
Allowance for loan impairment	(92)	(107)
	\$ 1,308	\$ 999

At December 31, 2005 the Bank has entered into reverse repurchase agreements with one Russian and one non-OECD based company. The subjects of these agreements are marketable equity securities.

At December 31, 2005, the annual interest rates charged by the Bank on commercial loans are from 5.5% to 16% for RUR loans (2004 – from 7% to 16%), from 8% to 10% for EUR loans and from 5% to 22.7% for loans in \$ (2004 – from 5% to 15%).

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

	2005	%	2004	%
Finance companies	\$ 543	39	\$ 447	40
Manufacturing and production of heavy machinery and military related goods	278	20	30	3
Telecommunication	152	11	20	2
Energy	123	9	-	-
Mass media	113	8	138	13
Construction	57	4	-	-
Oil and gas	55	4	409	37
Trade	52	4	55	5
Mining	18	1	-	-
Regional authorities	2	0	2	0
Other	7	0	5	0
	\$ 1,400	100	\$ 1,106	100

At December 31, 2005 and 2004, three major borrowers amounted to \$398 million and \$642 million, respectively, which represent 28% and 58%, respectively, of the Bank's gross loan portfolio. An allowance for impairment of \$13 million and \$17 million was made against these loans, respectively.

At December 31, 2005 and 2004, ten major borrowers amounted to \$1,004 million and \$1,024 million, respectively, which represent 72% and 93%, respectively, of the Bank's gross loan portfolio, respectively. An allowance of \$21 million and \$86 million was made against these loans, respectively.

Loans have been extended to the following groups of customers:

	2005	2004
Private companies	\$ 766	\$ 648
State companies	632	456
Regional authorities	2	2
Individuals	0	0
	\$ 1,400	\$ 1,106

13. Allowance for Impairment and Provisions

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

	Due from other banks	Commercial Loans	Total
December 31, 2003	\$ 51	\$ 91	\$ 142
Charge	7	16	23
Write-off	-	0	0
December 31, 2004	58	107	165
Reversal	(17)	(15)	(32)
Write-off	(4)	-	(4)
December 31, 2005	\$ 37	\$ 92	\$ 129

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

	Other assets	Guarantees	Total
December 31, 2003	\$ 13	\$ -	\$ 13
Charge (reversal)	(11)	4	(7)
December 31, 2004	2	\$ 4	\$ 6
Charge (reversal)	0	(2)	(2)
December 31, 2005	\$ 2	\$ 2	\$ 4

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

14. Due from the Russian Government

At December 31, 2005, amounts due from the Russian Government include claims to the Russian Government of \$18 million (2004 – nil) purchased under two assignment contracts. The nominal values of these claims are denominated in \$ and CHF and total to \$20 million and CHF 20 million, respectively.

At December 31, 2005, other amounts due from the Russian Government of \$11 million (2004 – \$17 million) represent settlements with the Ministry of Finance primarily related to operations performed by the Bank before 1991.

15. Taxation

The components of income taxes charged to the statements of income comprise:

	2005	2004
Current income tax expense	\$ 23	\$ 29
Deferred income tax expense (benefit)	75	(41)
	\$ 98	\$ (12)

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than interest income on state securities was 24% for 2005 and 2004. The tax rate for interest income on state securities was 15% for Federal taxes.

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

	2005	2004
Income before tax	\$ 337	\$ 60
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	81	14
State securities non-taxable income	(2)	(3)
Income taxed at different rate	(2)	(1)
Non-deductible expenses:		
-legal and consulting services	3	2
- charity	2	2
- contributions	2	1
- representative expenses	1	1
- business trip costs	1	0
- depreciation	1	0
- other	2	1
Currency translation effect	7	(7)
Other permanent differences	6	(15)
Change in unrecognised deferred tax assets	(4)	(7)
Income tax expense (benefit)	\$ 98	\$ (12)

