This is our 2005 Annual Report.
Alfa-Bank works in every sector of the banking business and provides high quality, reliable banking services to a wide range of individual and corporate clients. At the same time, we seek to provide social benefit through our business operations and through our charitable activities. Alfa-Bank's partnership with the WWF is an example of this combination.
Alfa-Bank is among the first institutions in Russia to have introduced a green credit card in collaboration with the WWF.
The bank's financing and green banking products supported by our customers, partners and employees are helping to improve environmental conditions.

Alfa-Bank and the WWF: A partnership for a sustainable future.

For more information about Alfa-Bank and the WWF in Russia see web sites at www.alfabank.com and www.wwf.ru

Awards and Recognition

2004 and 2005 **Operational Risk**

Operational Risk Achievement Award for "Operational Risk Framework at an Institution Based in an Emerging Market"

2005 **CNews Analytics (CNA)**

Best IT Bank in Russia

2004 and 2005 **Global Finance**

Best Foreign Exchange Bank in Russia

2004 and 2005 **JP Morgan Chase Bank**

Elite Quality Recognition Award

2005 **Superbrands International**

National "Super brand of the Year"

2004 **Global Finance**

Best Retail Bank in Russia,
Best Trade Finance Bank in Russia,
Best M&A advisor in Russia

2004 **Euromoney**

Best M&A House in Russia, Best M&A Deal of the Year

2004 **RussiaDeal**

Number one M&A Adviser

2004 **Emerging Markets Newspaper**

Best Trade Finance Bank in Russia and the CIS
Best Correspondent Bank in Russia and the CIS

6	**Countries**
121	**Branches and offices**
7 000	**Employees**
40 000	**Corporate Clients**
1 500 000	**Retail Clients**
180 556 000	**Net Profit (in US dollars)**
855 848 000	**Equity Capital (in US dollars)**
5 727 543 000	**Loan Portfolio, net of provisions (in US dollars)**
9 835 717 000	**Total Assets (in US dollars)**

1 Dear Clients and Partners,

Over the past 15 years, Alfa-Bank has grown into the largest privately-owned bank in Russia, becoming one of the most important financial institutions of our fast-developing country. Today, Alfa-Bank services 1.5 million individuals and 40,000 corporate clients. We employ nearly 7,000 professionals in Russia, Ukraine, Kazakhstan, London, New York and Amsterdam. Our focus on putting our client's interests first, combined with a highly professional international banking team has led to yet another excellent year for Alfa-Bank and its shareholders.

Our success has been made possible by choosing the right strategy. Our business model has created the foundation for the Bank's fast growth in the future. Russia is developing swiftly, and our clients are becoming full-fledged participants of global economic processes. We are proud that they turn to Alfa-Bank for the needed financial services which enable them to enter the global economic arena. In the fast-moving world where competition from large government-owned, foreign and private banks is fierce, the ability to set right priorities and to focus efforts on most promising projects becomes a factor of crucial importance.

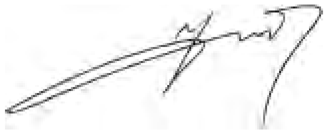
By introducing the most advanced technology and new services via the internet and mobile telephony, such as Alfa Mobile, the Bank is attracting a new generation of young and promising clients. In 2005, Alfa-Bank began offering clients alternative and convenient products for private investments. The success of consumer financing and retail banking in Moscow and several other large cities has proven the great potential of this market, prompting Alfa-Bank to earmark additional $127.5 million for investing in retail banking beyond Moscow. A significant amount of funds will be invested in developing mortgage products, auto financing and lending to small businesses.

We are convinced that the country's well-being and economic growth are closely linked to the economic activity of its people, especially of the younger generation. By investing in these segments, we aim to strengthen our market position, earn higher profit, and support Russia's emerging middle-class and young entrepreneurs. Looking back at the past 15 years, we take pride in noting that Alfa-Bank has become

a recognized leader in charity and philanthropy in Russia. Corporate and individual charitable activity was deeply rooted in pre-revolutionary Russia. Today, it is most efficiently driven by Russia's largest companies and entrepreneurs. We see our business investment transforming the Russian economy. Similarly, we hope that our social investment will gradually transform the society. We welcome partnership in social investment and, along with the development of our own Alfa Chance and Alfa Fellowship programs, we cooperate with the Life Line Charitable Programme aimed at helping seriously ill children as well as with the Russian branch of the World Wildlife Fund and with the Bolshoi Theater's trustee board. In all these projects, we rely on participation and support of Alfa-Bank employees, clients and partners. Together, employing our resources -

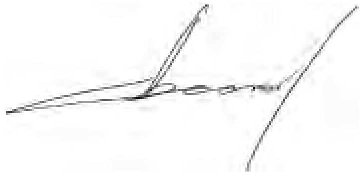
finances, time, social capital and experience - we will make our country a better place to live.

On behalf of Alfa-Bank's Board of Directors and Executive Board, we wish to extend whole-hearted thanks to all our clients and partners for the cooperation, trust and support they have demonstrated over all these 15 years. We would also like to express a special gratitude to the entire team of Alfa-Bank, whose professionalism and corporate culture ensured the growth and the financial success of the Bank in the past year. You will see the results of their efforts in the 2005 Annual Report of Alfa-Bank.



Chairman of the Board of Directors

Mikhail Fridman



Chairman of the Executive Board

Rushan Khvesyuk

2 Board of Directors and Management

Mikhail Fridman
Chairman
of the Board of Directors

Peter Aven
President

Vladimir Tatarchuk
Deputy Chairman
of the Executive Board,
Head of Corporate Bank


Viktor Bashkirov
Member of the Executive Board,
Head of Retail Business
Andrei Sokolov
Deputy Chairman
of the Executive Board
Rushan Khvesyuk
Chairman of the Executive Board
Petr Smida
Chief Executive Officer

Oleg Sysuev
First Deputy Chairman
of the Board of Directors

Andrew Baxter
Member of the Executive Board,
Chief Financial Officer

Miroslav Boublik
Member
of the Executive Board,
Chief Operating Officer


Alexander Lukanov
Member
of the Board
of Directors
Ildar Karimov
Member of the Board
of Directors
Tomasz Kazmierowski
Member of the Executive
Board, Head of Consumer
Finance Business

Andrei Kosogov
Member
of the Board of Directors

Alexander Gafin
Member of the Board of Directors,
Director for Public Relations

3 CEO's Statement on the Key Achievements of 2005 and Strategy

Petr Smida,
Shief Executive Officer

ALFA-BANK HAD A VERY SUCCESSFUL YEAR IN 2005. WE HAVE STRENGTHENED OUR POSITION IN THE RUSSIAN FINANCIAL MARKET THROUGH EXECUTION OF KEY PROJECTS AND MAINTAINING OUR FOCUS ON GROWTH IN ALL BUSINESS LINES.

