# ABH Financial Limited

# Interim Consolidated Financial Statements and Auditors' Report

# 30 June 2006

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**AUDITORS' REPORT**

To the Board of Directors of ABH Financial Limited:

We have audited the accompanying interim consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group") as at 30 June 2006, and the related interim consolidated statements of income, of cash flows and of changes in equity for the six-month period then ended. These interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim 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 interim consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the interim consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall interim financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2006 and the consolidated results of its operations and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Moscow, Russian Federation
11 October 2006

| *In thousands of US dollars* | Note | 30 June 2006 | 31 December 2005 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 1 229 290 | 878 670 |
| Mandatory cash balances with central banks | | 183 810 | 195 849 |
| Trading securities | 8 | 450 542 | 897 902 |
| Repurchase receivables | 8 | 519 908 | 241 764 |
| Due from other banks | 9 | 852 396 | 1 212 921 |
| Loans and advances to customers | 10 | 7 937 822 | 5 727 543 |
| Investments | 11 | 140 268 | 154 506 |
| Other assets | 12 | 816 123 | 376 454 |
| Premises, equipment and intangible assets | 13 | 202 963 | 145 074 |
| Deferred tax asset | 23 | 3 171 | 5 034 |
| **Total assets** | | **12 336 293** | **9 835 717** |
| **Liabilities** | | | |
| Due to other banks | 14 | 1 633 503 | 781 867 |
| Customer accounts | 15 | 6 549 189 | 5 455 171 |
| Promissory notes issued | | 391 105 | 377 855 |
| Other borrowed funds | 16 | 1 963 193 | 1 680 080 |
| Other liabilities | 17 | 741 309 | 607 404 |
| Deferred tax liability | 23 | 17 055 | 77 492 |
| **Total liabilities** | | **11 295 354** | **8 979 869** |
| **Equity** | | | |
| Share capital | 18 | 160 800 | 160 800 |
| Fair value reserve for investments available for sale | | 242 | 585 |
| Revaluation reserve for premises | | 26 646 | 3 051 |
| Retained earnings and other reserves | 18 | 852 112 | 689 012 |
| **Net assets attributable to the equity holders of the Company** | | **1 039 800** | **853 448** |
| **Minority interest** | | **1 139** | **2 400** |
| **Total equity** | | **1 040 939** | **855 848** |
| **Total liabilities and equity** | | **12 336 293** | **9 835 717** |

Approved for issue by the Board of Directors and signed on its behalf on 11 October 2006.

Petr Smida
Chief Executive Officer

Andrew Baxter
Chief Financial Officer

| *In thousands of US dollars* | **Note** | **Six-Month Period Ended 30 June 2006** | **Six-Month Period Ended 30 June 2005** |
|---|---|---|---|
| Interest income | 19 | 434 325 | 320 484 |
| Interest expense | 19 | (204 287) | (132 411) |
| **Net interest income** | | **230 038** | **188 073** |
| Provision for loan impairment | 10 | (65 116) | (32 715) |
| **Net interest income after provision for loan impairment** | | **164 922** | **155 358** |
| Fee and commission income | 20 | 89 679 | 73 450 |
| Fee and commission expense | 20 | (25 087) | (19 896) |
| Gains less losses arising from trading securities | | 50 548 | 18 895 |
| Gains less losses arising from investments | 11 | 49 891 | 463 |
| Gains less losses arising from trading in foreign currencies | | 26 617 | (5 281) |
| Foreign exchange translation gains less losses | | (50 368) | 26 181 |
| Other impairment provisions | 12, 26 | 4 872 | 7 067 |
| Gain on disposal of interest in associated company | 11 | 33 501 | - |
| Other operating income | 21 | 14 770 | 12 917 |
| **Operating income** | | **359 345** | **269 154** |
| Operating expenses | 22 | (230 938) | (169 605) |
| **Operating profit** | | **128 407** | **99 549** |
| Share of results of associated company | 11 | 20 729 | 6 239 |
| **Profit before tax** | | **149 136** | **105 788** |
| Income tax expense | 23 | (34 382) | (18 516) |
| **Profit** | | **114 754** | **87 272** |
| **Profit is attributable to:** | | | |
| Equity holders of the Company | | 114 709 | 87 224 |
| Minority interest | | 45 | 48 |
| **Profit** | | **114 754** | **87 272** |

| *In thousands of US dollars* | Note | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 424 211 | 314 203 |
| Interest paid | | (176 881) | (133 483) |
| Fees and commissions received | | 95 039 | 72 701 |
| Fees and commissions paid | | (27 314) | (19 657) |
| Net income received from trading securities | | 96 267 | 10 511 |
| Net income received from trading in foreign currencies | | 30 248 | (4 520) |
| Other operating income received | | 8 525 | 12 096 |
| Staff compensation paid | | (169 241) | (111 334) |
| Other operating expenses paid | | (81 777) | (55 341) |
| Income tax paid | | (105 488) | (19 780) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **93 589** | **65 396** |
| **Changes in operating assets and liabilities** | | | |
| Net decrease/(increase) in mandatory cash balances with central banks | | 22 427 | (41 643) |
| Net (increase)/decrease in trading securities and repurchase receivables | | (31 762) | 84 109 |
| Net decrease/(increase) in due from other banks | | 381 858 | (44 717) |
| Net increase in loans and advances to customers | | (2 093 962) | (931 133) |
| Net decrease in other assets | | 117 262 | 95 864 |
| Net increase in due to other banks | | 810 324 | 62 476 |
| Net increase in customer accounts | | 890 499 | 353 055 |
| Net (decrease)/increase in promissory notes issued | | (8 270) | 111 639 |
| Net decrease in other liabilities | | (161 045) | (9 871) |
| **Net cash from/(used in) operating activities** | | **20 920** | **(254 825)** |
| **Cash flows from investing activities** | | | |
| Acquisition of investments available for sale | 11 | (12) | (16 555) |
| Proceeds from disposal of investments available for sale | 11 | 27 855 | 1 302 |
| Acquisition of investments at fair value through profit and loss | 11 | (133) | (45 000) |
| Proceeds from disposal of investments at fair value through profit and loss | 11 | 182 | - |
| Proceeds from disposal of an interest in an associated company | 11 | 18 250 | - |
| Acquisition of premises, equipment and intangible assets | 13 | (50 248) | (17 243) |
| Proceeds from disposal of premises, equipment and intangible assets | 13 | 3 052 | 8 300 |
| Proceeds from disposal of a subsidiary | 21 | 12 000 | - |
| **Net cash from/(used in) investing activities** | | **10 946** | **(69 196)** |
| **Cash flows from financing activities** | | | |
| Proceeds from other borrowed funds | 16 | 795 235 | 673 463 |
| Repayment of other borrowed funds | 16 | (523 439) | (125 304) |
| **Net cash from financing activities** | | **271 796** | **548 159** |
| **Net increase in cash and cash equivalents** | | **303 662** | **224 138** |
| Cash and cash equivalents as at the beginning of the period | 7 | 878 670 | 997 278 |
| Effect of exchange rate changes on cash and cash equivalents | | 46 958 | (44 098) |
| **Cash and cash equivalents as at the end of the year** | **7** | **1 229 290** | **1 177 318** |

| *In thousands of US dollars* | Attributable to the equity holders of the Company | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| | Share capital (Note 18) | Fair value reserve for invest-ments available for sale | Revalua-tion reserve for premises | Retained earnings and other reserves (Note 18) | Total | | |
| **Balance as at 1 January 2005** | **160 800** | **-** | **4 123** | **542 634** | **707 557** | **2 875** | **710 432** |
| Net fair value gains arising on investments available for sale | - | 614 | - | - | 614 | **-** | 614 |
| Translation movement | - | - | - | (21 392) | (21 392) | **-** | (21 392) |
| **Net income/ (expense) recorded directly in equity** | **-** | **614** | **-** | **(21 392)** | **(20 778)** | **-** | **(20 778)** |
| Profit for the period | - | - | - | 87 224 | 87 224 | 48 | 87 272 |
| **Total income recorded for the period** | **-** | **614** | **-** | **65 832** | **66 446** | **48** | **66 494** |
| Other movements | - | - | (536) | 536 | - | **(791)** | **(791)** |
| **Balance as at 30 June 2005** | **160 800** | **614** | **3 587** | **609 002** | **774 003** | **2 132** | **776 135** |

| *In thousands of US dollars* | Attributable to the equity holders of the Company | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| | Share capital (Note 18) | Fair value reserve for invest-ments available for sale | Revaluati on reserve for premises | Retained earnings and other reserves (Note 18) | Total | | |
| **Balance as at 1 January 2006** | **160 800** | **585** | **3 051** | **689 012** | **853 448** | **2 400** | **855 848** |
| Transfer of net fair value gains arising on investments available for sale to net profit | - | (343) | - | - | (343) | - | (343) |
| Revaluation of premises, net of taxation (Note 13) | - | - | 27 123 | - | 27 123 | - | 27 123 |
| Translation movement | - | - | - | 44 863 | 44 863 | - | 44 863 |
| **Net income/(expense) recorded directly in equity** | **-** | **(343)** | **27 123** | **44 863** | **71 643** | **-** | **71 643** |
| Profit for the period | - | - | - | 114 709 | 114 709 | 45 | 114 754 |
| **Total income/(expense) recorded for the period** | - | **(343)** | **27 123** | **159 572** | **186 352** | **45** | **186 397** |
| Other movements | - | - | (3 528) | 3 528 | - | (1 306) | (1 306) |
| **Balance as at 30 June 2006** | **160 800** | **242** | **26 646** | **852 112** | **1 039 800** | **1 139** | **1 040 939** |

## 1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise three main business segments: corporate banking, retail banking and investment banking (refer to Note 24). The corporate and retail banking activities of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation. Refer to Note 30 for a listing of the principal subsidiaries.

The Company is wholly owned by ABH Holding Corporation ("ABHH"), a British Virgin Islands registered company, owned by individuals. Mr Fridman, Mr Khan and Mr Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.07% interest in ABHH. None of the Controlling Shareholders individually controls or owns a 50% or more interest in ABHH. The Controlling Shareholders have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters relating to ABHH.

The Company is registered at PO Box 3339, Geneva Place, 333 Waterfront Drive, Road Town, Tortola, British Virgin Islands.

***Corporate and retail banking.*** Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its clients. On 16 December 2004 Alfa-Bank was accepted to the State deposit insurance scheme. The State deposit insurance scheme dictates that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 190 thousand (approximately US Dollars 7 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities.

As at 30 June 2006 the Group had 185 offices (including branches, regional branches and outlets) within the Russian Federation and the CIS, most of which are operated by Alfa-Bank (31 December 2005: 121 offices). Alfa-Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa-Bank Ukraine and Alfa-Bank Kazakhstan.

Alfa-Bank's registered office is located at 27 Kalanchyovskaya Str., Moscow 107078. Alfa-Bank's principal place of business is 9 Mashi Poryvaevoy Str., Moscow 107078.

***Investment banking.*** The Company is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking sector including proprietary trading and brokerage activities, investment and merchant banking and asset management with a primary emphasis on securities within the Russian Federation and Ukraine. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.

## 2 Operating Environment of the Group

The Group, through its operations, has significant exposure to Russia's economy and financial markets.

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. The Russian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they would have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

## 3 Basis of Preparation and Significant Accounting Policies

***Basis of preparation.*** These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These interim consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IAS 34.

These interim consolidated financial statements have been presented in United States Dollars ("US Dollars" or "USD"). Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. Alfa-Bank has Russian Roubles as its functional currency, as its activities are mostly based in Russia and are dependent on the condition of the Russian economy. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currencies, as their operations are reliant on the economic conditions in the rest of the world as well as in the Russian Federation. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these interim consolidated financial statements is provided under the "Foreign Currency Translation" section of this note.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these interim consolidated financial statements, are disclosed in Note 4.

Where necessary, corresponding figures were adjusted to conform with changes in the presentation of the current period. In particular, repurchase receivables have been disclosed separately in the consolidated balance sheet and comparatives for the business segments analysis have been adjusted to include intersegment revenues (Note 24).

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***Consolidated financial statements*.** Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired (measured at the date of exchange) is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recorded directly in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been altered where necessary to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded within equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiaries.

***Associated companies.*** Associated companies are entities over which the Group has significant influence, but not control, usually represented by between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. The Group's investment in associated companies includes goodwill (net of accumulated amortisation up to 1 January 2005) on acquisition. The Group ceased amortisation of goodwill from 1 January 2005 as a result of changes to IFRS. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Foreign currency translation.*** The functional currency of the Company is US Dollars. The Group determines the appropriate functional currency for each subsidiary.