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

	Origination and reversal of temporary differences			Origination and reversal of temporary differences			
	2003	In the statement of income	Directly in equity	2004	In the statement of income	Directly in equity	2005
Deferred tax as set:							
Allowances for losses	\$ 11	\$ 6	\$ -	\$ 17	\$ (17)	\$ -	\$ -
Initial recognition of loans at fair value	8	(1)	-	7	0	-	7
Currency translation differences	0	3	-	3	(2)	-	1
Changes in fair value							
of available-for-sale securities	7	-	(7)	-	-	-	-
Derivatives	0	2	-	2	42	-	44
Other	-	1	-	1	(1)	-	-
	26	11	(7)	30	22	-	52
Unrecognized deferred tax asset	(26)	7	7	(12)	4	-	(8)
	-	18	-	18	26	-	44
Deferred tax liabilities:							
Unrealized gains on trading securities	(62)	21	-	(41)	(93)	-	(134)
Premises and equipment	(10)	0	-	(10)	(1)	-	(11)
Allowances for losses	-	-	-	-	(7)	-	(7)
Changes in fair value							
of available-for-sale securities	-	-	(5)	(5)	-	3	(2)
Other	(2)	2	-	(0)	0	-	-
	(74)	23	(5)	(56)	(101)	3	(154)
Net deferred tax liabilities	\$ (74)	\$ 41	\$ (5)	\$ (38)	\$ (75)	\$ 3	\$ (110)

16. Property and equipment

Property and equipment comprise:

	2005	2004
Computers and other equipment	\$ 43	\$ 39
Buildings	33	30
Motor vehicles	13	12
Assets under construction	10	8
Furniture and fixtures	10	9
	109	98
Less – Accumulated depreciation	(21)	(16)
	\$ 88	\$ 82

During 2005 and 2004 there were \$14 million and \$15 million of additions and \$3 million and \$9 million of disposals of property and equipment, respectively. The respective depreciation charge for 2005 and 2004 is \$5 million and \$4 million, respectively. Accumulated depreciation related to disposed property and equipment is \$2 million (2004 – \$2 million).

17. Other Assets and Liabilities

Other assets comprise:

	2005	2004
Settlements with suppliers and other debtors	\$ 9	\$ 8
Accrued commissions	7	11
Intangible assets	5	6
Pre-paid expenses	4	4
Derivative financial assets	0	0
Other	10	7
	35	36
Less – Allowance for impairment of other assets	(2)	(2)
	\$ 33	\$ 34

Included in other assets are intangible assets in the amount of \$5 million (2004 – \$6 million), net of accumulated amortization. The respective amortization charge for 2005 and 2004 is \$1 and \$1 million, respectively, which is included in other operating expense in the accompanying statements of income.

Other liabilities comprise:

	2005	2004
Settlements with credit institutions	\$ 34	\$ 34
Settlements with clients on export revenues	8	8
Other	4	5
	\$ 46	\$ 47

18. Due to Other Banks

Balances due to other banks consisted of the following at December 31:

	2005	2004
Correspondent loro accounts from Russian banks	\$ 340	\$ 285
Correspondent loro accounts from other banks	85	89
Loans and other placements from Russian banks	507	518
Loans and interest-bearing placements from OECD based financial institutions	1,354	726
Loans and other placements from other banks	222	2
	\$ 2,508	\$ 1,620

At December 31, 2005, loans and other placements from Russian banks include loans denominated in RUR and \$ with interest rates ranging from 4.1% to 5.5% for RUR loans (2004 – from 4% to 10%) and from 4.3% to 4.6% for \$ loans (2004 – from 2% to 8%), and collateral under letters of credit.

At December 31, 2005 the Bank received loans totaling \$737 million (2004 – \$726 million) from OECD based financial institutions, bearing annual interest from 4.3% to 5% (2004 – from 2.9% to LIBOR plus 2.5%), which are collateralized by debt securities of \$901 million (2004 – \$927 million).