Additionally we benefited from positive trends in the country's economy. In 2005, our profit rose to a record $180.2 million, the client base grew considerably, we entered the market of consumer lending and again increased shareholder value. Our evolving business model - focused on profitable and dynamic business segments, investing in high-tech operating platforms and in highly-qualified personnel in Moscow and the regions - is bearing fruit. Having provided a solid foundation for our development in 2005, our model should enable us to further strengthen our market position in the coming years. Alfa-Bank has a growing network of 121 branches and offices across Russia and the CIS and is one of the country's top five banks by assets. Our subsidiaries in Kiev, London, New York and Amsterdam provide services to clients that include some 40,000 corporations (including Russia's largest companies) and 1.5 million individuals.

Financial Results for 2005

Alfa Banking Group (Alfa-Bank), which embodies OJSC "Alfa-Bank" and its subsidiaries, reported a significant increase of net profit after tax of 17.8% to USD $180.6 million up from USD $153.2 million in 2004 based on the audited financial results for the full year 2005. This growth was mainly driven by a strong increase of net interest income, growing commission income and effective cost control. Alfa-Bank's after tax return on equity stood at a solid 23.1%.

Alfa-Bank's total assets grew by 40% to USD $9.8 billion from USD $7.0 billion in 2004. Loan portfolio net of provisions significantly increased by 39.6% to USD $5.7 billion in 2005 from USD $4.1 billion in 2004. Funds raised from individuals and corporate clients increased by 21.4% to USD $5.5 billion compared to USD $4.5 billion in 2004.

Following the strategy of increasing diversification of funding sources, Alfa-Bank has been very active in the syndicated loan, ECP and MTN markets. Syndicated loans, ECP and MTN notes made up approximately USD $1.5 billion of liabilities in 2005 compared to USD $0.7 billion at the end of 2004. In addition to this, in December 2005, Alfa-Bank issued USD $225 million of 10-year subordinated non-collateralized Eurobonds, a debt considered as Tier 2 capital according to Russian and international banking regulations.

Total equity of the Alfa-Bank increased to USD $855.5 million in 2005 up from USD $710.4 million in 2004.

International Credit Ratings

S&P: upgraded by two notches to BB-/Stable in November 2005. Moody's: Ba2/Positive, outlook changed in August 2005.

Corporate Client Services

There are two banking businesses serving corporate clients - Corporate Banking and Investment Banking. Relying on our support to their growing business in Russia, our corporate clients benefit from Alfa-Bank's expertise both in domestic and international markets. New emphasis is put on assisting our clients in accessing international capital markets, including the arrangement of initial public offerings. Corporate client services remain the principal source of revenue for
the Bank. Further synergies between Corporate and Investment banking are the base for a steady increase of the share of commissions as a percentage of total revenues. Further diversification of the loan portfolio structure will provide support for the Bank's sustainable high returns in the future.

Retail Banking

Growing real wages and rising consumer demand have continued to support retail consumption and the expansion of consumer retail chains in Moscow and other Russian regions. In addition, private deposits at Alfa-Bank grew last year and newly individual clients were attracted by alternative options for private investment offered by the Bank. We are increasingly focusing on modern banking services based on advanced logies and the internet which are bringing both customer value and efficiency to our operations. In 2005, we began to offer our retail clients the opportunity to manage their accounts via Alfa Mobile, a unique service offering developed by Alfa-Bank. Alfa Mobile, which allows clients to access banking services by mobile phones, marked the beginning of cooperation between Alfa-Bank and Samsung Electronics in mobile banking.

Consumer Lending

Last year's successful start of our consumer loan program and swift expansion in 40 cities have proven the viability of our strategy for this business segment. The chosen bank-wide shared universal platform will enable us to considerably expand this business both by volume and by distribution reach as well as to cut costs of operation. Our platform will allow a full customer-centric model in the future. Capitalizing on newly-acquired management expertise, we launched mortgage and car loan programs in Moscow and Russia's other large cities. Finally, we launched a new personal loan product and improved our credit card product functionality.

Managing Risks

While developing quickly and investing in new, potentially profitable banking products and distribution, we remain a conservative financial institution. Our efficient risk management system relies on continuous monitoring and professional analysis of market, credit and operational risks. This approach, coupled with stringent cost control, provides for significant improvements in our financial results. In 2005, for the second consecutive year, Alfa-Bank won the Operational Risk Magazine Achievement Award for Operational Risk Framework at an Institution Based in an Emerging Market.

Technology

Year after year, Alfa-Bank invests in advanced technology to expand sales, providing more reliable, better-quality and faster services to corporate and individual clients. Since 2004, our clients have become able to manage their accounts via our remote Bank Client system, the internet and mobile telephony. By the end of 2005, Alfa-Bank had 572 ATMs. Unlike at most Russian banks, our retail clients can receive real-time access to the full range of products and services at any branch of Alfa-Bank, irrespective of where the account was first opened. Our growing number of ATMs can accept cash on-line, again bringing both customer convenience and increased productivity.

Our Brand. It's Time to Live!

Throughout its 15 year history, Alfa-Bank has been building for its present and future performance. Currently, we are part of the backbone of the banking industry, being one of Russia's largest banks and featuring one of the most recognizable brands. We offer our clients - other banks, corporations and individuals - a wide range of financial services, including loans, deposits and investments in Russia, the CIS and international capital markets. In 2005, we further strengthened the brand of Alfa-Bank as the choice of active and successful people. The share of young professionals among our clients has risen significantly. We clearly understand that, when choosing a bank, a client is heavily influenced by brand. In December 2005, we launched a re-branding process to modernize and unify our brand across Russia.