Monetary assets and liabilities are translated into each entity's functional currency at the exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the Company's functional currency as follows:

(I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(II) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(III) all resulting exchange differences are recognised in equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

As at 30 June 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.0789 (31 December 2005: USD 1 = RR 28.7825) and the average exchange rate for the six-month period ended 30 June 2006 was USD 1 = RR 27.6799 (six-month period ended 30 June 2005: USD 1 = RR 27.9595). At present, the Russian Rouble is not a freely convertible currency in most countries outside the Russian Federation.

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

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

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

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

***Mandatory cash balances with central banks.*** Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

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

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

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

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

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

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***Investments available for sale.*** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.

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

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

***Investments at fair value through profit or loss.*** Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, as financial assets at fair value through profit or loss only if: (i) this designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Recognition and measurement of this category of financial assets is consistent with the policy for trading securities.

***Other credit related commitments***. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees.

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value (which is normally evidenced by the amount of fees received), and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Fees received are amortised to income on a straight line basis over the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

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

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Securities lent to counterparties are retained in the consolidated financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

***Promissory notes purchased.*** Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

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

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

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

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are taken to profit or loss. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

**3 Basis of Preparation and Significant Accounting Policies (Continued)**

***Computer software.*** Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

***Depreciation and amortisation.*** Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

| | |
|---|---|
| Premises | 2 - 2.5% per annum; |
| Office equipment | 16% per annum; |
| Computer equipment | 25% per annum; |
| Motor vehicles | 14 -18% per annum; |
| Computer software | 10 -20% per annum; and |
| Leasehold improvements | over the term of the underlying lease. |

***Operating leases.*** Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

***Finance leases.*** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

***Due to other banks.*** Amounts due to other banks are related to money market business of the Group and recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

***Customer accounts.*** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***Promissory notes issued.*** Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Promissory notes issued are carried at amortised cost.

If the Group purchases its own promissory notes, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of income.

***Other borrowed funds.*** Other borrowed funds include syndicated loans, subordinated debt, bonds, commercial paper and term notes and are carried at amortised cost.

***Dividends.*** Dividends payable on ordinary shares are recognised in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the balance sheet date are disclosed in the subsequent events note.

***Derivative financial instruments.*** Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value through consolidated statement of income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in trading in foreign currency, gains less losses arising from trading securities and gains less losses from trading in precious metals within other operating income, depending on the related contracts.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group records profits immediately.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recorded in the consolidated statement of income.

Although the Group trades in derivative financial instruments for hedging purposes the Group does not apply hedge accounting.

***Income taxes.*** Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories in which the Group operates. The income tax charge in the consolidated statement of income for the period comprises current tax and movements in deferred tax.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from accrued income and expense on financial instruments, depreciation of premises, equipment and intangible assets and impairment of loans and receivables. The rates enacted or substantively enacted at the balance sheet date which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Current and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or different period, directly to equity.

Income tax expense is recognised in these interim consolidated financial statements based on Management's best estimates of the weighted average annual income tax rate expected for the full financial year.

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenues from the assignment of film rights for a fixed fee under non-cancellable contracts where the Group has no remaining obligations to perform are recognised at the time of sale and are included in other operating income. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***Fiduciary Activities.*** The Group commonly acts as trustees and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from these consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

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

***Staff costs and related contributions.*** The Group's contributions to State pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs.

Discretionary employee compensations are accrued in accordance with the existing employee compensation plans in the reporting period they relate to. Discretionary employee compensations are subject to ABHH's approval and recorded and disclosed within staff costs.

***Segment reporting*****.** A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

## 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

***Functional currencies of different entities of the Group.*** Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar and their major activities include provision of brokerage services to foreign investors in relation to Russian securities whose major revenue streams are dependant on export operations. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured.

## 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The provision amount depends mainly on the estimation of a possible delay in the repayment of the loan. To the extent that the assessed delay in repayment of principal on 5% of the loans differs by +/- one month, the provision would be approximately USD 3 145 thousand (31 December 2005: USD 2 280 thousand) higher or USD 3 009 thousand (31 December 2005: USD 2 148 thousand) lower.

***Fair value of derivatives.*** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are internally certified before they are used and are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

***Income taxes.*** There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Refer also to Note 26.

## 5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

***IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006).*** The Group's financial guarantees are now initially recognised at their fair value (which is normally evidenced by the amount of fees received), and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date.

***IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006).*** IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('at fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. An entity is only allowed to designate a financial asset as one 'at fair value through profit or loss' if: (i) this designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

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

***Effect of Adoption of New or Revised Standards.*** The effect of adoption of the new or revised standards on the Group's financial position as at 30 June 2006 and 31 December 2005 and on the results of its operations for the six-month period ended 30 June 2006 and 30 June 2005 was not significant.

## 6 New Accounting Pronouncements

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

***IFRS 7 "Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from 1 January 2007).*** IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing the impact that the adoption of IFRS 7 would have on the consolidated financial statements.

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

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of US dollars* | 30 June 2006 | 31 December 2005 |
|---|---|---|
| Cash on hand | 239 584 | 275 034 |
| Cash balances with the CBRF and local central banks (other than mandatory cash balances) | 378 776 | 170 513 |
| Correspondent accounts with other financial institutions | | |
| - Russian Federation | 112 852 | 73 835 |
| - Other countries | 66 311 | 100 627 |
| Overnight placements with other financial institutions | | |
| - Russian Federation | 120 147 | 20 740 |
| - Other countries | 311 620 | 237 921 |
| **Total cash and cash equivalents** | **1 229 290** | **878 670** |

As at 30 June 2006 the Group had accounts with 10 financial institutions (31 December 2005: 7 financial institutions) with aggregated balances equal to or above USD 10 000 thousand. The total aggregate amount of these balances was USD 486 225 thousand (31 December 2005: USD 351 383 thousand) or 79.6% (31 December 2005: 81.1%) of the gross correspondent accounts and overnights placements with other financial institutions.

Currency and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

## 8 Trading Securities and Repurchase Receivables

| *In thousands of US dollars* | 30 June 2006 | 31 December 2005 |
|---|---|---|
| Corporate shares | 298 784 | 460 825 |
| Corporate bonds | 226 368 | 236 976 |
| Corporate Eurobonds | 154 758 | 167 031 |
| Russian Federation Eurobonds | 75 027 | 85 321 |
| Bonds of other states | 67 933 | 46 467 |
| ADRs and GDRs | 39 947 | 9 694 |
| Municipal bonds | 37 349 | 53 245 |
| Promissory notes | 17 097 | 34 886 |
| Other | 53 187 | 45 221 |
| **Total trading securities and repurchase receivables** | **970 450** | **1 139 666** |

Corporate shares are mainly shares of major Russian and Ukrainian companies.

Corporate bonds are interest-bearing securities issued by Russian companies, denominated in Russian Roubles, and Ukrainian companies, denominated in Ukrainian Hryvnyas, and are freely tradable in the Russian Federation and the Ukraine respectively. As at 30 June 2006 these bonds have maturity dates ranging from July 2006 to February 2016 (31 December 2005: from January 2006 to March 2012), coupon rates from 7.0% to 18.8% (31 December 2005: from 4.0% to 16.3%) and yields to maturity from 6.3% to 15.7% (31 December 2005: from 6.3% to 13.2%), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued by large Russian companies, and are freely tradable internationally. As at 30 June 2006 these bonds have maturity dates ranging from October 2006 to April 2034 (31 December 2005: from March 2006 to April 2034), coupon rates from 4.9% to 12.8% (31 December 2005: from 4.1% to 12.8%) and yields to maturity from 3.1% to 13.9% (31 December 2005: from 2.8% to 13.3%), depending on the type of bond issue.

## 8 Trading Securities and Repurchase Receivables (Continued)

As at 30 June 2006 trading securities with a fair value of USD 519 908 thousand (31 December 2005: USD 241 764 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Such securities have been reclassified in the consolidated balance sheet into repurchase receivables. Refer to Note 14.

As at 30 June 2006 and as at 31 December 2005 the long balance sheet position of the Group was partially offset by the short forward, futures and swaps position of the Group in those securities. Refer to Note 27.

Currency and interest rates analyses of trading securities are disclosed in Note 25. The information on trading securities issued by related parties and owned by the Group as at 30 June 2006 is disclosed in Note 29.

## 9 Due from Other Banks

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| Term placements with other banks | 809 345 | 1 171 600 |
| Reverse sale and repurchase agreements with other banks | 43 051 | 41 321 |
| **Total due from other banks** | **852 396** | **1 212 921** |

As at 30 June 2006 the Group had balances with 2 banks (31 December 2005: 9 banks) with an aggregated amount equal to or above USD 50 000 thousand. The total aggregate amount of these balances was USD 550 202 thousand (31 December 2005: USD 799 701 thousand) or 64.6% (31 December 2005: 65.9%) of total due from other banks.

As at 30 June 2006 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 45 442 thousand (31 December 2005: USD 39 687 thousand).

As at 30 June 2006 the estimated fair value of due from other banks was USD 852 396 thousand (31 December 2005: USD 1 212 921 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

## 10 Loans and Advances to Customers

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| Current loans | 7 911 699 | 5 760 564 |
| Finance lease receivables | 217 355 | 154 589 |
| Overdue balances | 97 521 | 52 281 |
| Less: Provision for loan impairment | (288 753) | (239 891) |
| **Total loans and advances to customers** | **7 937 822** | **5 727 543** |

Overdue balances include the total principal and accrued interest on all loans and finance lease receivables, contractual payments on which are overdue for more than one day.

## 10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment were as follows:

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| **Provision for loan impairment as at 1 January** | **239 891** | **197 846** |
| Provision for loan impairment during the period | 65 116 | 32 715 |
| Balances written off during the period as uncollectible | (16 254) | (124) |
| **Provision for loan impairment as at 30 June** | **288 753** | **230 437** |

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

| | 30 June 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| *In thousands of US dollars* | Amount | % | Amount | % |
| Trade and commerce | 1 093 250 | 14 | 872 768 | 15 |
| Construction | 937 129 | 12 | 616 966 | 10 |
| Ferrous metallurgy | 852 461 | 10 | 646 989 | 11 |
| Machinery and metal working | 769 146 | 9 | 505 025 | 9 |
| Power generation | 597 667 | 7 | 231 513 | 4 |
| Non-ferrous metallurgy | 460 451 | 6 | 379 028 | 6 |
| Finance and investment companies | 398 692 | 5 | 346 050 | 6 |
| Armaments production | 382 412 | 5 | 359 058 | 6 |
| Individuals | 364 430 | 4 | 144 907 | 2 |
| Coal Industry | 294 957 | 4 | 195 864 | 3 |
| Oil industry | 282 246 | 3 | 227 255 | 4 |
| Natural gas industry | 238 013 | 3 | 284 310 | 5 |
| Railway transport | 230 708 | 3 | 125 264 | 2 |
| Chemistry and petrochemistry | 192 542 | 2 | 169 622 | 3 |
| Food industry | 163 442 | 2 | 135 839 | 2 |
| Aviation transport | 154 112 | 2 | 57 813 | 1 |
| Diamond extraction and processing | 130 000 | 2 | - | - |
| Nuclear industry | 108 310 | 1 | 80 514 | 1 |
| Water transport | 101 496 | 1 | 107 088 | 2 |
| Mass media and telecommunications | 85 943 | 1 | 186 319 | 3 |
| Agribusiness | 67 972 | 1 | 63 583 | 1 |
| Timber industry | 40 690 | - | 33 362 | 1 |
| Other | 280 506 | 3 | 198 297 | 3 |
| **Total loans and advances to customers (gross of provision for loan impairment)** | **8 226 575** | **100** | **5 967 434** | **100** |

As at 30 June 2006 aggregate loans and advances to the 20 largest borrowers of the Group amounted to USD 2 765 212 thousand (31 December 2005: USD 2 212 062 thousand) or 33.6% (31 December 2005: 37.1%) of the gross loans and advances to customers, while aggregate loans and advances to the 10 largest borrowers of the Group amounted to USD 1 772 141 thousand (31 December 2005: USD 1 438 901 thousand) or 21.5% (31 December 2005: 24.1%) of the gross loans and advances to customers.

As at 31 December 2005 loans to customers in the amount of USD 16 754 thousand have been pledged as collateral under sale and repurchase agreements with other banks. Refer to Note 14.