Other placements from OECD based financial institutions at December 31, 2005 include:

- A syndicated loan of \$505 million (2004 – nil). Initial contractual amount was \$500 million. The syndicated loan is denominated in \$ with interest rate of three-month LIBOR plus 0.9% and matures in July 2008. According to the Facility Agreement the Bank is required to comply with certain financial covenants, including minimal capital adequacy ratio of 10%, ratio of allowance for impairment to overdue loans of 100%, tangible net worth of \$540 million;
- A loan of \$99 million denominated in \$ with interest rate of six-month LIBOR plus 1% and maturing in December 2012. According to Term Credit Facility Agreement this loan was used for financing of one Russian "blue-chip" company;
- A loan of \$13 million denominated in \$ bearing interest rate of six-month LIBOR plus 1.8% and maturing in October 2010. This loan is used for financing investment projects of Russian companies.

At December 31, 2005, loans and other placements from other banks included a loan of \$212 million from non-OECD based bank (2004 – nil), denominated in \$ and bearing annual interest of six-month LIBOR plus 1%. This loan was used for financing of pre-export activities of Russian companies and has maturity from June 2006 to March 2009.

19. Financial trade liabilities

On April 8, 2005, the Bank entered into Security Purchase agreement to purchase 170,243 shares of OJSC "Novatek" for the total purchase price of \$210 million. Under this agreement the Bank paid \$173 million on April 14, 2005 and \$37 million on June 22, 2005. At December 31, 2005, 170,243 shares of OJSC "Novatek" purchased at \$210 million resulted in unrealized gain of \$195 million within gains less losses from securities and were included in trading portfolio at fair value of \$405 million.

At the same time, on April 8, 2005 the Bank entered into Forward Security Sale agreement to sell 170,243 shares of OJSC "Novatek" for the total price of \$219 million, including advance payment of \$100 million payable on April 14, 2005. On June 22, 2005, this contract was terminated and another Forward Security Sale agreement was entered into with different counterparties. The selling price under this contract was \$222 million payable in different tranches, including advance payment of \$140 million at the date of the contract, and remaining purchase price payable at maturity of the contract (July 2006). Embedded in this contract was an option for the buyer to pay the remaining purchase price earlier in accordance with a specific schedule at a discount depending on the date of the payment. Fair value of this derivative contract at December 31, 2005 was a liability of \$183 million. The unrealized losses resulting from this derivative contract were included in gains less losses from securities.

Thus, at December 31, 2005, financial trade liabilities included advance payment received under the Forward Security Sale agreement of \$139 million (at June 22, 2005 – \$140 million) and a fair value of the derivative contract of \$183 million.

At December 31, 2005 other financial trade liabilities of \$34 million (2004 – \$15 million) include obligations to return the following securities purchased under reverse repurchase agreements:

	2005	2004
ADR of a Russia based company	\$ 33	\$ -
Eurobonds of OECD based company	-	5
	\$ 33	\$ 5

At December 31, 2005, other derivative liabilities of \$1 million (2004 – \$10 million) include securities and foreign exchange forward and swap contracts (Note 10).

20. Amounts Due to Customers

Amounts due to customers include the following at December 31:

	2005	2004
Customer current accounts	\$ 270	\$ 142
Term deposits	137	120
	\$ 407	\$ 262

At December 31, 2005, term deposits have annual interest rates from 3.7% to 6.3% for \$-denominated deposits, from 3% to 6.3% for EURO-denominated deposits and from 3.5% to 25% for RUR-denominated deposits. At December 31, 2004, term deposits have annual interest rates from 3% to 7.5% for \$-denominated deposits, from 3% to 7% for EUR-denominated deposits and from 4% to 25% for RUR-denominated deposits.

At December 31, 2005 and 2004, amounts due to the Bank's four largest customers amounted to \$142 million and \$48 million, which represent 35% and 18%, respectively, of the aggregate amount due to customers.