Personnel and Management

We strive to be the most reliable partner for our clients, providing them with the most efficient financial solutions through a full range of world-class, modern, high-quality and time-efficient products. We need the best people to work for us to create and deliver such commitment. All members of our team, from new hires to Management Board members, should feel personally responsible for winning the trust of the client and for creating shareholder value. This commitment is one of the pillars of our corporate culture, making the core of our success. Alfa-Bank's top executives currently include professionals from Russia and more than 10 other countries. We believe that by combining best practices of international financial companies and the local expertise of the Russian market, we will establish and maintain a strong base for building our competitive advantages.

Ten Priorities for 2006

Today's Russia is a country of tremendous opportunity. To develop rapidly and to achieve robust results, at the same time maintaining stability, we must continuously analyze the profitability and risks of our products, distribution channels and client pools. This will enable us to set clear priorities, to wisely use our resources and to focus our efforts on the most profitable projects.

Our priorities for 2006-07 are the following:

- Maintain the position of a leading modern bank in Russia;
- Continuously improve our business models and develop distribution channels;
- Give priority to three main business segments: investment operations, corporate operations and retail business, including mortgages, consumer and car loans;
- Achieve synergies in all business segments based on shared technology and operational platforms;

- **Invest in development of the retail banking business and open 40 new branches in Russia;**
- **Take all of the retail businesses and consumer lending to the regions;**
- **Develop lending to small and medium business as a new source of revenue and risk diversification;**
- **Finance growth both internally and externally, from non-distributed profits, shareholder equity and capital markets;**
- **Develop and incentivise employees, support innovation and creativity as the basis for future success;**
- **Enhance Alfa-Bank's brand and image of a reliable transparent financial partner and employer of choice in Russia.**
- **It's time to live, and successful people choose Alfa-Bank!**
- **Once again, we extend thanks to our shareholders, employees, customers and partners for making 2005 a record year in Alfa-Bank's history.**

4 Overview of the Russian and Global Economy and Financial Markets

Peter Aven, President

"THE PERIOD WHEN RUSSIA'S GROWTH WAS CONSTRAINED BY A LACK OF ECONOMIC STABILITY IS OVER. NOW THE COUNTRY HAS TO LEARN HOW TO CONVERT STABILITY INTO INVESTMENT GROWTH."

Macroeconomic management continues to show positive results

In 2005 Russia continued to benefit from a favorable international environment and focused its efforts on continuing reinforcement of the macroeconomic situation. In all four areas that usually trigger an emerging market crisis - weakness in the balance of payments, currency overvaluation, fiscal imbalance, or an excessively high debt burden - Russia has made significant progress and substantially reduced the risk of instability.

In terms of the balance of payments, Russia is running a trade balance of 16% of GDP and a current account surplus of 11% of GDP, while its foreign currency reserves are now the world's fifth largest, having jumped from USD $12 billion in 1999 to USD $182 billion at the beginning of 2006.

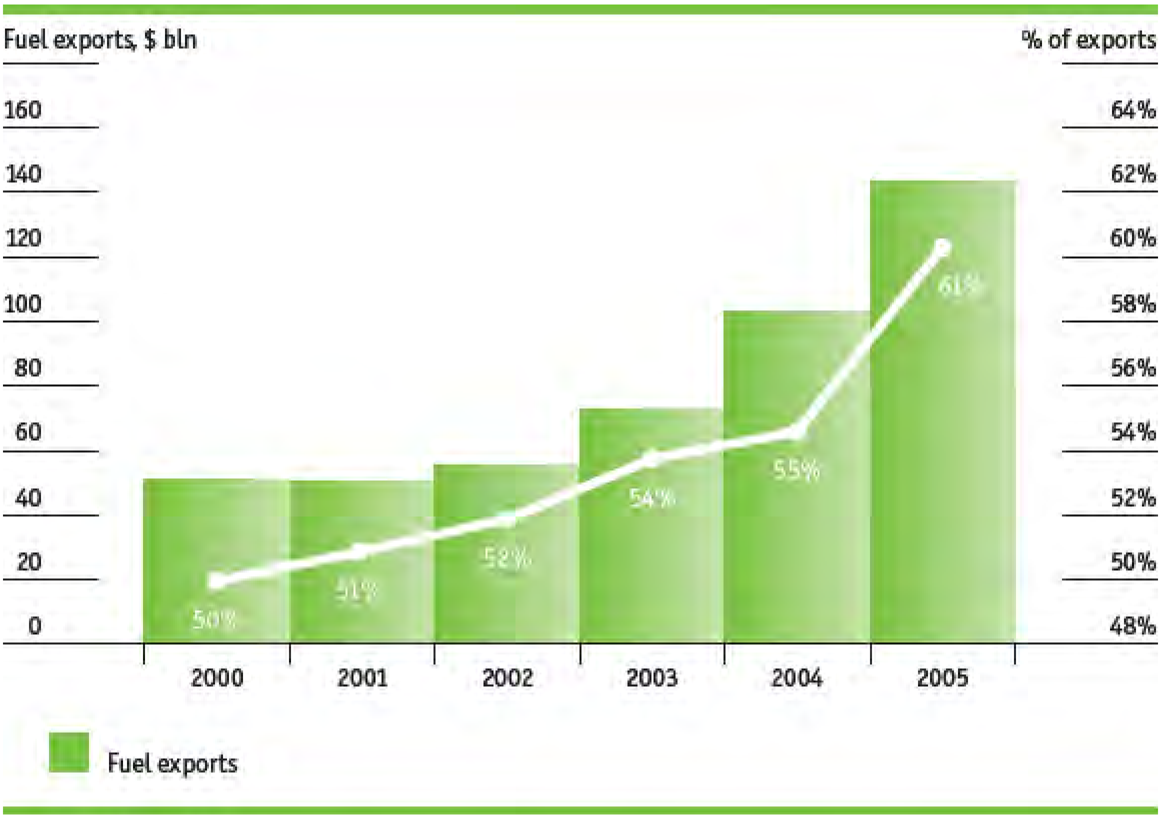


Figure 1. Russia's fuel exports, $ billion and % of total exports

Source: CBR, Alfa-Bank estimates

The CBR's reserves are still the second largest after Japan in terms of import coverage: its current reserves can cover 18 months of imports, versus 20 months covered by reserves at the Central Bank of Japan. These figures are largely backed by high commodity and metals prices: the share of fuel revenues in total export revenues reached an unprecedented high of 61% in 2005.