## 10 Loans and Advances to Customers (Continued)

As at 30 June 2006 the estimated fair value of loans and advances to customers was USD 7 936 529 thousand (31 December 2005: USD 5 736 713 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

## 11 Investments

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| Investment in an associated company | 103 152 | 67 171 |
| Investment at fair value through profit and loss | 30 736 | 57 481 |
| Equity investments available for sale | 6 380 | 29 854 |
| **Total investments** | **140 268** | **154 506** |

***Investment in an associated company.*** As at 30 June 2006 investment in an associated company in the amount of USD 103 152 thousand (31 December 2005: USD 67 171 thousand) represented a 26.1% (31 December 2005: 31.5%) interest in CTC Media Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures.

In April 2006 the Group sold a 3.1% interest in CTC to a company within the Alfa Group Consortium (Note 29) for USD 18 250 thousand, recording a gain of USD 10 697 thousand. In May 2006, during the Initial Public Offering of CTC, the Group's interest further decreased by 2.3% and the gain on disposal amounted to USD 22 804 thousand.

The Group's share of CTC's results after tax for the six-month period ended 30 June 2006 amounted to USD 20 729 thousand (six-month period ended 30 June 2005: USD 6 239 thousand).

The fair value of the investment in CTC amounted to USD 722 163 thousand as at 30 June 2006.

***Investment at fair value through profit and loss.*** As at 30 June 2006, investment at fair value through profit and loss of USD 30 736 thousand (31 December 2005: USD 57 481 thousand) represented a 7.8% interest in Amtel-Vredestein N.V. ("Amtel"), a tyre manufacturing company. Initially the Group purchased a 8.3% interest for USD 45 000 thousand in June 2005. The Group's interest in Amtel decreased as a consequence of its Initial Public Offering in November 2005. The investment in Amtel meets the criteria for classification as at fair value through profit and loss because Management assesses performance of the investment based on its fair value in accordance with a strategy documented in its business plan.

At the time of its investment in Amtel the Group entered into an option agreement with the majority shareholder of Amtel which entitled the Group to purchase additional shares in Amtel at their nominal value in case Amtel did not achieve specified financial targets. Amtel has not achieved the specified financial targets and in June 2006 the Group exercised the option. In July 2006 the Group and the majority shareholder of Amtel signed an agreement in relation to the settlement of the option. As a result the Group acquired additional shares in Amtel at their nominal value and received a right to acquire further shares in Amtel or receive a significant commission payment subject to certain conditions. As at 30 June 2006 the estimated fair value of the Group's rights arising from the option amounted to USD 71 875 thousand (31 December 2005: Nil). The fair value of the option was calculated using a valuation technique taking into account expectations in relation to the ultimate settlement of the option and market quotations for Amtel shares. Management believes that changes in assumptions used to reasonably possible alternatives would not result in a significantly different fair value. Refer to Note 12.

## 11 Investments (Continued)

***Gains less losses arising from investments.*** The table below represents an analysis of gains less losses arising from investments for the six-month period ended 30 June 2006.

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| Fair value gains on the Amtel related option | 71 875 | - |
| Losses less gains arising from the investment in Amtel | (26 696) | - |
| Gains less losses from disposals of investments available for sale | 4 712 | 463 |
| **Total gains less losses arising from investments** | **49 891** | **463** |

## 12 Other Assets

| *In thousands of US dollars* | Note | 30 June 2006 | 31 December 2005 |
|---|---|---|---|
| Receivables on operations with securities | | 434 297 | 143 897 |
| Conversion operations and derivative financial instruments | | 93 163 | 37 222 |
| Trade debtors and prepayments | | 78 775 | 56 081 |
| Fair value of rights arising from Amtel related option | 11 | 71 875 | - |
| Prepaid taxes | | 48 492 | 38 829 |
| Plastic card debtors and other settlements with clients | | 38 095 | 46 889 |
| Advance payments related to finance leases | | 30 209 | 36 452 |
| Receivables from related parties | 29 | 1 779 | 9 758 |
| Other | | 27 323 | 14 843 |
| | | **824 008** | **383 971** |
| Less: Provision for impairment of other assets | | (7 885) | (7 517) |
| **Total other assets** | | **816 123** | **376 454** |

Movements in the provision for impairment of other assets were as follows:

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| **Provision for impairment of other assets as at 1 January** | **7 517** | **13 858** |
| Provision/(release of provision) for impairment of other assets during the period | 368 | (6 454) |
| **Provision for impairment of other assets as at 30 June** | **7 885** | **7 404** |

As at 30 June 2006 other assets included precious metals with a carrying value of USD 16 458 thousand (31 December 2005: Nil) sold under sale and repurchase agreements with other banks (Note 14).

Currency and maturity analyses of other assets are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

## 13 Premises, Equipment and Intangible Assets

| *In thousands of US dollars* | Premises | Leasehold improve-ments | Office and computer equipment | Construc-tion in progress | Total premises and equipment | Computer software | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount as at 31 December 2005** | **49 370** | **17 828** | **50 574** | **4 406** | **122 178** | **22 896** | **145 074** |
| **Cost or valuation** | | | | | | | |
| Opening balance | 59 929 | 20 962 | 126 134 | 4 406 | **211 431** | 46 667 | **258 098** |
| Revaluation | 41 093 | - | - | - | **41 093** | - | **41 093** |
| Additions and transfers | 3 046 | 4 914 | 30 577 | 4 011 | **42 548** | 7 700 | **50 248** |
| Disposals | (5 100) | (323) | (11 394) | - | **(16 817)** | (4 950) | **(21 767)** |
| Translation movement | 4 936 | 1 383 | 7 728 | 506 | **14 553** | 832 | **15 385** |
| **Closing balance** | **103 904** | **26 936** | **153 045** | **8 923** | **292 808** | **50 249** | **343 057** |
| **Accumulated depreciation and amortisation** | | | | | | | |
| Opening balance | 10 559 | 3 134 | 75 560 | - | **89 253** | 23 771 | **113 024** |
| Revaluation | 5 405 | - | - | - | **5 405** | - | **5 405** |
| Depreciation and amortisation charge (Note 22) | 950 | 286 | 10 969 | - | **12 205** | 3 656 | **15 861** |
| Impairment charge | 1 738 | - | - | - | **1 738** | - | **1 738** |
| Disposals | (227) | (10) | (822) | - | **(1 059)** | (1 101) | **(2 160)** |
| Translation movement | 761 | 207 | 4 804 | - | **5 772** | 454 | **6 226** |
| **Closing balance** | **19 186** | **3 617** | **90 511** | **-** | **113 314** | **26 780** | **140 094** |
| **Net book amount as at 30 June 2006** | **84 718** | **23 319** | **62 534** | **8 923** | **179 494** | **23 469** | **202 963** |

As at 1 January 2006 the Group performed a revaluation of its premises on the basis of a valuation by an independent firm of appraisers. The market value of premises was assessed using the comparative valuation method. The positive difference between the carrying amount and the revalued amount has been recorded as a credit to a revaluation reserve in equity in the amount of USD 35 688 thousand less a deferred tax liability of USD 8 565 thousand. An identified impairment in the amount of USD 1 738 thousand was recorded in the interim consolidated statement of income.

As at 30 June 2006 the carrying amount of premises would have been USD 49 657 thousand (31 December 2005: USD 46 319 thousand) had the premises been carried at cost less depreciation.

## 13 Premises, Equipment and Intangible Assets (Continued)

| *In thousands of US dollars* | Premises | Leasehold improve-ments | Office and computer equipment | Construc-tion in progress | Total premises and equipment | Computer software | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount as at 31 December 2004** | **56 971** | **9 019** | **48 250** | **2 185** | **116 425** | **30 466** | **146 891** |
| **Cost or valuation** | | | | | | | |
| Opening balance | 67 551 | 10 677 | 110 938 | 2 185 | **191 351** | 52 250 | **243 601** |
| Additions and transfers | 4 230 | 495 | 7 417 | 252 | **12 394** | 4 849 | **17 243** |
| Disposals | (3 237) | (542) | (4 058) | - | **(7 837)** | (123) | **(7 960)** |
| Translation movement | (2 065) | (344) | (3 218) | (70) | **(5 697)** | (684) | **(6 381)** |
| **Closing balance** | **66 479** | **10 286** | **111 079** | **2 367** | **190 211** | **56 292** | **246 503** |
| **Accumulated depreciation and amortisation** | | | | | | | |
| Opening balance | 10 580 | 1 658 | 62 688 | - | **74 926** | 21 784 | **96 710** |
| Depreciation and amortisation charge (Note 22) | 688 | 116 | 8 062 | - | **8 866** | 4 747 | **13 613** |
| Disposals | (306) | (28) | (2 105) | - | **(2 439)** | (16) | **(2 455)** |
| Translation movement | (322) | (57) | (1 904) | - | **(2 283)** | (350) | **(2 633)** |
| **Closing balance** | **10 640** | **1 689** | **66 741** | **-** | **79 070** | **26 165** | **105 235** |
| **Net book amount as at 30 June 2005** | **55 839** | **8 597** | **44 338** | **2 367** | **111 141** | **30 127** | **141 268** |

## 14 Due to Other Banks

| *In thousands of US dollars* | 30 June 2006 | 31 December 2005 |
|---|---|---|
| Term placements of other banks | 1 117 638 | 455 311 |
| Sale and repurchase agreements with other banks | 419 765 | 209 857 |
| Correspondent accounts of other banks | | |
| - Russian Federation | 59 061 | 70 721 |
| - Other countries | 37 039 | 45 978 |
| **Total due to other banks** | **1 633 503** | **781 867** |

As at 30 June 2006 trading securities (Note 8) with a fair value of USD 519 908 thousand (31 December 2005: USD 241 764 thousand) have been sold to third parties under sale and repurchase agreements with other banks.

As at 30 June 2006 precious metals (Note 12) with a carrying value of USD 16 458 thousand (31 December 2005: Nil) has been sold under sale and repurchase agreements with other banks.

## 14 Due to Other Banks (Continued)

As at 31 December 2005 loans to customers (Note 10) in the amount of USD 16 754 thousand have been pledged as collateral under sale and repurchase agreement with other banks.

As at 30 June 2006 the estimated fair value of due to other banks was USD 1 633 503 thousand (31 December 2005: USD 781 867 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

## 15 Customer Accounts

| *In thousands of US dollars* | 30 June 2006 | 31 December 2005 |
|---|---|---|
| **Commercial organisations** | | |
| - Current/settlement accounts | 2 160 286 | 1 348 572 |
| - Term deposits | 1 183 113 | 1 371 918 |
| **Individuals** | | |
| - Current/demand accounts | 1 183 103 | 782 108 |
| - Term deposits | 1 127 121 | 1 010 116 |
| **State and public organisations** | | |
| - Current/settlement accounts | 241 311 | 4 981 |
| - Term deposits | 654 255 | 937 476 |
| **Total customer accounts** | **6 549 189** | **5 455 171** |

Economic sector concentrations within customer accounts were as follows:

| | 30 June 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| *In thousands of US dollars* | Amount | % | Amount | % |
| Individuals | 2 310 224 | 35 | 1 792 224 | 33 |
| Energy and oil and gas | 1 049 732 | 16 | 487 978 | 9 |
| State and public organisations | 895 566 | 14 | 942 457 | 17 |
| Finance and investment companies | 792 394 | 12 | 811 389 | 15 |
| Manufacturing and construction | 596 009 | 9 | 299 774 | 6 |
| Trade and commerce | 443 395 | 7 | 666 000 | 12 |
| Mass media and telecommunications | 81 066 | 1 | 67 590 | 1 |
| Science | 30 247 | 1 | 38 818 | 1 |
| Agriculture and food processing | 6 728 | - | 981 | - |
| Other | 343 828 | 5 | 347 960 | 6 |
| **Total customer accounts** | **6 549 189** | **100** | **5 455 171** | **100** |

As at 30 June 2006 the Group had 14 customers (31 December 2005: 10 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 2 624 982 thousand (31 December 2005: USD 2 437 235 thousand) or 40.1% (31 December 2005: 44.7%) of the total customer accounts, of which USD 716 332 thousand (31 December 2005: USD 487 588 thousand) represented balances outstanding to Alfa Group Consortium (Note 29) and its shareholders.

Included in customer accounts are balances in the amount of USD 157 274 thousand (31 December 2005: USD 202 163 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 26.