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

	2005	2004
Manufacturers of heavy machinery and military related goods	\$ 90	\$ 32
Financial organizations	54	15
Military organizations	25	22
Non-commercial organizations	10	-
Trade organizations	5	-
	\$ 184	\$ 69

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

	2005	2004
State organizations	\$ 154	\$ 69
Private enterprises	100	55
Employees and other individuals	153	138
	\$ 407	\$ 262

21. Debt Securities Issued

Debt securities issued at December 31, 2005, represent EURO and \$-denominated interest-bearing promissory notes with maturity up to August 2011. The promissory notes bear annual interest rates from 1.5% to 1.9% for EURO-denominated notes and from 0.7% to 6% for \$-denominated notes. Debt securities issued at December 31, 2004, represent EURO and \$-denominated interest-bearing promissory notes maturing up to January 2009. The promissory notes bear annual interest rates from 0.7% to 6% for \$-denominated notes and 1.7% for EURO-denominated notes.

22. Russian Government Equity

The Bank's charter capital, as determined by the Bank's charter, amounts to RUR 1,000 thousand and is wholly owned by the Russian Government. In accordance with the Bank's charter, charter capital may be increased only by a decision of the Russian Government. No shares have been issued with respect to the charter capital of the Bank. The Bank is not required to accrue or pay dividends.

23. Fee and Commission Income

	2005	2004
Fee and commission income		
Cash and settlement operations	\$ 13	\$ 4
Guarantee operations	12	9
Trust management of Pension funds	6	10
Operations with securities	2	4
Other operations	6	3
	39	30
Fee and commission expense	(2)	(2)
Net fees and commissions	\$ 37	\$ 28

24. Financial Commitments and contingencies

Operating Environment

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the Government's policies and actions with regards to supervisory, legal, and economic reforms.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Financial commitments

At December 31, the Bank's financial commitments comprised the following:

	2005	2004
Guarantees	\$ 967	\$ 643
Undrawn loan commitments	198	42
Uncovered letters of credit	0	-
	1,165	685
Less – Allowance for impairment	(2)	(4)
	\$ 1,163	\$ 681

Operating lease commitments

	2005	2004
Not later than 1 year	\$ 3	\$ 5
Later than 1 year but not later than 5 years	4	3
Later than 5 years	7	16
	\$ 14	\$ 24

Insurance

The Bank's premises are insured for \$15.5 million. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

25. Financial Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank controls the level 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 industry segments. Limits on the level of credit risk by borrower and product are regularly approved by the Credit and Financial committees of the Bank. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency Risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currencies.

The following table presents the \$-equivalent amount in millions of monetary assets and liabilities, excluding amounts related to the London Club, denominated in different currencies at December 31:

						2005
	\$	EURO	Clearing currencies	RUR	Other	Total
Monetary assets:						
Cash and cash equivalents	\$ 598	\$ 124	\$ 0	\$ 146	\$ 32	\$ 900
Trading securities	471	-	-	891	-	1,362
Due from other banks, net	572	5	1,022	61	0	1,660
Available-for-sale securities	647	17	65	239	2	970
Commercial loans, net	1,092	2	-	214	-	1,308
Due from the Russian Government	26	-	1	2	-	29
Current income tax assets	-	-	-	23	-	23
Other assets, net	3	1	-	23	1	28
	3,409	149	1,088	1,599	35	6,280
Monetary liabilities:						
Due to other banks	2,179	10	18	299	2	2,508
Financial trade liabilities	173	-	-	183	-	356
Due to the Russian Government and the Bank of Russia	838	61	1,062	25	82	2,068
Amounts due to customers	214	27	30	129	7	407
Debt securities issued	12	2	-	-	-	14
Deferred income tax liabilities	-	-	-	110	-	110
Other liabilities	35	3	1	2	5	46
	3,451	103	1,111	748	96	5,509
Net balance sheet position	\$ (42)	\$ 46	\$ (23)	\$ 851	\$ (61)	\$ 771
Net off balance sheet position-derivatives	\$ 179	\$ 8	\$ -	\$ (222)	\$ 35	\$ -