Regarding the ruble exchange rate, the key CBR task remains to prevent excessive real appreciation of the ruble. The real ruble exchange rate against the dollar has appreciated to pre-1998 crisis levels (i.e., by around 80% in the past seven years), while effective real ruble appreciation was 50%. Given the near 50% increase in productivity between 1999-2005, we believe that domestic producers have some space to maneuver, although this space is shrinking. While in 2003 a 55% increase in local demand was satisfied by an increase in local production, in 2005 only 30% of final demand was covered by local production, with 70% of demand met by imports. To prevent the nominal ruble rate from appreciating too sharply, the CBR has established a target for the ruble based on a dollar/euro basket, with dollars representing 60% and euros 40%.

The main achievement of Russia's economic policy lies in the area of fiscal performance. To prevent the impact of huge oil export revenues on the real exchange rate and economic growth, the Cabinet has been building a Stabilization Fund since 2003 that is now equivalent to 7% of GDP, significantly reducing the risk of fiscal imbalances in the coming years. Russia's federal budget surplus reached an unprecedented level of 7.2% in 2005, confirming the country's investment grade ratings.

The Stabilization Fund was and continues to be partly used for early debt repayment, and foreign debt has consequently dropped from 90% of GDP in 1998 to just 10.6% in 2005, one of the lowest levels among all emerging markets. Moreover, private foreign debt amounts to only about 19% of GDP and the total corporate burden remains at 35% of GDP, or half the level of emerging market countries.

Financing investment growth

While macroeconomic stability is an important precondition for economic growth, Russia's average growth rates of 6.7% over the past seven years are hardly extraordinary in comparison to other countries. During 2000-2005 Russia's growth achievements were rather modest compared to other CIS countries, of which some had already doubled their GDP. Importantly, rapid growth rates were delivered not only by oil-exporting countries, but also by China and Ukraine - both oil-consuming economies.

	Real GDP growth, %						
	2000	2001	2002	2003	2004	2005	Cumulative
Russia	10.0	5.1	4.7	7.3	7.2	6.4	48.1
Kazakhstan	9.8	13.5	9.8	9.3	9.6	9.2	79.0
Ukraine	5.9	9.2	5.2	9.6	12.1	2.4	53.1
Azerbaijan	11.1	9.9	10.6	11.2	10.2	26.4	109.2
Uzbekistan	3.8	4.2	4.0	4.2	7.7	7.2	35.3
Norway	2.8	1.9	1.1	0.4	2.9	3.7	13.5
China	8.4	8.3	9.1	10.0	10.1	9.9	70.5
Czech Republic	3.3	3.1	2.0	2.9	4.4	4.6	22.0
Poland	4.0	1.0	1.4	3.7	5.3	3.3	20.1

Figure 2. Economic Growth in Russia and Other Countries, 2000-2005

Source: Interstate Statistical Committee of the CIS

Accumulation in the Stabilization Fund is the most important way to deal with the slow growth rate. The majority of the countries indicated in Figure 2 posted high rates of GDP growth on the back of investments. In particular, China's annual investments increased by around 25% per year. As a result, investments in China currently amount to 50% of its GDP, while in Russia they remain virtually unchanged in recent years at 19%.
Russia's investment growth amounted to 10.5% in 2005 and came largely from state-owned companies. Investments are still half-financed by enterprises' own assets and resources, though foreign borrowing is beginning to play an increasing role. Russian banks, however, contribute less than 10% of investments, as their liabilities (and thus assets) have very short maturities. Only around 14% of banking loans are provided with maturity of more than three years.

Retail expansion continues

While investment-driven growth is still expected to materialize, Russia’s economic trend is currently evidenced by the strength of the retail sectors. The retail-oriented segments delivered the fastest growth rate in 2005. The construction segment maintained a solid growth rate of 9.7% y-o-y (versus 10.1% in 2004) and trade sectors expanded by 12.3% in 2005 (versus 11.2% a year ago). Retail-driven growth is even more evident in 2005 given the serious slowdown in commodity extraction from 7.2% in 2004 to just 1.8% based on 2005 figures.

One explanation behind growth in services is the continuing increase of real disposable income and average salaries. Real disposable income was rising at a rate of 12.8% last year, and this growth rate has not declined in comparison to previous years. An additional factor is the strong contribution of banking loans to growth in household demand. While banking loans financed some 22% of total consumption growth in 2004, this share increased to 40% in 2005.

The importance of retail growth is illustrated by banking sector figures. The retail market reached USD $42 billion by the end of 2005, or some 5.4% of GDP. Annual growth in retail loans for 2005 is expected to reach some USD $20 billion, up more than 90% y-o-y, while the annual increase in retail deposits will total some USD $23 billion, a rise of 30% y-o-y. Since the second half of 2005, the annual increase of the retail lending market was similar to or exceeded the growth of retail deposits. This means that Russian households are likely to become net borrowers from the Russian banking sector in a couple of years.

Paradoxically, persistently high inflation is supporting the Russian public's preference for spending. According to polls provided by the Deposit Insurance Agency, some 48% of respondents believe that now is not the time to increase savings, but rather to spend. Over the past three years, about 33% of the population received banking loans, of which most were consumer credit; mortgage loans were received by only 1% of the population.

An interesting point is that the higher demand for loans is only slightly increasing the public's confidence in banks. Despite the launch of the deposit insurance system, polls suggest that this development has had no effect on the share of the total population that holds accounts in the banking system - depositors still account for 32% of the population, just like one year ago.