## 15 Customer Accounts (Continued)

As at 30 June 2006 the estimated fair value of customer accounts was USD 6 549 189 thousand (31 December 2005: USD 5 455 171 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

## 16 Other Borrowed Funds

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| Syndicated loans | 713 506 | 578 190 |
| Loan secured by Diversified Payments Rights | 328 111 | - |
| Euro Medium Term Notes maturing in 2008 | 248 485 | 248 603 |
| Euro-Commercial Papers | 247 890 | 276 602 |
| Subordinated Loan | 225 493 | 224 762 |
| Euro Medium Term Notes maturing in 2007 | 153 945 | 153 587 |
| Russian Rouble denominated bonds maturing in 2010 | 35 538 | 1 925 |
| Euro Medium Term Notes maturing in 2006 | - | 192 816 |
| Other | 10 225 | 3 595 |
| **Total other borrowed funds** | **1 963 193** | **1 680 080** |

On 6 June 2006 the Group received a syndicated loan in the amount of USD 438 000 thousand from a consortium of large international banks. The loan matures on 5 June 2007 and bears a floating interest rate of LIBOR plus 0.5% per annum payable semi-annually. As at 30 June 2006 the effective interest rate was 6.9% per annum. The issue proceeds net of transaction costs amounted to USD 435 775 thousand.

On 16 November 2005 the Group received a syndicated loan in the amount of USD 275 000 thousand from a consortium of large international banks. The loan matures on 15 November 2006 and bears a floating interest rate of LIBOR plus 1.0% per annum payable semi-annually. As at 30 June 2006 the effective interest rate was 6.8% per annum. The issue proceeds net of transaction costs amounted to USD 272 216 thousand.

On 30 March 2006 the Group received a US Dollar denominated loan with a nominal value of USD 350 000 thousand, securitized by the Group's diversified payment rights, i.e. its rights to funds being transferred by its clients through the Group's correspondent accounts. These notes bear a coupon at a rate of LIBOR plus 1.6% per annum payable quarterly. The notes are repayable by quarterly instalments until maturity on 15 March 2011. As at 30 June 2006 the effective interest rate was 7.5% per annum. The issue proceeds net of transaction costs amounted to USD 344 175 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme"). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 1 000 000 thousand. On 9 February 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount USD 150 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 9 February 2007. The issue proceeds net of transaction costs and discount amounted to USD 148 381 thousand and the effective interest rate at origination was 8.4%. On 28 June 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 250 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 2 July 2008. The issue proceeds net of transaction costs and discount amounted to USD 248 394 thousand and the effective interest rate at origination was 8.1%.

## 16 Other Borrowed Funds (Continued)

On 11 December 2003 the Group established a Euro Commercial Paper Programme ("ECP Programme"). Initially the aggregate principal amount of outstanding notes issued under the ECP Programme at any time was not to exceed USD 200 000 thousand and the term of the notes was not to be more than 365 days. In November 2005, the maximum allowed principal amount of outstanding notes was increased to USD 350 000 thousand. On 20 December 2005, the Group issued its first EURO-denominated notes. As at 30 June 2006 the nominal value of outstanding notes was USD 242 650 thousand and EUR 10 000 thousand (31 December 2005: USD 267 000 thousand and EUR 16 000 thousand) and they were issued at a discount to the nominal value ranging from 3.7% to 7.1% depending on the type of issue. As at 30 June 2006 the average effective interest rate at origination on notes outstanding was 7.5% for USD-denominated notes and 5.2% for EUR-denominated notes.

On 9 December 2005 the Group received a subordinated loan in the amount of USD 225 000 thousand through a special purpose entity, which issued notes to fund the transaction. The loan bears a fixed interest rate of 8.6% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.3% per annum payable semi-annually until maturity on 9 December 2015. As at 30 June 2006 the effective interest rate was equal to 8.9% per annum. The issue proceeds net of transaction costs were equal to USD 223 610 thousand. The Group has an option to repay this subordinated loan on 9 December 2010.

As at 30 June 2006 the estimated fair value of other borrowed funds was USD 1 972 612 thousand (31 December 2005: USD 1 686 950 thousand). Refer to Note 28.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

## 17 Other Liabilities

| *In thousands of US dollars* | **Note** | **30 June 2006** | **31 December 2005** |
|---|---|---|---|
| Payables on operations with securities | | 404 433 | 124 707 |
| Conversion operations and derivative financial instruments | | 142 049 | 246 211 |
| Accrued staff costs | | 73 553 | 106 948 |
| Plastic card and other settlements with clients | | 52 811 | 49 125 |
| Trade creditors | | 23 842 | 26 068 |
| Taxation payable | | 16 981 | 9 370 |
| Provision for losses on credit related commitments | 26 | 13 685 | 18 925 |
| Payable to related parties | | 2 314 | 13 208 |
| Other | | 11 641 | 12 842 |
| **Total other liabilities** | | **741 309** | **607 404** |

Accrued staff costs mainly relate to employee incentive plans based on certain performance indicators.

As at 30 June 2006 the estimated fair value of payables on operations with securities, conversion operations and derivative financial instruments was USD 548 083 thousand (31 December 2005: USD 370 918 thousand). Refer to Note 28.

Currency and maturity analyses of other liabilities are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

## 18 Share Capital, Retained Earnings and Other Reserves

As at 30 June 2006 and 31 December 2005 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share and rank equally. Each share carries one vote.

Retained earnings and other reserves include the cumulative translation reserve arising from the translation of net investments in foreign subsidiaries. The total cumulative translation reserve as at 30 June 2006 represented a cumulative loss of USD 248 405 thousand (31 December 2005: cumulative loss of USD 293 268 thousand; 30 June 2005: cumulative loss of USD 279 746 thousand).

## 19 Interest Income and Expense

| *In thousands of US dollars* | **Six-Month Period Ended 30 June 2006** | **Six-Month Period Ended 30 June 2005** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 371 581 | 287 780 |
| Due from other banks, correspondent accounts and overnight placements | 37 788 | 15 399 |
| Trading securities | 24 956 | 17 305 |
| **Total interest income** | **434 325** | **320 484** |
| **Interest expense** | | |
| Other borrowed funds | 68 542 | 34 268 |
| Term deposits of legal entities | 52 504 | 41 360 |
| Term deposits of individuals | 31 668 | 31 839 |
| Due to other banks | 28 654 | 11 914 |
| Promissory notes issued | 10 064 | 7 314 |
| Current/settlement accounts | 12 855 | 5 716 |
| **Total interest expense** | **204 287** | **132 411** |
| **Net interest income** | **230 038** | **188 073** |

Refer to Note 29 for details of related party transactions.

## 20 Fee and Commission Income and Expense

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on settlement transactions | 48 734 | 37 094 |
| Commission on cash and foreign currency exchange transactions | 21 282 | 15 288 |
| Commission on transactions with securities | 12 158 | 5 897 |
| Commission on guarantees issued | 4 064 | 5 113 |
| Commission for consulting services | 1 682 | 4 242 |
| Other | 1 759 | 5 816 |
| **Total fee and commission income** | **89 679** | **73 450** |
| **Fee and commission expense** | | |
| Commission on settlement transactions | 13 889 | 7 769 |
| Commission for consulting services | 4 467 | 8 603 |
| Commission on transactions with securities | 3 464 | 1 515 |
| Commission on cash and foreign currency exchange transactions | 2 611 | 1 478 |
| Other | 656 | 531 |
| **Total fee and commission expense** | **25 087** | **19 896** |
| **Net fee and commission income** | **64 592** | **53 554** |

Refer to Note 29 for details of related party transactions.

## 21 Other Operating Income

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| Gain on disposal of a subsidiary | 6 231 | - |
| Charges on late repayment of loans and other penalties | 3 385 | 4 950 |
| Dividend income | 708 | 274 |
| Other | 4 446 | 7 693 |
| **Total other operating income** | **14 770** | **12 917** |

During the six-month period ended 30 June 2006 the Group sold for USD 12 000 thousand a subsidiary involved in the real estate business. Total assets of the disposed subsidiary amounted to USD 6 585 thousand.

## 22 Operating Expenses

| *In thousands of US dollars* | Note | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|---|
| Staff costs | | 133 501 | 97 464 |
| Depreciation and amortisation | 13 | 15 861 | 13 613 |
| Rent | | 14 091 | 11 522 |
| Computer and telecommunications services | | 11 760 | 7 421 |
| Taxes other than income tax | | 10 138 | 4 503 |
| Consulting and professional services | | 7 345 | 6 936 |
| Maintenance | | 6 370 | 6 289 |
| Advertising and marketing | | 6 170 | 1 966 |
| Administrative expenses | | 3 926 | 5 122 |
| Travel expenses | | 2 768 | 1 777 |
| Other expenses related to premises, equipment and intangible assets | | 2 432 | 1 645 |
| Heat and utilities | | 2 228 | 2 017 |
| Other | | 14 348 | 9 330 |
| **Total operating expenses** | | **230 938** | **169 605** |

Staff costs include expenses on defined state pension contributions made by the Group for its employees in the amount of USD 15 405 thousand for the six-month period ended 30 June 2006 (six-month period ended 30 June 2005: USD 10 372 thousand).

## 23 Income Taxes

Income tax expense comprises the following:

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| Current tax | 101 521 | 16 513 |
| Deferred tax | (67 139) | 2 003 |
| **Income tax expense for the period** | **34 382** | **18 516** |

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 24% (six-month period ended 30 June 2005: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (six-month period ended 30 June 2005: from 0% to 15%). Reconciliation between the expected and the actual taxation charge is provided below.

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| **IFRS profit before tax** | **149 136** | **105 788** |
| Theoretical tax charge at the statutory rate of 24% | 35 793 | 25 389 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non deductible expenses | 5 225 | 2 679 |
| - Income which is exempt from taxation | - | (1 674) |
| - Gain incurred in lower tax jurisdictions | (6 128) | (9 130) |
| - Other | (508) | 1 252 |
| **Income tax expense for the period** | **34 382** | **18 516** |

## 23 Income Taxes (Continued)

Differences between IFRS and Russian and other countries' statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is recorded mainly at the rate of 24%, except for income on state securities that is taxed at 15% and dividend income that is taxed at 9%.

| *In thousands of US dollars* | 31 December 2005 | (Charged)/ credited to income statement | Charged to equity | 30 June 2006 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Provision for loan impairment | 11 137 | 4 619 | - | 15 756 |
| Tax loss carried forward | - | 3 171 | - | 3 171 |
| Accruals | 3 629 | 5 524 | - | 9 153 |
| Other | 6 019 | 6 735 | - | 12 754 |
| **Gross deferred tax asset** | **20 785** | **20 049** | **-** | **40 834** |
| Deferred tax asset netted off within individual entities of the Group | (15 751) | (21 912) | - | (37 663) |
| **Deferred tax asset** | **5 034** | **(1 863)** | **-** | **3 171** |
| **Tax effect of taxable temporary differences** | | | | |
| Premises, equipment and intangible assets | (9 105) | 9 489 | (8 565) | (8 181) |
| Trading securities | (64 044) | 44 446 | - | (19 598) |
| Accruals | (2 101) | (2 561) | - | (4 662) |
| Other | (17 993) | (4 284) | - | (22 277) |
| **Gross deferred tax liability** | **(93 243)** | **47 090** | **(8 565)** | **(54 718)** |
| Deferred tax liability netted off within individual entities of the Group | 15 751 | 21 912 | - | 37 663 |
| **Deferred tax liability** | **(77 492)** | **69 002** | **(8 565)** | **(17 055)** |
| **Total net deferred tax liability** | **(72 458)** | **67 139** | **(8 565)** | **(13 884)** |

## 23 Income Taxes (Continued)

| *In thousands of US dollars* | 31 December 2004 | (Charged)/ credited to income statement | 30 June 2005 |
|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | |
| Provision for loan impairment | 28 689 | (1 127) | 27 562 |
| Accruals | 6 913 | 2 937 | 9 850 |
| Other | 3 740 | 894 | 4 634 |
| **Gross deferred tax asset** | **39 342** | **2 704** | **42 046** |
| Deferred tax asset netted off within entities of the Group | (22 755) | (3 040) | (25 795) |
| **Deferred tax asset** | **16 587** | **(336)** | **16 251** |
| **Tax effect of taxable temporary differences** | | | |
| Premises, equipment and intangible assets | (6 463) | (5 927) | (12 390) |
| Trading securities | (28 501) | 959 | (27 542) |
| Accruals | (9 179) | (1 107) | (10 286) |
| Other | (7 113) | 1 368 | (5 745) |
| **Gross deferred tax liability** | **(51 256)** | **(4 707)** | **(55 963)** |
| Deferred tax liability netted off within entities of the Group | 22 755 | 3 040 | 25 795 |
| **Deferred tax liability** | **(28 501)** | **(1 667)** | **(30 168)** |
| **Total net deferred tax liability** | **(11 914)** | **(2 003)** | **(13 917)** |

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

Investments available for sale are held and disposed primarily by subsidiaries of the Group operating in tax-free jurisdictions. Therefore, the net fair value gains arising on investments available for sale recorded directly in equity had no impact on the deferred tax position of the Group.