						2004
	\$	EURO	Clearing currencies	RUR	Other	Total
Monetary assets:						
Cash and cash equivalents	\$ 161	\$ 73	\$ -	\$ 154	\$ 26	\$ 414
Trading securities	1,079	-	-	261	7	1,347
Due from other banks, net	592	1	982	64	2	1,641
Available-for-sale securities	590	60	-	119	2	771
Commercial loans, net	698	0	-	301	-	999
Due from the Russian Government	14	-	1	2	-	17
Current income tax assets	-	-	-	12	-	12
Other assets, net	4	1	-	23	-	28
	3,138	135	983	936	37	5,229
Monetary liabilities:						
Due to other banks	1,327	15	45	230	3	1,620
Financial trade liabilities	15	-	-	-	-	15
Due to the Russian Government and the Bank of Russia	1,527	93	964	26	92	2,702
Amounts due to customers	137	25	17	76	7	262
Debt securities issued	9	0	-	-	-	9
Deferred income tax liabilities	-	-	-	38	-	38
Other liabilities	33	4	1	4	5	47
	3,048	137	1,027	374	107	4,693
Net balance sheet position	\$ 90	\$ (2)	\$ (44)	\$ 562	\$ (70)	\$ 536
Net off balance sheet position-derivatives	\$ 4	\$ (12)	\$ -	\$ -	\$ 8	\$ -

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Financial committee of the Bank.

The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2005. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

						2005
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Monetary assets:						
Cash and cash equivalents	\$ 900	\$ -	\$ -	\$ -	\$ -	\$ 900
Trading securities	458	2	406	491	5	1,362
Due from other banks, net	1,026	597	30	-	7	1,660
Available-for-sale securities	71	218	130	416	135	970
Commercial loans, net	375	227	442	264	-	1,308
Due from the Russian Government	-	-	-	-	29	29
Current income tax assets	-	23	-	-	-	23
Other assets, net	1	12	7	-	8	28
	2,831	1,079	1,015	1,171	184	6,280
Monetary liabilities:						
Due to other banks	1,391	1,040	76	0	1	2,508
Financial trade liabilities	34	-	322	-	-	356
Due to the Russian Government and the Bank of Russia	2,004	10	12	42	-	2,068
Amounts due to customers	286	58	56	3	4	407
Debt securities issued	5	3	1	5	-	14
Deferred income tax liabilities	-	-	-	-	110	110
Other liabilities	16	-	1	-	29	46
	3,736	1,111	468	50	144	5,509
Net position	\$ (905)	\$ (32)	\$ 547	\$ 1,121	\$ 40	\$ 771

Marketable equity securities are stated as "Up to 1 month" in case if liquid market exists.

At December 31, 2004, the Bank's analysis of monetary assets and liabilities by the earlier of contractual repricing or maturity dates did not differ significantly from the analysis by contractual maturity dates except for trading and available-for-sale securities. Contractual maturity dates are shown in the 2004 liquidity table. Maturity dates of trading and available-for-sale securities are presented in the respective notes.

At December 31, 2005 the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	Rubles	USD	EURO	2005 Other
Cash and cash equivalents	2.8%	4.3%	2.0%	1.0%
Trading securities	9.0%	6.0%	-	-
Due from other banks, net	6.8%	11.2%	4.0%	2.0%
Available-for-sale securities	7.4%	6.2%	7.5%	-
Commercial loans	8.6%	8.6%	9.8%	-
Due to other banks	2.3%	4.7%	2.4%	0.0%
Amounts due to customers	3.1%	1.4%	0.9%	0.4%
Debt securities issued	-	3.1%	1.7%	-

Liquidity Risk

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

At December 31, 2005 and 2004, monetary assets and liabilities, excluding receivables from the Russian Government under London Club arrangements and amounts due to London Club creditors, had the following maturities:

						2005
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Monetary assets:						
Cash and cash equivalents	\$ 900	\$ -	\$ -	\$ -	\$ -	\$ 900
Trading securities	957	-	405	-	-	1,362
Due from other banks, net	1,026	353	30	244	7	1,660
Available-for-sale securities	835	-	-	-	135	970
Commercial loans, net	92	141	510	565	-	1,308
Due from the Russian Government	-	-	-	-	29	29
Current income tax assets	-	23	-	-	-	23
Other assets, net	1	12	7	-	8	28
	3,811	529	952	809	179	6,280
Monetary liabilities:						
Due to other banks	941	245	101	1,220	1	2,508
Financial trade liabilities	34	-	322	-	-	356
Due to the Russian Government and the Bank of Russia	2,004	10	12	42	-	2,068
Amounts due to customers	286	58	56	3	4	407
Debt securities issued	5	3	1	5	-	14
Deferred income tax liabilities	-	-	-	-	110	110
Other liabilities	16	-	1	-	29	46
	3,286	316	493	1,270	144	5,509
Net position	\$ 525	\$ 213	\$ 459	\$ (461)	\$ 35	\$ 771
Accumulated gap	\$ 525	\$ 738	\$ 1,197	\$ 736	\$ 771	

						2004
	Up to 1 month	1 to 6 months	6 to 12 months	Over 1 year	No stated maturity	Total
Monetary assets:						
Cash and cash equivalents	\$ 404	\$ 10	\$ -	\$ -	\$ -	\$ 414
Trading securities	1,347	-	-	-	-	1,347
Due from other banks, net	984	105	9	536	7	1,641
Available-for-sale securities	719	-	-	-	52	771
Commercial loans, net	70	300	379	250	0	999
Due from the Russian Government	-	-	-	-	17	17
Current income tax assets	-	12	-	-	-	12
Other assets, net	17	3	5	-	3	28
	3,541	430	393	786	79	5,229
Monetary liabilities:						
Due to other banks	923	419	276	-	2	1,620
Financial trade liabilities	4	9	2	-	-	15
Due to the Russian Government and the Bank of Russia	2,612	10	-	80	-	2,702
Amounts due to customers	156	52	50	0	4	262
Debt securities issued	2	2	2	3	-	9
Deferred income tax liabilities	-	-	-	-	38	38
Other liabilities	1	-	-	-	46	47
	3,698	492	330	83	90	4,693
Net position	\$ (157)	\$ (62)	\$ 63	\$ 703	\$ (11)	\$ 536
Accumulated gap	\$ (157)	\$ (219)	\$ (156)	\$ 547	\$ 536	

Maturities represent remaining terms until repayment in accordance with underlying contractual arrangements at the balance sheet date.

While majority of available-for-sale securities is shown as up to one month, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Actual maturities on loans may differ as loan agreements are sometimes extended or rolled over to update interest rates and facilitate longer term financing for the borrowers.

Amounts due to the Russian Government, other than deposits from the Bank of Russia, generally do not carry a specified maturity and are shown as having a maturity of up to one month. In practice, these amounts are maintained for longer periods.

Amounts due to customers are primarily shown as having a remaining maturity of less than one month. In practice, these deposits and placements are often maintained for longer periods.

26. Fair Value of Financial Instruments

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

Management believes, based upon its best estimate, that as of December 31, 2005 and 2004, substantially all the Bank's monetary assets and liabilities are carried at their estimated fair values.

27. Related party transactions

For the purposes of these consolidated 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 party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Related parties include state, Bank's key management and affiliated companies. Since the Bank is a state-owned entity, all state-controlled entities are considered to be related parties of the Bank and all transactions and outstanding balances with such entities should be disclosed.