Several obstacles will continue to depress banking deposits. Primarily, Russian households either invest outside of organized financial markets or keep their savings "under the mattress". Of the nearly $19 billion in annual savings regularly flowing outside of the banking system and remaining in cash, some $10 billion in household savings could potentially be attracted to banking deposits. Another obstacle is the strong preference for short-term deposits. One fifth of depositors favor deposits lasting between nine months and one year, and only 5% prefer to save for more than three years. This implies that banks will have a hard time financing the long-term loans required by Russian companies for investments.

Social situation

Russian living standards have substantially improved in comparison to the beginning of the 1990s, when real disposable income fell by 50%. A middle class is gradually emerging: some 10 million people travel abroad annually on holiday, and this figure appears to be rising by 1 million people per year. There are 170 cars per 1,000 people in Russia, versus 100 in Mexico, 20 in Brazil, and just 7 in China; moreover, the number of personal cars in Russia has more than doubled since 1990. The total number of students doubled during the 14 years of reform: according to 2002 figures, 160 of 1,000 individuals in Russia possessed higher education, versus just 113 of 1,000 in 1989. Private residential construction in the past 10 years has exceeded the volume of the past three decades.

At the same time, Russia continues to suffer from vastly unbalanced income distribution. While in 1970 the wealthiest 20% of the populace accounted for 37% of total income, income distribution worsened after the beginning of the post-Soviet transition; in 2004, the wealthiest 20% accounted for 44% of total income. The poorest 20% have seen their living standards continually deteriorate over the past 30 years, with their share of total income falling from 7.8% in 1970 to 6.1% in 2004. This imbalance reduces the efficiency of social initiatives: for example, while the purchase of a new apartment by one family in Europe helps to improve the living standards of 5-7 families, a similar action in Russia improves living standards for at most 2 families.

	1970	1980	1990	2000	2004
5 – wealthiest 20%	36.8	33.4	32.7	47.2	44.4
4	22.6	23.1	23.8	21.2	22.9
3	18.0	18.6	18.8	14.9	15.7
2	14.8	14.8	14.9	10.6	10.9
1 – poorest 20%	7.8	10.1	9.8	6.1	6.1

Figure 3. Revenues Distribution in Russia, 1970-2004

Source: Rosstat

Outlook for 2006

The Russian banking sector will continue to gain importance for economic development in 2006. With the ratio of banking assets to GDP representing just 45% in 2005, the banking sector has huge potential for growth. In the Central European countries, the banking sector accounts for 50-70% of GDP; in China, it was actually 100% of the GDP level.

First of all, demand for banking loans on the part of Russian companies is expected to increase. While in previous years Russian companies were able to increase output using existing capacities, this option is no longer available. The total capacity utilization rate in Russia has reached nearly 80%, while in 1999 it was at 55%. This means that an additional increase in output will require investments. However, as growth rates in sectors like manufacturing and commodity extraction decelerate, company resources available for investment will not be sufficient to fund required projects.

On the retail side, with only 33% of the population utilizing retail loans, Russia still presents huge upside potential. The mortgage market constitutes just USD $2 billion (0.3% of GDP), and auto loans account for no more than USD $4.5 billion (0.6% of GDP). Russian banks have issued just 2 mln credit cards. In the next five years, the size of the retail market is expected to triple, and growth should mainly come from development of the mortgage market. Also, as the general inflation level is expected to remain high, the public will likely maintain its preference for spending in the coming years.

Strong growth in demand is one way of raising banking activity and profitability, but there are also a number of unresolved weaknesses in the banking environment. To expand loan activity, Russian banks need to increase capital. Capitalizing profit is not enough to finance lending penetration, and hence additional capital injections are needed. In 2005 the largest Russian banks improved their capital adequacy ratios, which had suffered from retail penetration. Russian banks will have to increase their capital by USD $18 billion by 2008; otherwise, the capital adequacy ratio could decline to below 10% starting in 2009.

In other transition and emerging market countries, this capitalization problem was resolved either through the entrance of foreign banks or from local resources. Foreign banks still control around 10% of Russian banking assets, and a number of strategic players continue

to wait for the Russian market to mature. For this reason, Russian banks increasingly see IPOs as an opportunity to raise funds. In this area, however, changes in banking regulations that would open the equity market to foreign investors will be needed to ensure successful placements.

5 Corporate bank

Number of corporate clients	40 000
Corporate loan portfolio	USD $5.8 billion as of the end of 2005 (+37%)*
Loan market share	3.92% (the third-largest in Russia)**
Deposit market share	3.21% (the fifth-largest in Russia)**
Overdue loan share of portfolio	0.46%
Share of business beyond Moscow in the loan portfolio	40.7% (+9 percentage points)

* According to Alfa-Bank IAS report
**According to the Central Bank of Russia, reports of banks and PWC market estimates.

Vladimir Tatarchuk, Deputy Chairman of the Executive Board, Head of Corporate Bank

Services to Corporate Clients

IN 2005, THE MARKET GREW RAPIDLY. WE FACED INTENSIFIED COMPETITION FROM BOTH GOVERNMENT-OWNED AND PRIVATELY-OWNED BANKS. THE SUSTAINABLE GROWTH OF OUR BUSINESS HAS BEEN BASED ON THE INTRODUCTION OF MODERN BANKING PRODUCTS AND ADVANCED TECHNOLOGIES, AS WELL AS A FOCUS ON NEW AND FAST-GROWING INDUSTRIES AND SEGMENTS. OF COURSE WE REMAIN COMMITTED TO THE MAIN FUNDAMENTAL VALUE: WINNING THE TRUST AND LOYALTY OF OUR CLIENTS.

In the segment of corporate banking services in 2005, Alfa-Bank kept its rank as the third-largest by placement volume and the fifth-largest by the amount of deposit funds. By loan volume, the Bank was ahead of all other privately-owned banks and behind only the state-owned Sberbank and Vneshtorgbank. The Bank outperformed the market by both the growth of its loan portfolio and the rate of attraction of deposits.