## 24 Segment Analysis

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

***Business Segments.*** The Group is organised on a basis of three main business segments:

- Corporate banking – comprises corporate lending, corporate deposit services, trade finance operations, structured corporate lending, corporate finance advisory services and leasing services.

- Investment banking – comprises securities trading, debt and equity capital markets services, foreign currency and derivative products, structured financing, merger and acquisitions advice.

- Retail banking – comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal installment loans, auto loans and mortgages, money transfers and private banking services.

Starting from 2005 the Group has been applying a transfer pricing system. Under this system funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group, which are determined by reference to existing interest rate benchmarks. The presentation of the comparative information for the six-month period ended 30 June 2005 has been changed to conform to the current period presentation.

## 24 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the six-month period ended 30 June 2006 is set out below:

| *In thousands of US dollars* | Corporate banking | Investment banking | Retail banking | Elimina-tions | Total |
|---|---|---|---|---|---|
| **Six-Month Period Ended 30 June 2006** | | | | | |
| **Segment revenue** | | | | | |
| External revenues | 487 093 | 122 803 | 55 934 | - | 665 830 |
| Revenues from other segments | 79 111 | 70 955 | 132 394 | (282 460) | - |
| **Total revenues** | **566 204** | **193 758** | **188 328** | **(282 460)** | **665 830** |
| **Total revenues comprise:** | | | | | |
| Interest income | | | | | 434 325 |
| Fee and commission income | | | | | 89 679 |
| Gains less losses arising from trading securities | | | | | 50 548 |
| Gains less losses arising from investments | | | | | 49 891 |
| Gains less losses arising from trading in foreign currencies | | | | | 26 617 |
| Other operating income | | | | | 14 770 |
| **Total revenues** | | | | | **665 830** |
| **Segment results** | **79 740** | **118 081** | **(63 509)** | **-** | **134 312** |
| Gain on disposal of interest in associated company | | | | | 33 501 |
| Unallocated costs | | | | | (39 406) |
| **Operating profit** | | | | | **128 407** |
| Share of results of associated company | | | | | 20 729 |
| **Profit before tax** | | | | | **149 136** |
| Income tax expense | | | | | (34 382) |
| **Profit** | | | | | **114 754** |
| **Six-Month Period Ended 30 June 2006** | | | | | |
| **Other segment items** | | | | | |
| Capital expenditure | (26 129) | (5 025) | (19 094) | - | (50 248) |
| Depreciation and amortisation charge | (10 382) | (822) | (4 657) | - | (15 861) |
| Other non-cash expense | (39 088) | - | (21 156) | - | (60 244) |
| **30 June 2006** | | | | | |
| **Segment assets** | **9 739 540** | **3 472 792** | **2 250 543** | **(3 232 905)** | **12 229 970** |
| Investment in an associated company | | | | | 103 152 |
| Unallocated assets | | | | | 3 171 |
| **Total assets** | | | | | **12 336 293** |
| **Segment liabilities** | **9 151 113** | **2 939 402** | **2 362 334** | **(3 232 905)** | **11 219 944** |
| Unallocated liabilities | | | | | 75 410 |
| **Total liabilities** | | | | | **11 295 354** |

## 24 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the six-month period ended 30 June 2005 is set out below:

| *In thousands of US dollars* | Corporate banking | Investment banking | Retail banking | Elimina-tions | Total |
|---|---|---|---|---|---|
| **Six-Month Period Ended 30 June 2005** | | | | | |
| **Segment revenue** | | | | | |
| External revenues | 320 633 | 62 476 | 37 819 | - | 420 928 |
| Revenues from other segments | 104 165 | 168 216 | 259 605 | (531 986) | - |
| **Total revenues** | **424 798** | **230 692** | **297 424** | **(531 986)** | **420 928** |
| **Total revenues comprise:** | | | | | |
| Interest income | | | | | 320 484 |
| Fee and commission income | | | | | 73 450 |
| Gains less losses arising from trading securities | | | | | 18 895 |
| Gains less losses arising from investments | | | | | 463 |
| Gains less losses arising from trading in foreign currencies | | | | | (5 281) |
| Other operating income | | | | | 12 917 |
| **Total revenues** | | | | | **420 928** |
| **Segment results** | **143 157** | **22 093** | **(62 885)** | **-** | **102 365** |
| Foreign exchange translation gains less losses | | | | | 26 181 |
| Unallocated costs | | | | | (28 997) |
| **Operating profit** | | | | | **99 549** |
| Share of profit of associated company | | | | | 6 239 |
| **Profit before tax** | | | | | **105 788** |
| Income tax expense | | | | | (18 516) |
| **Profit** | | | | | **87 272** |
| **Six-Month Period Ended 30 June 2005** | | | | | |
| **Other segment items** | | | | | |
| Capital expenditure | (3 293) | (3 012) | (10 938) | - | (17 243) |
| Depreciation and amortisation charge | (3 233) | (1 766) | (8 614) | - | (13 613) |
| Other non-cash (expense)/income | (27 253) | (708) | 2 313 | - | (25 648) |
| **31 December 2005** | | | | | |
| **Segment assets** | **7 883 131** | **2 790 803** | **1 766 755** | **(2 677 177)** | **9 763 512** |
| Investment in an associated company | | | | | 67 171 |
| Unallocated assets | | | | | 5 034 |
| **Total assets** | | | | | **9 835 717** |
| **Segment liabilities** | **7 322 503** | **2 314 990** | **1 838 344** | **(2 677 177)** | **8 798 660** |
| Unallocated liabilities | | | | | 181 209 |
| **Total liabilities** | | | | | **8 979 869** |

## 24 Segment Analysis (Continued)

***Geographical segments.*** Segment information for the main geographical segments of the Group is set out below for the six-month period ended 30 June 2006.

| *In thousands of US dollars* | Russia | Europe | CIS | USA | Other | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 795 623 | 279 434 | 45 804 | 107 986 | 443 | 1 229 290 |
| Mandatory cash balances with central banks | 160 750 | 5 662 | 17 398 | - | - | 183 810 |
| Trading securities and repurchase receivables | 458 577 | 463 709 | 24 473 | 2 953 | 20 738 | 970 450 |
| Due from other banks | 147 357 | 621 400 | 55 143 | 28 426 | 70 | 852 396 |
| Loans and advances to customers | 6 573 943 | 321 978 | 1 015 916 | 25 985 | - | 7 937 822 |
| Investments | 140 268 | - | - | - | - | 140 268 |
| Other assets | 687 166 | 81 900 | 14 976 | 6 965 | 25 116 | 816 123 |
| Premises, equipment and intangible assets | 169 408 | 16 854 | 16 701 | - | - | 202 963 |
| Deferred tax asset | 3 171 | - | - | - | - | 3 171 |
| **Total assets** | **9 136 263** | **1 790 937** | **1 190 411** | **172 315** | **46 367** | **12 336 293** |
| **Liabilities** | | | | | | |
| Due to other banks | 513 611 | 937 092 | 106 166 | 6 946 | 69 688 | 1 633 503 |
| Customer accounts | 5 473 801 | 627 971 | 396 578 | 18 838 | 32 001 | 6 549 189 |
| Promissory notes issued | 370 134 | 20 501 | 356 | 114 | - | 391 105 |
| Other borrowed funds | 38 040 | 1 869 396 | 10 225 | 28 020 | 17 512 | 1 963 193 |
| Other liabilities | 413 414 | 274 620 | 16 743 | 10 168 | 26 364 | 741 309 |
| Deferred tax liability | 17 055 | - | - | - | - | 17 055 |
| **Total liabilities** | **6 826 055** | **3 729 580** | **530 068** | **64 086** | **145 565** | **11 295 354** |
| **Net balance sheet position as at 30 June 2006** | **2 310 208** | **(1 938 643)** | **660 343** | **108 229** | **(99 198)** | **1 040 939** |

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine and Kazakhstan.

## 24 Segment Analysis (Continued)

As at 31 December 2005 the Group had the following segment information for the main geographical segments:

| *In thousands of US dollars* | Russia | Europe | CIS | USA | Other | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 486 012 | 246 847 | 22 142 | 123 352 | 317 | 878 670 |
| Mandatory cash balances with central banks | 147 432 | 29 835 | 18 582 | - | - | 195 849 |
| Trading securities and repurchase receivables | 842 706 | 246 281 | 27 826 | 5 316 | 17 537 | 1 139 666 |
| Due from other banks | 492 022 | 655 589 | 60 548 | 4 762 | - | 1 212 921 |
| Loans and advances to customers | 4 633 578 | 370 937 | 694 001 | 29 027 | - | 5 727 543 |
| Investments | 154 506 | - | - | - | - | 154 506 |
| Other assets | 226 959 | 125 035 | 11 522 | 628 | 12 310 | 376 454 |
| Premises, equipment and intangible assets | 131 749 | 3 339 | 9 986 | - | - | 145 074 |
| Deferred tax asset | 5 034 | - | - | - | - | 5 034 |
| **Total assets** | **7 119 998** | **1 677 863** | **844 607** | **163 085** | **30 164** | **9 835 717** |
| **Liabilities** | | | | | | |
| Due to other banks | 321 496 | 327 601 | 96 562 | 84 | 36 124 | 781 867 |
| Customer accounts | 4 575 801 | 542 101 | 239 131 | 33 383 | 64 755 | 5 455 171 |
| Promissory notes issued | 347 734 | 29 200 | 921 | - | - | 377 855 |
| Other borrowed funds | 1 925 | 1 626 544 | 3 595 | 15 505 | 32 511 | 1 680 080 |
| Other liabilities | 197 655 | 396 388 | 12 404 | 957 | - | 607 404 |
| Deferred tax liability | 77 492 | - | - | - | - | 77 492 |
| **Total liabilities** | **5 522 103** | **2 921 834** | **352 613** | **49 929** | **133 390** | **8 979 869** |
| **Net balance sheet position as at 31 December 2005** | **1 597 895** | **(1 243 971)** | **491 994** | **113 156** | **(103 226)** | **855 848** |

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 30 June 2006 and 31 December 2005.

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

Substantially all of the Group’s revenues are generated from counterparties operating in the Russian Federation.

Substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

## 25 Financial Risk Management

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

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

For the purpose of quantifying the market risks the Group uses a "value at risk" model. The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 99%, of the potential loss that might arise if the current positions were to be held unchanged for one business day. During 2005, the Group has started calculating and monitoring its overall position through the VAR model in addition to monitoring VAR for separate departments/financial instruments.