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

	2005			
	State	State	Associates	Key management personnel
	controlled entities			
Cash and cash equivalents at December 31	\$ 73	\$ 321	\$ -	\$ -
Trading securities at December 31	477	460	-	-
Due from banks at January 1, gross	-	668	-	-
Amounts placed during the year	-	105	-	-
Amounts repaid during the year	-	(192)	-	-
Accruals and translation differences, net	-	2	-	-
Due from banks at December 31, gross	-	583	-	-
Less allowance for impairment at December 31	-	(13)	-	-
Due from banks at December 31, net	-	570	-	-
Interest income on placements with banks	-	63	-	-
Available-for-sale securities at December 31	179	391	-	-
Commercial loans at January 1, gross	2	450	6	-
Loans granted during the year	-	1,255	1	-
Loans repaid during the year	-	(1,077)	(1)	-
Accruals and translation differences, net	-	(2)	-	-
Commercial loans at December 31, gross	2	626	6	-
Less allowance for impairment at 31 December	(2)	(8)	(4)	-
Commercial loans at 31 December, net	-	618	2	-
Interest income on loans	-	46	0	-
Receivable from the Russian Government under				
London Club arrangements at 31 December	37	-	-	-
Due from the Russian Government at 31 December	29	-	-	-
Other assets at 31 December	-	9	-	-
Correspondent loro accounts at 31 December	-	271	-	-
Loans and deposits received at January 1	-	503	-	-
Loans and deposits received during the year	-	7,724	-	-
Loans and deposits repaid during the year	-	(7,898)	-	-
Accruals and translation differences, net	-	(5)	-	-
Loans and deposits received at 31 December	-	324	-	-
Interest expense on interbank placements	-	32	-	-

	2005			
	State	State	Associates	Key management personnel
	controlled entities			
Due to the Russian Government and the Bank of Russia at 31 December	2,068	-	-	-
Current accounts at 31 December	-	172	2	1
Deposits at January 1	11	6	4	3
Deposits received during the year	24	47	-	2
Deposits repaid during the year	(19)	(47)	(1)	(1)
Accruals and translation differences, net	(1)	-	-	1
Deposits at December 31	15	6	3	5
Interest expense on customer accounts	-	4	0	0
Debt securities issued, at January 1	-	6	-	-
Debt securities issued during the year	-	16	-	-
Debt securities redeemed during the year	-	(11)	-	-
Accruals and translation differences, net	-	0	-	-
Debt securities issued, as at December 31	-	11	-	-
Interest expense on debt securities issued	-	0	-	-
Guarantees issued and undrawn loan commitments	-	749	2	-
Fee and commission income, net	6	18	-	-
Other operating income	0	2	-	-
Other operating expense	0	0	-	-

	2004			
	State	State	Associates	Key management
	controlled entities			personnel
Cash and cash equivalents at 31 December	\$ 97	\$ 102	\$ -	\$ -
Trading securities at 31 December	1,093	219	-	-
Due from banks at January 1, gross	-	86	-	-
Amounts placed during the year	-	787	-	-
Amounts repaid during the year	-	(210)	-	-
Accruals and translation differences, net	-	5	-	-
Due from banks at December 31, gross	-	668	-	-
Less allowance for impairment at 31 December	-	(11)	-	-
Due from banks at December 31, net	-	657	-	-
Interest income on placements with banks	-	7	-	-
Available-for-sale securities at December 31	261	255	-	-
Commercial loans at January 1, gross	6	103	4	-
Loans granted during the year	-	805	2	-
Loans repaid during the year	(3)	(460)	(1)	-
Translation differences	(1)	2	1	-
Commercial loans at December 31, gross	2	450	6	-
Less allowance for impairment at December 31	(2)	(12)	(3)	-
Commercial loans at December 31, net	-	438	3	-
Interest income on loans	-	7	0	-
Receivable from the Russian Government under				
London Club arrangements at 31 December	37	-	-	-
Due from the Russian Government at 31 December	17	-	-	-
Other assets at 31 December	-	12	-	-
Correspondent loro accounts at December 31	-	247	-	-
Loans and deposits received at January 1	-	88	-	-
Amounts received during the year	-	3,142	-	-
Amounts repaid during the year	-	(2,734)	-	-
Accruals and translation differences, net	-	7	-	-
Other due to banks amounts at 31 December	-	503	-	-
Interest expense on interbank placements	-	2	-	-
Financial trade liabilities at 31 December	-	2	-	-
Due to the Russian Government and				
the Bank of Russia at 31 December	2,702	-	-	-



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