In this fast-developing market, we need to further improve our product lines and client service standards. The competitiveness of a bank depends more and more on its ability to offer the most technologically advanced, modern and "intellectual" products, adjusting its product offering to the needs of clients. Last year marked the successful start of Alfa-Bank's advanced settlement products for cash management, unprecedented for the Russian market. More than 1,200 clients now use remote electronic access systems Alfa Client and Alfa Client On-Line. We also started selling specialized settlement products Zero Balancing and Automated Reconciliation.

Along with its traditional support to the largest Russian clients, the Bank becomes more open to lending to mid-size companies. Alfa-Bank promotes the diversification of its business and its loan portfolio. The share of regional business in the Bank's total operations continues to grow, having reached 41% of the loan portfolio in 2005. As of the end of

2005, loans to regional enterprises totaled USD $2.4 billion. At the same time, the Bank continued improving the structure of its branch network, increasing its presence in priority regions and closing down or restructuring inefficient divisions. In accordance with its business development strategy, the Bank has continued to expand its presence in key industries and services. According to data from the Central Bank of Russia, Alfa-Bank's share of loans to all industries in 2005 amounted to 8.3% (compared with 7.3% in 2004). Over the past year, the Bank's share of loans to construction enterprises grew to 8.1% from 7.5%. The Bank has expanded its exposure to lending to transport and communication companies: our share of loans to this industry totaled 6.6% in the fourth quarter of 2005.

Trade, iron and steel production, construction and machinery industries have become main borrowers of the Bank in 2005 (see figure 1). The weight of services, processing and manufacturing industries in the structure of the loan portfolio increased over the past year, while that of electricity and nuclear power industries declined.

In 2005, Alfa-Bank continued to rebalance its loan portfolio, reducing the weight of its largest borrowers. The share of top 10 borrowers declined to 21% of the total portfolio from 24%. Responding to changes in market demand, the bank increased the weight of long-term loans in its portfolio: by the beginning of 2006, the share of loans with maturity of over two years increased to 21%, almost doubling over the past three years. The share of loans with maturity of more than one year totaled one-third of the total loan portfolio. The quality of a financial organization's growth and the sustainability of its development can be tested by looking at the level of overdue loans. At a time of impressive growth of the Bank's total loan portfolio, the share of overdue loans in 2005 fell to 0.46% from 0.65%.

Medium-term and long-term loan products

The consolidation of its market position in complex loan products, such as structured finance and leasing, was one of Alfa-Bank's priorities for 2005.

The total volume of the medium-term loan portfolio (with maturity of more than one year) in 2005 increased by 36% to USD $1.9 billion from USD $1.4 billion.

The most significant transactions in 2005 included the following:

- arranging the funding for TransMashHolding Group's purchase of East Line Group's railway machinery-building assets (the Demikhov Machinery Plant) in the amount of USD $55 million for up to 5 years. The financing was collateralized by and tied to the purchased enterprise (its shares, cash flow and core assets);
- participating in financing of Amtel Holding Holland NV's purchase of a Dutch tire-making company Vredestein Banden BV (a maker of premium-class tires under the Vredestein trademark), part of Vredestein Investments Consortium NV. The loan, which amounted to 110 million euros, was repaid by proceeds from the sale of credit-linked notes in the Western market. The CLN issue totaled USD $175 million, the notes mature in two years with a one-year offer;
- project financing for the construction of Russian Standard Group's new spirits and beverage plant in St. Petersburg. The USD $33 million loan is repayable in 5 years. The financing was guaranteed by assets and cash flows of the project;
- acting as an Authorized arranger of an international syndicated loan (for the first time in the Bank's history) to the Rolf Group of companies, along with ABN-AMRO, Commerzbank AG, WestLB, Raiffeisen Zentralbank Osterreich AG and International Moscow Bank. The USD $350 million, three-year syndicated loan was earmarked to

finance the expansion of Rolf's dealership network;
- co-arranging a syndicated loan for OJSC 36.6 Pharmacy Chain. The two-currency loan of 1 billion rubles and USD $50 million is repayable in two years.

Alfa Leasing

The Bank's subsidiary Alfa Leasing continued its rapid development in 2005. According to the Expert rating agency, the company was Russia's fourth-largest leasing company last year. As of the end of 2005, its leasing transaction portfolio exceeded USD $700 million, having risen more than by 50% from the previous year.

Among the largest transactions of Alfa Leasing in 2005, the following deserve to be singled out:

- a series of leasing contracts, worth a total of USD $47.5 million, with OJSC Novatek to supply modern equipment for film production;
- a leasing contract with CJSC Spetstsisterny for 200 railway tanks for liquefied gas transportation, with a total worth of more than USD $17 million;
- a USD $23 million leasing program to supply rolling stock, including 600 railway tanks, rolling platforms and light railway cars to LLC Yurganz.

Alfa Leasing has taken a significant market share in such segments as railway transport, road-building and other construction machinery, passenger and freight motor transport and equipment for mining and petrochemical industries.

Alfa Leasing has continued intensive cooperation with leading domestic and foreign suppliers of machines and equipment, including LLC CTH Russian Buses, OJSC Promtractor, FGUP Uralvagonzavod, FGUP Altaivagonzavod, OJSC Azovobschemash (Ukraine), Liebherr (Germany), Caterpillar (USA), Hitachi, Komatsu, Toyota (Japan), Daewoo (South Korea), Tetra Pak (Sweden) and others.

Corporate Finance

Alfa-Bank is an important participant of the corporate finance market. The Bank offers financial advisory services on mergers, acquisitions and disposals, on attracting strategic and portfolio investors as well as on preparing companies to raise capital through an IPO.

Last year, Alfa-Bank, together with Merrill Lynch, continued providing financial advisory services to OJSC RAO Unified Energy System of Russia on the restructuring strategy.

In 2005, the Bank advised companies on a number of transactions, including the sale of the Kama pulp and paper mill to a strategic investor and the merger of OJSC Konakovo GRES and OJSC Nevinnomyssk GRES into OJSC OGK-5, which created a company with market capitalization of USD $1.8 billion.

Alfa-Bank was rated by the Mergers and Acquisitions magazine as the second-largest financial advisor by both the volume and the number of transaction for the period from April 2003 through April 2005.