***Credit risk.*** The Group takes on exposure to credit risk that is the risk that counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

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

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

***Geographical risk.*** Refer to Note 24 for the geographical analysis of the Groups' assets and liabilities.

## 25 Financial Risk Management (Continued)

***Currency risk***. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of long and short positions in foreign currency derivative financial instruments (excluding options). As at 30 June 2006 the Group had the following positions in currencies:

| *In thousands of US dollars* | **USD** | **RR** | **EURO** | **Other currencies** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 292 924 | 693 915 | 198 200 | 44 251 | 1 229 290 |
| Mandatory cash balances with central banks | - | 160 750 | 5 662 | 17 398 | 183 810 |
| Trading securities and repurchase receivables | 631 457 | 262 109 | 63 602 | 13 282 | 970 450 |
| Due from other banks | 649 892 | 181 548 | 13 477 | 7 479 | 852 396 |
| Loans and advances to customers | 4 402 360 | 2 705 207 | 640 644 | 189 611 | 7 937 822 |
| Investments | 140 268 | - | - | - | 140 268 |
| Other assets | 637 250 | 125 386 | 29 320 | 24 167 | 816 123 |
| Premises, equipment and intangible assets | 21 996 | 161 911 | 2 369 | 16 687 | 202 963 |
| Deferred tax asset | - | 3 171 | - | - | 3 171 |
| **Total assets** | **6 776 147** | **4 293 997** | **953 274** | **312 875** | **12 336 293** |
| **Liabilities** | | | | | |
| Due to other banks | 580 230 | 405 004 | 581 837 | 66 432 | 1 633 503 |
| Customer accounts | 1 869 386 | 3 447 211 | 1 051 804 | 180 788 | 6 549 189 |
| Promissory notes issued | 58 709 | 325 583 | 6 634 | 179 | 391 105 |
| Other borrowed funds | 1 905 343 | 35 538 | 12 087 | 10 225 | 1 963 193 |
| Other liabilities | 645 856 | 63 737 | 25 050 | 6 666 | 741 309 |
| Deferred tax liability | - | 17 055 | - | - | 17 055 |
| **Total liabilities** | **5 059 524** | **4 294 128** | **1 677 412** | **264 290** | **11 295 354** |
| **Net balance sheet position** | **1 716 623** | **(131)** | **(724 138)** | **48 585** | **1 040 939** |
| **Off-balance sheet net notional position (Note 27)** | **(765 123)** | **28 313** | **750 985** | **(14 031)** | **144** |
| **Net balance sheet and off-balance sheet position** | **951 500** | **28 182** | **26 847** | **34 554** | |

## 25 Financial Risk Management (Continued)

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

| *In thousands of US dollars* | USD | RR | EURO | Other currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 359 172 | 350 627 | 121 618 | 47 253 | 878 670 |
| Mandatory cash balances with central banks | - | 147 432 | 29 835 | 18 582 | 195 849 |
| Trading securities and repurchase receivables | 742 949 | 346 679 | 33 687 | 16 351 | 1 139 666 |
| Due from other banks | 728 441 | 445 439 | 11 672 | 27 369 | 1 212 921 |
| Loans and advances to customers | 3 517 078 | 1 610 194 | 462 024 | 138 247 | 5 727 543 |
| Investments | 154 506 | - | - | - | 154 506 |
| Other assets | 228 991 | 116 178 | 29 375 | 1 910 | 376 454 |
| Premises, equipment and intangible assets | 16 599 | 112 037 | 1 367 | 15 071 | 145 074 |
| Deferred tax asset | - | 5 034 | - | - | 5 034 |
| **Total assets** | **5 747 736** | **3 133 620** | **689 578** | **264 783** | **9 835 717** |
| **Liabilities** | | | | | |
| Due to other banks | 405 069 | 172 826 | 180 360 | 23 612 | 781 867 |
| Customer accounts | 1 997 201 | 2 473 283 | 800 799 | 183 888 | 5 455 171 |
| Promissory notes issued | 76 110 | 297 080 | 4 483 | 182 | 377 855 |
| Other borrowed funds | 1 655 930 | 1 925 | 18 630 | 3 595 | 1 680 080 |
| Other liabilities | 538 017 | 44 731 | 19 263 | 5 393 | 607 404 |
| Deferred tax liability | - | 77 492 | - | - | 77 492 |
| **Total liabilities** | **4 672 327** | **3 067 337** | **1 023 535** | **216 670** | **8 979 869** |
| **Net balance sheet position** | **1 075 409** | **66 283** | **(333 957)** | **48 113** | **855 848** |
| **Off-balance sheet net notional position (Note 27)** | **(207 565)** | **74 114** | **184 428** | **(54 067)** | **(3 090)** |
| **Net balance sheet and off-balance sheet position** | **867 844** | **140 397** | **(149 529)** | **(5 954)** | |

The Group has extended loans and advances denominated in currencies other than operating currencies of the borrowers. Depending on the revenue stream of the borrower, the appreciation of the foreign currencies against the operating currencies may adversely affect the borrowers' repayment ability and therefore may increase the likelihood of future loan losses.

## 25 Financial Risk Management (Continued)

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

The table below shows assets and liabilities as at 30 June 2006 by their remaining contractual maturity (other than trading securities, see below), unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Group as at 30 June 2006 is set out below.

| *In thousands of US dollars* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 1 229 290 | - | - | - | - | 1 229 290 |
| Mandatory cash balances with central banks | 183 810 | - | - | - | - | 183 810 |
| Trading securities and repurchase receivables | 592 688 | 336 130 | 41 632 | - | - | 970 450 |
| Due from other banks | 656 898 | 177 146 | - | 18 352 | - | 852 396 |
| Loans and advances to customers | 760 978 | 1 652 627 | 1 855 433 | 3 668 784 | - | 7 937 822 |
| Investments | - | - | - | - | 140 268 | 140 268 |
| Other assets | 668 629 | 96 947 | 2 440 | 31 358 | 16 749 | 816 123 |
| Premises and equipment and intangible assets | - | - | - | - | 202 963 | 202 963 |
| Deferred tax asset | - | - | - | - | 3 171 | 3 171 |
| **Total assets** | **4 092 293** | **2 262 850** | **1 899 505** | **3 718 494** | **363 151** | **12 336 293** |
| **Liabilities** | | | | | | |
| Due to other banks | 807 658 | 460 097 | 94 266 | 271 482 | - | 1 633 503 |
| Customer accounts | 4 885 032 | 1 071 427 | 468 183 | 124 547 | - | 6 549 189 |
| Promissory notes issued | 67 440 | 193 263 | 86 756 | 43 646 | - | 391 105 |
| Other borrowed funds | 98 305 | 343 934 | 742 171 | 778 783 | - | 1 963 193 |
| Other liabilities | 600 606 | 50 736 | 69 468 | 20 499 | - | 741 309 |
| Deferred tax liability | - | - | - | - | 17 055 | 17 055 |
| **Total liabilities** | **6 459 041** | **2 119 457** | **1 460 844** | **1 238 957** | **17 055** | **11 295 354** |
| **Net liquidity gap** | **(2 366 748)** | **143 393** | **438 661** | **2 479 537** | **346 096** | **1 040 939** |
| **Cumulative liquidity gap** | **(2 366 748)** | **(2 223 355)** | **(1 784 694)** | **694 843** | **1 040 939** | |

## 25 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2005 is set out below.

| *In thousands of US dollars* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 878 670 | - | - | - | - | 878 670 |
| Mandatory cash balances with central banks | 195 849 | - | - | - | - | 195 849 |
| Trading securities and repurchase receivables | 913 772 | 225 894 | - | - | - | 1 139 666 |
| Due from other banks | 1 145 039 | 56 077 | 11 100 | 705 | - | 1 212 921 |
| Loans and advances to customers | 275 651 | 1 402 468 | 1 271 627 | 2 777 797 | - | 5 727 543 |
| Investments | - | - | - | - | 154 506 | 154 506 |
| Other assets | 185 110 | 142 130 | 5 160 | 25 903 | 18 151 | 376 454 |
| Premises, equipment and intangible assets | - | - | - | - | 145 074 | 145 074 |
| Deferred tax asset | - | - | - | - | 5 034 | 5 034 |
| **Total assets** | **3 594 091** | **1 826 569** | **1 287 887** | **2 804 405** | **322 765** | **9 835 717** |
| **Liabilities** | | | | | | |
| Due to other banks | 284 915 | 237 436 | 24 588 | 234 928 | - | 781 867 |
| Customer accounts | 3 885 679 | 1 149 433 | 358 771 | 61 288 | - | 5 455 171 |
| Promissory notes issued | 68 551 | 154 851 | 132 514 | 21 939 | - | 377 855 |
| Other borrowed funds | - | 646 306 | 401 303 | 632 471 | - | 1 680 080 |
| Other liabilities | 314 602 | 237 016 | 38 882 | 16 904 | - | 607 404 |
| Deferred tax liability | - | - | - | - | 77 492 | 77 492 |
| **Total liabilities** | **4 553 747** | **2 425 042** | **956 058** | **967 530** | **77 492** | **8 979 869** |
| **Net liquidity gap** | **(959 656)** | **(598 473)** | **331 829** | **1 836 875** | **245 273** | **855 848** |
| **Cumulative liquidity gap** | **(959 656)** | **(1 558 129)** | **(1 226 300)** | **610 575** | **855 848** | |

The entire portfolio of trading securities is classified within “demand and less than one month” column as the portfolio is of a trading nature and management believe this is a fair portrayal of its liquidity position. Mandatory cash balances with central banks are included within demand and less than one month as the majority of liabilities to which these balances relate to is also included in this category.

Management believes that in spite of a substantial portion of customer accounts being of a short term nature, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

## 25 Financial Risk Management (Continued)

***Cash flow and fair value interest rate risk***. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such fluctuations but may reduce or create losses in the event that unexpected movements arise. The Executive Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'Non-interest bearing' and are not allocated to the interest repricing periods because they do not bear a specific effective interest rate.

| *In thousands of US dollars* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 1 229 290 | - | - | - | - | 1 229 290 |
| Mandatory cash balances with central banks | 183 810 | - | - | - | - | 183 810 |
| Trading securities and repurchase receivables | 439 228 | 336 130 | 41 631 | - | 153 461 | 970 450 |
| Due from other banks | 656 898 | 177 146 | - | 18 352 | - | 852 396 |
| Loans and advances to customers | 872 100 | 1 795 298 | 1 913 688 | 3 356 736 | - | 7 937 822 |
| Investments | - | - | - | - | 140 268 | 140 268 |
| Other assets | 580 630 | 92 631 | 1 592 | 31 358 | 109 912 | 816 123 |
| Premises, equipment and intangible assets | - | - | - | - | 202 963 | 202 963 |
| Deferred tax asset | - | - | - | - | 3 171 | 3 171 |
| **Total assets** | **3 961 956** | **2 401 205** | **1 956 911** | **3 406 446** | **609 775** | **12 336 293** |
| **Liabilities** | | | | | | |
| Due to other banks | 807 659 | 557 598 | 92 142 | 176 104 | - | 1 633 503 |
| Customer accounts | 4 885 032 | 1 071 427 | 468 183 | 124 547 | - | 6 549 189 |
| Promissory notes issued | 67 440 | 193 263 | 86 756 | 43 646 | - | 391 105 |
| Other borrowed funds | 98 305 | 1 074 799 | 270 348 | 519 741 | - | 1 963 193 |
| Other liabilities | 458 928 | 45 490 | 64 838 | 16 319 | 155 734 | 741 309 |
| Deferred tax liability | - | - | - | - | 17 055 | 17 055 |
| **Total liabilities** | **6 317 364** | **2 942 577** | **982 267** | **880 357** | **172 789** | **11 295 354** |
| **Net sensitivity gap** | **(2 355 408)** | **(541 372)** | **974 644** | **2 526 089** | **436 986** | **1 040 939** |
| **Cumulative sensitivity gap** | **(2 355 408)** | **(2 896 780)** | **(1 922 136)** | **603 953** | **1 040 939** | |

## 25 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 31 December 2005:

| *In thousands of US dollars* | Demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | More than 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 878 670 | - | - | - | - | 878 670 |
| Mandatory cash balances with central banks | 195 849 | - | - | - | - | 195 849 |
| Trading securities and repurchase receivables | 439 671 | 225 894 | - | - | 474 101 | 1 139 666 |
| Due from other banks | 1 145 039 | 56 077 | 11 100 | 705 | - | 1 212 921 |
| Loans and advances to customers | 540 331 | 1 645 163 | 1 184 677 | 2 357 372 | - | 5 727 543 |
| Investments | - | - | - | - | 154 506 | 154 506 |
| Other assets | 156 959 | 151 210 | 5 160 | 25 903 | 37 222 | 376 454 |
| Premises, equipment and intangible assets | - | - | - | - | 145 074 | 145 074 |
| Deferred tax asset | - | - | - | - | 5 034 | 5 034 |
| **Total assets** | **3 356 519** | **2 078 344** | **1 200 937** | **2 383 980** | **815 937** | **9 835 717** |
| **Liabilities** | | | | | | |
| Due to other banks | 284 915 | 238 943 | 24 660 | 233 349 | - | 781 867 |
| Customer accounts | 3 885 679 | 1 149 433 | 358 771 | 61 288 | - | 5 455 171 |
| Promissory notes issued | 68 551 | 154 851 | 132 514 | 21 939 | - | 377 855 |
| Other borrowed funds | - | 920 743 | 126 866 | 632 471 | - | 1 680 080 |
| Other liabilities | 68 391 | 218 091 | 38 882 | 16 904 | 265 136 | 607 404 |
| Deferred tax liability | - | - | - | - | 77 492 | 77 492 |
| **Total liabilities** | **4 307 536** | **2 682 061** | **681 693** | **965 951** | **342 628** | **8 979 869** |
| **Net sensitivity gap** | **(951 017)** | **(603 717)** | **519 244** | **1 418 029** | **473 309** | **855 848** |
| **Cumulative sensitivity gap** | **(951 017)** | **(1 554 734)** | **(1 035 490)** | **382 539** | **855 848** | |