SUBSIDIARY BANKS

Alfa-Bank Kazakhstan

Alfa-Bank Kazakhstan, established in December 1994, provides a full range of banking products and services to corporate and individual clients. The bank, the head office of which is located in Almaty, has two branches in Astana and Karaganda as well as two

representative offices in Ust-Kamenogorsk and Ekibastuz.
International rating agency Moody's rated the bank's long-term deposits at Ba3 and upgraded the outlook to "Positive" from "Stable" in October 2005. The financial stability rating was "E+" with outlook "Stable".
In 2005, the bank's assets increased by 30% to USD $122 million, while its loan portfolio totaled about USD $70 million and own capital USD $29.4 million. Alfa-Bank Kazakhstan services more than 19,000 corporate and individual clients, including Kazakh companies with various ownership types and ranging across a number of industries. By the beginning of 2006, Alfa-Bank issued more than 3,700 international plastic cards.

Alfa-Bank Ukraine

Alfa-Bank Ukraine was registered in January 2001. The network of Alfa-Bank Ukraine includes branches in Donetsk, Kharkov, Dnepropetrovsk and a bank office in Kiev. Since its establishment, the bank has been developing in Ukraine as a universal financial institution, offering its clients the maximum range of bank products and services. The bank services more than 7,400 individuals and 1,100 corporate clients.
In 2005, the bank participated in arranging 3 bonds for Ukrainian enterprises, in a total volume of UAH 100 million.
By january 1, 200 , the bank’s shareholder capital increased by a factor of 1.17 and totaled UAH 262.19 million (approximately USD $51 million).

Amsterdam Trade Bank N.V.

Amsterdam Trade Bank N.V. (ATB) was founded in 1994 to professionally service European and Russian trade and financial flows. Over the past four years, the volume of ATB's business has considerably increased. In 2005, the bank's assets rose by one-third to almost 1.6 billion euros from 1.25 billion euros. ATB has been repeatedly noted by KPMG's annual review of the Netherlands' banking industry as one of the most dynamically developing banks.
ATB provides a wide range of banking services, including loans to boost working capital, various trade financing products, financing for leasing operations and acquisitions, financing guaranteed by export agencies, collateralized financing (with real estate, rolling stock and ships as collateral). In close cooperation with Alfa-Bank, ATB continues to build up its widely diversified loan portfolio, which amounted to 900 million euros by the end of 2005, a more than 2.5-fold increase from the previous reporting period.
The efficient cooperation between ATB and Alfa-Bank generates unique opportunities and advantages in the market of modern banking services, meeting the demand from European, Russian, Ukrainian and Kazakh business communities.

Loans to Small and Medium-Sized Enterprises

The further development of the project designed to lend to medium-sized and small companies has become an important element to the diversification and growth of the Bank's loan portfolio. In 2005, we began a program on assessing credit risk of such clients and building a separate fast-track sales channel. Even though resource requirements and business transparency of small and medium-sized enterprises make them a more risky type of borrower, we believe that serving them is not only possible but also profitable. By providing special services and special products to a small but rapidly developing company, we are advancing our business: the more we assist a company to develop, the more solid the foundation for our future client base. Having gained a positive experience with the bank

and a clear understanding of its capabilities, the company becomes our client. As the company develops, the Bank offers it more complex products suitable for the company's industry. This is the approach we plan to use toward medium-sized and small business: to facilitate the clients' development, enabling them to grow alongside the Bank.

Strategy of corporate business development for 2006

- **to develop the segment of complex credit products, including syndicated loans, structured and project financing;**
- **to increase commission revenue by developing modern settlement systems and offering clients an integrated complex of cash flow management services based on advanced technologies;**
- **to increase the share of small and medium-sized business in the Bank's loan portfolio.**

6 Retail business

Total Retail Clients (excluding Consumer Lending)	1 276 000
Total retail client deposits	USD $1 175 million
Number of loans granted (excluding Consumer Lending)	39 000
Total number of issued cards	1 305 000
Issued cards turnover	USD $3 043 million
Total acquiring turnover	USD $3 107 million
Number of corporate users of acquiring services	7 700
Total ATMs	570

Viktor Bashkirov,
Member
of the Executive Board,
Head of Retail Business

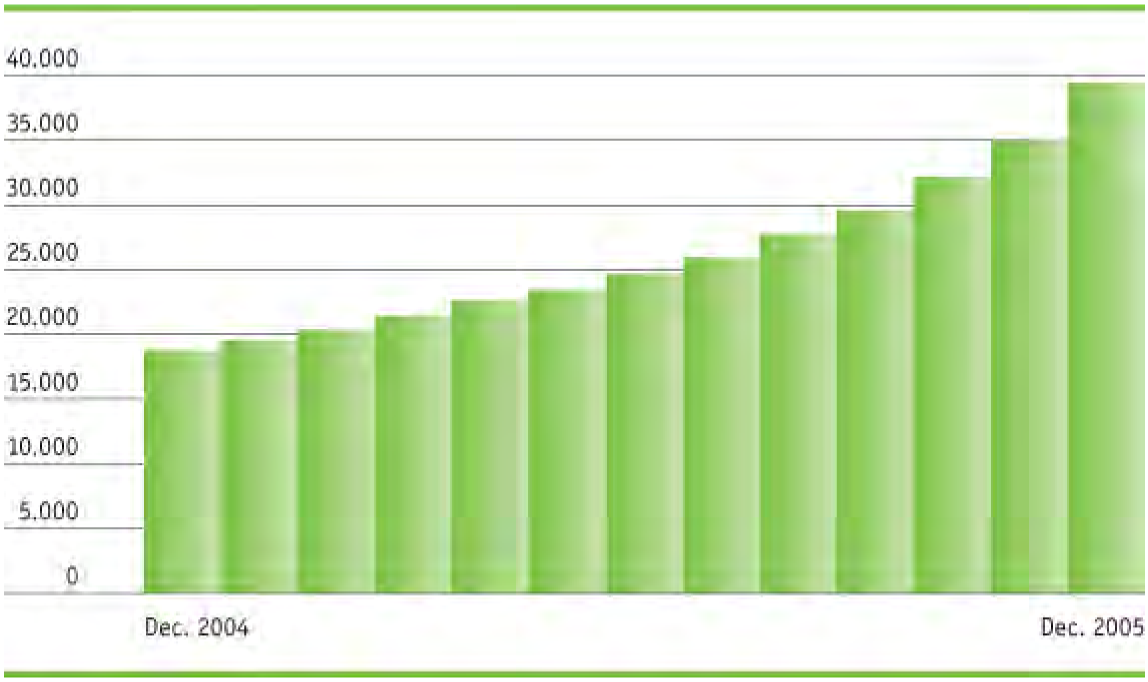
OUR GOAL IS TO BECOME THE LEADER IN RETAIL BANKING. TO MAINTAIN AND STRENGTHEN THIS LEADING POSITION, WE MUST QUICKLY RESPOND TO CUSTOMERS' INCREASING REQUIREMENTS FOR SERVICE QUALITY, PRODUCT DIFFERENTIATION AND FUNCTIONALITY. OUR RETAIL TEAM, WHICH HAS COMBINED ALL ELEMENTS THAT WE BELIEVE ARE NECESSARY FOR HIGH-QUALITY CLIENT SERVICES, IS KEY TO OUR SUCCESS. OUR SUCCESSFUL PRODUCTS ARE COMBINED WITH VARIABLE AND EFFICIENT SALES CHANNELS AND LINKED TO THE MOST ADVANCED INFORMATION TECHNOLOGIES, ENSURING OUR STRONG COMPETITIVE ADVANTAGE. WE BELIEVE THAT ALFA-BANK WILL SOON BE PERCEIVED AS THE MOST CLIENT-FRIENDLY BANK. THIS SUCCESS WILL BE BROUGHT NOT ONLY BY THE RETAIL TEAM BUT ALSO BY OTHER RELATED DIVISIONS OF ALFA-BANK.