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

## 25 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective contractual rates.

| | 30 June 2006 | | | | 31 December 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | RR | Euro | Other curren-cies | USD | RR | Euro | Other curren-cies |
| **Assets** | | | | | | | | |
| Cash balances with the CBRF and other local central banks (other than mandatory cash balances) | - | 0.0% | 0.0% | 0.0% | - | 0.0% | 0.0% | 0.0% |
| Mandatory cash balances with central banks | - | 0.0% | 0.0% | 0.0% | - | 0.0% | 0.0% | 0.0% |
| Correspondent accounts and overnight placements with other banks | 2.2% | 3.3% | 2.5% | 1.9% | 0.5% | 4.1% | 1.1% | 0.3% |
| Debt trading securities | 8.2% | 8.9% | 3.5% | 10.3% | 7.7% | 8.2% | 3.4% | 11.5% |
| Due from other banks | 3.7% | 4.3% | 3.4% | 9.5% | 4.0% | 6.4% | 3.9% | 3.0% |
| Loans and advances to customers | 10.1% | 10.7% | 7.7% | 11.6% | 10.6% | 12.9% | 7.3% | 12.8% |
| **Liabilities** | | | | | | | | |
| Due to other banks | 5.6% | 5.1% | 1.5% | 4.3% | 3.1% | 5.3% | 3.3% | 0.0% |
| Customer accounts | | | | | | | | |
| - current settlement/demand | 0.1% | 0.5% | 0.1% | 0.0% | 0.1% | 0.1% | 0.0% | 0.0% |
| - term deposits | 5.7% | 5.9% | 3.3% | 9.1% | 5.2% | 5.4% | 4.5% | 10.9% |
| Promissory notes issued | 5.6% | 6.9% | 4.6% | 0.0% | 4.3% | 6.9% | 1.0% | 0.0% |
| Other borrowed funds | 7.6% | 6.4% | 5.2% | 12.5% | 7.9% | 9.0% | 4.3% | 12.0% |

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

## 26 Contingencies and Commitments

***Legal proceedings*.** Since 2002, Alfa Finance Holdings S.A., and certain other parties related to the Group, have been listed as the defendants in an action commenced by Norex Petroleum Limited ("Norex") in the United States District Court for the Southern District of New York in relation to the ownership of a company which is currently owned by TNK-BP Limited, a company related to the Group.

On 18 February 2004, the court dismissed the claim on the grounds of "forum non conveniens". In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither Alfa Bank nor Alfa Capital Markets (USA) Inc. have been served with any court papers or have been named in the caption to this action. Norex representatives filed a notice of appeal against the court decision and on 21 July 2005 the court of appeal vacated the previous court's decision and remanded the case for further proceedings. The defendants then filed motion to dismiss the complaint on grounds not previously considered by the court.

Management believes that the allegations are without merit and intends to vigorously defend this action.

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

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

## 26 Contingencies and Commitments (Continued)

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The interim consolidated income statement as presented in these interim consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group's profit before tax.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

The Group occasionally conducts intercompany transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as at 30 June 2006 no provision for additional potential tax liabilities had been recorded (31 December 2005: no provision). The Group estimates that it has potential obligations from exposure to other than remote tax risks of USD 5 458 thousand (31 December 2005: USD 4 715 thousand).

***Capital commitments*.** As at 30 June 2006 the Group had capital commitments of USD 60 809 thousand, of which USD 13 617 thousand relates to construction expenditure, modernisation and repair of premises, USD 36 279 thousand relates to purchase and installation of new computer systems, USD 10 913 thousand relates to other capital expenditure commitments. As at 31 December 2005 the Group had capital commitments of USD 74 300 thousand, of which USD 13 400 thousand relates to construction expenditure, modernisation and repair of premises, USD 48 400 thousand relates to purchase and installation of new computer systems, USD 12 500 thousand relates to other capital expenditure commitments. The Group's management has already allocated the necessary resources in respect of these commitments. The Group's management believes that future income and funding will be sufficient to cover this and any similar commitments.

***Operating lease commitments.*** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| Not later than 1 year | 18 970 | 12 346 |
| Later than 1 year and not later than 5 years | 43 924 | 32 319 |
| Later than 5 years | 10 967 | 6 704 |
| **Total operating lease commitments** | **73 861** | **51 369** |

## 26 Contingencies and Commitments (Continued)

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

Outstanding credit related commitments were as follows:

| *In thousands of US dollars* | Note | 30 June 2006 | 31 December 2005 |
|---|---|---|---|
| Guarantees issued | | 508 644 | 547 336 |
| Export letters of credit | | 243 379 | 217 005 |
| Import letters of credit | 15 | 206 387 | 296 498 |
| Less: Provision for losses on credit related commitments | 17 | (13 685) | (18 925) |
| **Total credit related commitments** | | **944 725** | **1 041 914** |

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

Movements in the provision for losses on credit related commitments were as follows:

| *In thousands of US dollars* | Six-Month Period Ended 30 June 2006 | Six-Month Period Ended 30 June 2005 |
|---|---|---|
| **Provision for losses on credit related commitments as at 1 January** | **18 925** | **21 123** |
| Release of provision for losses on credit related commitments during the period | (5 240) | (613) |
| **Provision for losses on credit related commitments as at 30 June** | **13 685** | **20 510** |

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

| *In thousands of US dollars* | 30 June 2006 Nominal value | 31 December 2005 Nominal value |
|---|---|---|
| Shares in companies held in custody | 251 984 | 308 121 |
| Corporate bonds held in custody | 219 214 | 206 267 |
| Promissory notes of companies held in custody | 61 305 | 57 670 |
| OVGVZ held on account with Vneshtorgbank | 27 073 | 27 346 |
| Eurobonds | 21 975 | 18 739 |
| Client OFZ securities held on an account with NDC | 15 437 | 17 700 |
| Other | 7 902 | 137 |

## 26 Contingencies and Commitments (Continued)

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including increased cost of borrowings and/or declaration of default.

***Assets pledged and restricted.*** As at 30 June 2006 the Group had the following assets pledged as collateral:

| *In thousands of US dollars* | **Notes** | **30 June 2006** | **31 December 2005** |
|---|---|---|---|
| Trading securities | 8, 14 | 519 908 | 241 764 |
| Precious metals | 12, 14 | 16 458 | - |
| Loans and advances to customers | 10, 14 | - | 16 754 |
| **Total** | | **536 366** | **258 518** |

As at 30 June 2006 the Group held securities pledged by its customers under margin requirements of transactions with derivatives (Note 27) with a fair value of USD 20 728 thousand (31 December 2005: USD 12 783 thousand) and securities pledged by other banks under reverse sale and repurchase agreements with a fair value of USD 45 422 thousand (31 December 2005: USD 39 687 thousand) (Note 9) which it is allowed to sell or re-pledge. In addition, as at 31 December 2005 securities pledged with the Group by its customers under margin requirements of transactions with derivatives (Note 27) with a fair value of USD 18 499 thousand have been sold to third parties under sale and repurchase agreements with other banks (Note 14).

Mandatory cash balances with central banks in the amount of USD 183 810 thousand (31 December 2005: USD 195 849 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

## 27 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

### 27 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, futures and spot contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective balance sheet dates.

| | 30 June 2006 | | | 31 December 2005 | | |
|---|---|---|---|---|---|---|
| *In thousands of US dollars* | Principal or agreed amount | Liabilities Negative fair value | Assets Positive fair value | Principal or agreed amount | Liabilities Negative fair value | Assets Positive fair value |
| **Deliverable forwards** | | | | | | |
| Securities | | | | | | |
| - sale of securities | 329 115 | (786) | 8 099 | 453 624 | (1 526) | 2 785 |
| - purchase of securities | 31 610 | (50) | 2 281 | 92 209 | (454) | 3 048 |
| **Non-deliverable forwards** | | | | | | |
| Securities | | | | | | |
| - sale of securities | 38 662 | (29 761) | - | 404 781 | (214 159) | - |
| - purchase of securities | 20 972 | - | 8 | 75 053 | - | 232 |
| Precious metals | | | | | | |
| -sale of precious metals | 10 487 | (109) | 1 458 | - | - | - |
| -purchase of precious metal | 1 247 | - | 61 | - | - | - |
| **Futures** | | | | | | |
| Securities | | | | | | |
| - sale of securities | 48 636 | (352) | 155 | 78 335 | (230) | - |
| - purchase of securities | 3 558 | (6) | 31 | - | - | - |
| Other base assets | | | | | | |
| -sale of other base assets | 61 340 | (2) | 197 | - | - | - |
| -purchase of other base assets | 9 743 | (1 455) | 5 | - | - | - |
| **Call options** | | | | | | |
| Foreign currency | | | | | | |
| - written call options | 58 252 | (32) | - | 18 901 | (143) | - |
| - purchased call options | 60 806 | - | 32 | 18 901 | - | 143 |
| Securities | | | | | | |
| - written call options | 218 176 | (6 431) | - | 77 508 | (10 308) | - |
| - purchased call options | 239 546 | - | 7 437 | 64 041 | - | 8 666 |
| **Put options** | | | | | | |
| Foreign currency | | | | | | |
| - written put options | 55 169 | (101) | - | 18 621 | (84) | - |
| - purchased put options | 55 225 | - | 122 | 18 621 | - | 84 |
| Securities | | | | | | |
| - written put options | 159 651 | (677) | - | 85 278 | (1 760) | - |
| - purchased put options | 181 447 | - | 1 113 | 96 813 | - | 1 852 |
| **Swaps** | | | | | | |
| Interest rate swaps – pay fixed interest, receive floating interest | 295 122 | (4 057) | 2 050 | 311 380 | (1 639) | 1 621 |
| Interest rate swaps – pay floating interest, receive fixed interest | 100 000 | (343) | 357 | - | - | - |
| Total return swaps on securities – pay total return on securities, receive floating interest | 280 056 | (25 722) | 1 013 | - | - | - |
| Total return swaps on securities – pay floating interest, receive total return on securities | 67 392 | - | 5 616 | 7 815 | - | 23 |
| **Total** | | **(69 884)** | **30 035** | | **(230 303)** | **18 454** |

## 27 Derivative Financial Instruments (Continued)

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date.

| | 30 June 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| *In thousands of US dollars* | **Contracts with positive fair value** | **Contracts with negative fair value** | **Contracts with positive fair value** | **Contracts with negative fair value** |
| **Deliverable forwards** | | | | |
| - USD receivable on settlement (+) | 547 | 293 797 | 19 387 | 192 066 |
| - USD payable on settlement (-) | (266 883) | (400 671) | (271 001) | (233 784) |
| - Euros receivable on settlement (+) | 234 972 | 269 265 | 184 838 | 206 411 |
| - Euros payable on settlement (-) | (47) | (4 782) | (87 754) | (76 936) |
| - RR receivable on settlement (+) | 39 793 | - | 127 609 | 40 542 |
| - RR payable on settlement (-) | - | (167 091) | 38 075 | (91 811) |
| - Other currencies receivable on settlement (+) | - | 1 163 | - | - |
| - Other currencies payable on settlement (-) | (498) | (3 253) | (4 994) | (43 958) |
| **Non-deliverable forwards** | | | | |
| - USD receivable on settlement (+) | - | 70 000 | 96 000 | 43 707 |
| - USD payable on settlement (-) | (237 500) | - | (89 000) | (79 000) |
| - Euros receivable on settlement (+) | - | - | - | 1 185 |
| - Euros payable on settlement (-) | - | - | (1 185) | - |
| - RR receivable on settlement (+) | 243 959 | - | 90 490 | 77 581 |
| - RR payable on settlement (-) | - | (72 397) | (95 203) | (45 039) |
| **Futures** | | | | |
| - USD receivable on settlement (+) | 29 | - | - | - |
| - RR payable on settlement (-) | (29) | - | - | - |
| **Spot** | | | | |
| - USD receivable on settlement (+) | 3 328 650 | 814 723 | 280 220 | 1 056 266 |
| - USD payable on settlement (-) | (1 015 747) | (3 352 068) | (794 639) | (427 787) |
| - Euros receivable on settlement (+) | 879 482 | 1 483 052 | 481 562 | 122 630 |
| - Euros payable on settlement (-) | (1 573 669) | (537 288) | (62 592) | (583 731) |
| - RR receivable on settlement (+) | 41 037 | 50 737 | 5 040 | 267 136 |
| - RR payable on settlement (-) | (96 776) | (10 920) | (152 438) | (187 868) |
| - Other currencies receivable on settlement (+) | 589 451 | 2 181 609 | 398 049 | 182 541 |
| - Other currencies payable on settlement (-) | (2 116 075) | (666 428) | (151 043) | (434 662) |
| **Net fair value of foreign exchange derivatives** | **50 696** | **(50 552)** | **11 421** | **(14 511)** |

## 27 Derivative Financial Instruments (Continued)

Forward and futures and swaps positions in securities as at 30 June 2006 are summarised below. As at 30 June 2006 and 31 December 2005 the majority of respective securities' long balance sheet positions of the Group exceeded the respective securities' short forward, future and swaps positions. Refer to Note 8.

| | 30 June 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Principal or agreed amount | | Principal or agreed amount | |
| *In thousands of US dollars* | Sale | Purchase | Sale | Purchase |
| Corporate shares of Russian entities | 331 140 | 68 642 | 404 781 | - |
| Corporate bonds | 118 090 | - | 78 335 | 75 053 |
| Corporate Eurobonds | 104 296 | - | 120 941 | 36 000 |
| Russian Federation Eurobonds | 51 030 | 9 581 | 118 563 | 36 601 |
| Eurobonds of other states | 64 110 | 37 959 | 179 320 | 18 819 |
| Municipal bonds | 26 336 | - | 34 800 | - |
| ADRs and GDRs | 1 467 | 7 350 | - | 8 604 |
| **Total** | **696 469** | **123 532** | **936 740** | **175 077** |

Refer to Note 11 for the information on the option related to the Group's investment in Amtel.

## 28 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The fair values of financial instruments have been determined by the Group by reference to published price quotations, where they existed, and using appropriate valuation methodologies. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

***Cash and cash equivalents.*** The estimated fair value of cash and cash equivalents is equal to their carrying amount as this represents the amount at which they can be exchanged for other assets or in settlement of liabilities of the Group.

***Mandatory cash balances with central banks.*** The estimated fair value of mandatory cash balances with central banks is equal to the carrying amount as it has been determined by the Group that although they are not expected to be liquidated in any foreseeable future, they are constantly being adjusted in correspondence with cash and cash equivalents and thus their fair value equals their carrying value similar to cash and cash equivalents.

***Trading securities.*** The estimated fair value of trading securities has been determined by reference to published price quotations.

***Due from and due to other banks.*** The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

## 28 Fair Value of Financial Instruments (Continued)

***Loans and advances to customers.*** The carrying value of loans and advances is net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. In practice contractual interest rates on loans and advances to customers are usually renegotiated to reflect current market conditions. Therefore fair value of loans and advances to customers approximates their carrying value.

***Investment in an associated company.*** The estimated fair value of the investment in an associated company has been determined by reference to published price quotations.

***Investment at fair value through profit and loss.*** The estimated fair value of the investment at fair value through profit and loss has been determined by reference to published price quotations.

***Customer accounts.*** The estimated fair value of balances with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing balances without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

***Promissory notes issued.*** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. As at 30 June 2006 the fair value of promissory notes issued was USD 390 392 thousand (31 December 2005: USD 375 323 thousand).

***Other borrowed funds.*** The estimated fair value of traded debt has been determined by reference to published price quotations. The estimated fair value of syndicated loans is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

***Financial instruments measured at fair value in the financial statements.*** All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 27.

## 29 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, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

ABHH (Note 1) and CTF Holdings Limited and their subsidiaries, including direct interest of the Controlling Shareholders in those subsidiaries, constitute the Alfa Group Consortium. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in the Alfa Group Consortium and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the table below.

The most significant related parties of the Group are the Alfa Group Consortium and TNK-BP Limited ("TNK-BP"), an oil and gas extraction and refining company, 25% owned by the Alfa Group Consortium.

Refer to Note 11 for the information on disposal of part of interest in CTC to a company within the Alfa Group Consortium.

## 29 Related Party Transactions (Continued)

The outstanding balances as at the end of the period and income and expense items as well as other transactions for the period with related parties are as follows:

| | 30 June 2006/Six-Month Period Ended 30 June 2006 | | | 31 December 2005/Six-Month Period Ended 30 June 2005 | | |
|---|---|---|---|---|---|---|
| *In thousands of US dollars* | TNK-BP | Alfa Group Consortium and its shareholders | Other | TNK-BP | Alfa Group Consortium and its shareholders | Other |
| **Trading securities as at the period end** | **1 779** | **297** | **5 269** | **1 049** | **-** | **7 632** |
| **Loans and advances to customers as at the period end (gross of provision for impairment)** | **-** | **286 540** | **450** | **20 867** | **82 051** | **43 096** |
| USD, effective contractual rate of 0% | - | 17 | - | - | - | - |
| USD, effective contractual rate of 1.0% - 4.0% | - | 89 | - | - | 157 | - |
| USD, effective contractual rate of 4.62% - 8% | - | 72 835 | - | - | - | - |
| USD, effective contractual rate of 7.1% - 10.3% | - | 73 912 | 450 | 20 867 | 55 129 | 2 031 |
| USD, effective contractual rate of 10.8% - 12.5% | - | 20 000 | - | - | - | 4 005 |
| USD, effective contractual rate of 12.6% - 18.0% | - | 24 016 | - | - | 24 868 | 37 060 |
| EUR, effective contractual rate of 6% | - | 27 603 | - | - | - | - |
| RUR, effective contractual rate of 0% | - | 1 550 | - | - | - | - |
| RUR, effective contractual rate of 8.5% - 10.5% | - | 62 000 | - | - | 152 | - |
| RUR, effective contractual rate of 10.7% - 19.0% | - | 4 518 | - | - | 1 745 | - |
| **Provision for loan impairment as at 1 January** | **(619)** | **(2 102)** | **(71)** | **(326)** | **(2 244)** | **-** |
| Provision for loan impairment during the period | 619 | (4 944) | 55 | 326 | (91) | (497) |
| **Provision for loan impairment as at 30 June** | **-** | **(7 046)** | **(16)** | **-** | **(2 335)** | **(497)** |
| **Interest income for the period (based on effective contractual interest rates)** | **429** | **5 664** | **1 883** | **167** | **5 971** | **2 804** |
| **Receivables as at the period end** | **248** | **1 497** | **34** | **-** | **7 296** | **2 462** |
| **Customer accounts** | | | | | | |
| **Current/settlement accounts as at the period end** | **246 554** | **187 617** | **12 809** | **133 497** | **29 381** | **-** |
| RUR, effective contractual rate of 0.0% - 2.0% | 154 201 | 68 543 | 12 550 | 129 628 | 17 606 | - |
| USD, effective contractual rate of 0.0% - 2.0% | 90 609 | 117 228 | 214 | 1 455 | 10 063 | - |
| EUR, effective contractual rate of 0.0% - 2.0% | 5 | 1 568 | - | 7 | 1 238 | - |
| UAH, effective contractual rate of 0.0% - 2.0% | 1 739 | 227 | 45 | 2 407 | 474 | - |
| GBP, effective contractual rate of 0.0% - 2.0% | - | 51 | - | - | - | - |

## 29 Related Party Transactions (Continued)

| *In thousands of US dollars* | 30 June 2006/Six-Month Period Ended 30 June 2006 | | | 31 December 2005/Six-Month Period Ended 30 June 2005 | | |
|---|---|---|---|---|---|---|
| | TNK-BP | Alfa Group Consortium and its shareholders | Other | TNK-BP | Alfa Group Consortium and its shareholders | Other |
| **Term deposits as at the period end** | **67 133** | **688 455** | **61 911** | **27 430** | **458 207** | **-** |
| RUR, effective contractual rate of 0% | 40 991 | - | - | - | - | - |
| RUR, effective contractual rate of 2.0% - 12.5% | 7 124 | 55 324 | 1 686 | 8 801 | 4 608 | - |
| USD, effective contractual rate of 1.8% - 7.3% | 19 018 | 447 835 | 36 176 | 18 629 | 425 109 | - |
| UAH, effective contractual rate of 9.0% - 12.0% | - | 25 556 | 24 049 | - | 28 490 | - |
| EUR, effective contractual rate of 2.7% - 7.0% | - | 159 740 | - | - | - | - |
| **Interest expense for the period (based on effective contractual interest rates)** | **1 563** | **14 473** | **1 077** | **1 126** | **15 187** | **412** |
| **Promissory notes issued as at the period end** | **18** | **4 804** | **-** | **3 543** | **1 505** | **-** |
| RUR, effective contractual interest rate of 0.0% | - | 4 025 | - | 3 543 | - | - |
| RUR, effective contractual interest rate of 5.0% - 11.1% | - | 779 | - | - | 1 505 | - |
| RUR, effective contractual interest rate of 12.1% | 18 | - | - | - | - | - |
| **Payables as at the period end** | **1** | **2 189** | **124** | **1** | **5 590** | **7 617** |
| **Guarantees issued by the Group** | **63 454** | **443** | **7 397** | **107 956** | **420** | **-** |
| **Provision for losses on guarantees issued as at 1 January** | **(2 502)** | **(9)** | **-** | **(2 756)** | **-** | **-** |
| Provision for losses on guarantees issued during the period | 753 | (3) | (204) | (309) | (16) | **-** |
| **Provision for losses on guarantees issued as at 30 June** | **(1 749)** | **(12)** | **(204)** | **(3 065)** | **(16)** | **-** |
| **Import letters of credit as at the year end** | **-** | **-** | **1 707** | **-** | **-** | **7 074** |
| **Fee and commission income for the period** | **1 381** | **1 159** | **415** | **1 389** | **1 180** | **240** |
| **Income from securities transactions with related parties for the period** | **-** | **2 803** | **1 487** | **-** | **-** | **-** |
| **Other income for the period** | **-** | **238** | **-** | **5** | **131** | **-** |
| **Other expenses for the period** | **-** | **4 082** | **1 065** | **-** | **224** | **-** |

## 29 Related Party Transactions (Continued)

Included in the "other" category above are balances and income and expenses from transactions with the Group's associated company and some members of its management.

Key management compensation is presented below:

| *In thousands of US dollars* | **30 June 2006** | **31 December 2005** |
|---|---|---|
| **Accrued key management compensation** | **16 292** | **31 532** |
| Salaries | - | - |
| **Bonuses** | **16 292** | **31 532** |
| - short-term bonuses | 7 213 | 24 683 |
| - long-term bonuses | 9 079 | 6 849 |

| *In thousands of US dollars* | **Six-Month Period Ended 30 June 2006** | **Six-Month Period Ended 30 June 2005** |
|---|---|---|
| **Key management compensation expense** | **13 217** | **13 721** |
| Salaries | 3 519 | 3 427 |
| **Bonuses** | **9 698** | **10 294** |
| - short-term bonuses | 7 381 | 5 758 |
| - long-term bonuses | 2 317 | 4 536 |

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable at least after one year from the moment of their accrual.

## 30 Principal Subsidiaries

| **Russian Federation and CIS** | **Rest of the World** |
|---|---|
| Alfa-Bank | Alfa Capital Holding (Cyprus) Limited (Cyprus) |
| Alfa-Bank Kazakhstan | Alfa Capital Markets (USA) |
| Alfa-Bank Ukraine | Alfa Debt Market Limited (Cyprus) |
| Alfa Leasing | Alfa FI Limited (Cyprus) |
| | Alfa MTN Invest Limited (Cyprus) |
| | Alfa MTN Issuance Limited (Cyprus) |
| | Alfa MTN Markets Limited (Cyprus) |
| | Alfa Bond Issuance PLC (Ireland) |
| | Alfa Securities Limited (UK) |
| | Amsterdam Trade Bank (Netherlands) |
| | Alfa MTN Projects Limited |
| | Alfa ECP Issuance Limited |

As at 30 June 2006 and 31 December 2005 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa-Bank Ukraine, which is 96.9% owned and controlled as at 30 June 2006 (31 December 2005: 96.9% owned and controlled). In August 2006 the Group disposed of a 51.0% interest in Alfa-Bank Ukraine. Refer to Note 31.

## 31 Subsequent Events

On 3 October 2006 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a coupon rate of 7.875% per annum payable semi-annually and mature on 10 October 2009.

In August 2006 the Group disposed of a 51.0% interest in its subsidiary Alfa-Bank Ukraine to ABH Ukraine Limited, a subsidiary of ABHH, for USD 16 000 thousand. Refer to Note 30.

Refer to Note 11 for information on the settlement of an option related to the Group's investment in Amtel.