The main goal of Alfa-Bank's retail business in 2005 was to fully develop a model for our dynamic development. Our strategy remains based on aggressive expansion and sustainable growth of our client base, liabilities and loan portfolio.

We strive to understand our clients' needs, to foresee their demands, to continuously adjust the range of available products and to provide to the client a full range of products matching his/her age group and social status. This approach can only be implemented on the basis of flexibility, constant care about the client and high professionalism.

To take into account our clients' needs and wishes as fully as possible, we have reorganized the structure of the retail business. Highly-qualified professionals, experienced in building retail chains in Western banks, have joined our business. Our team has developed a range of modern banking products as well as a new pattern of the Bank's regional presence. Our policy bore fruit in 2005, leading to a 20% expansion of the client base. Over the past year, our new product offerings enabled us to attract more active individual users of banking products, more deposits, as well as issue more plastic cards.

Number of loans



Our credit cards, whose 60-day interest-free period is unique for the Russian market, have become one of our main retail banking products. As of the summer of 2005, the Bank offers personal loans for all purposes without collateral or guarantors. We also offer new plans that include a range of basic banking services from current and saving accounts to banking cards from MasterCard and Visa.

To make banking services more attractive and to win trust and loyalty among our clients, we have initiated a series of partnership programs, including co-branding projects that enable our clients to benefit from the integration of services of our Bank and the largest consumer good retailers and services.

One example is a joint plastic card project with Aeroflot and MasterCard. This project is especially attractive to users of plastic cards because it enables them to win air miles of the Aeroflot-Bonus program when making payments for goods and services. The client can then exchange the accumulated miles for a free flight, to upgrade the flight or to receive discounts at corporate partners of the Aeroflot-Bonus program.

To develop the client base in the segment of wealthy clients, in December 2005 we opened our first new type of branch called A-Club. The branch, established as a VIP club, specializes in exclusive services of the highest quality.

To support expansion in the market of retail banking products, in December 2005 the Bank established a direct sales channel. Direct sales, one of the most powerful tools to promote banking services, are designed to attract new clients and to develop relations with existing clients by the following means:

- alliances (retail outlets);
- telephone sales and cross-sales (through our Call Center);
- Sales and cross-sales to employees of companies that participate in salary projects and to employees of targeted companies.

Direct sales are the most flexible way to increase sales of banking products, leading to the best balance of costs and benefits.

Distribution of retail banking products to corporate employees is now one of the main channels of client acquisition and cross sales. This channel is now being developed in all regions of the country.

Introduction of such technologies as the GEMINI platform have enabled the Bank to improve the quality of client services not only at our branches, but also through remote access channels. For example, in addition to obtaining account information through the Call Center, a client can now also use the call center to conduct basic transactions.

In 2005, we continued introducing advanced technologies for the retail business, launching the unique Alfa Mobile service. Using mobile banking, clients are able to receive information on card transactions and account balances, to carry out banking transactions, pay cell phone bills and transfer funds from one account to another anytime and anywhere, simply using their cell phone.

Striving to make our products the most convenient and to provide support to our clients, we have considerably expanded the ATM network, bringing it to 572 outlets. Cash-in machines, installed in 24/7 zones of our branches, can accept cash and transfer it to accounts in real time as well as to accept or send payments for goods and services to third parties.

The expansion of our new retail branch network into the Russian regions, which would enable clients to access the full range of products and services in real time and in every region where Alfa-Bank is represented, was our strategic goal for 2005. The first new-type branch, Kuban, was opened in August 2005 in Krasnodar. in total, we opened four such branches in various regions of Russia by the end of 2005. Notwithstanding the region’s fierce competition, Alfa-Bank Express in Krasnodar reached the level of three best Moscow branches by credit card sales and by balances on accounts within just three months of opening. In the next three years, Alfa-Bank’s retail business will be offering a full range of products in all economically developed regions of Russia. Accelerated, aggressive and profitable growth of the retail business remains one of the Bank’s main priorities.

Promotion of our retail banking consists of hundreds of components. Like pieces of a puzzle, these components form the reputation of a professional bank that cares about a client‘s convenience and comfort.

Alfa-Bank


Amsterdam
London
New York
Kiev
Kharkov
Donetsk
Dnepropetrovsk
Astana
Almaty
Karaganda
Ust-Kamenogorsk
Projects of WWF in Russia

7 Consumer Finance Business

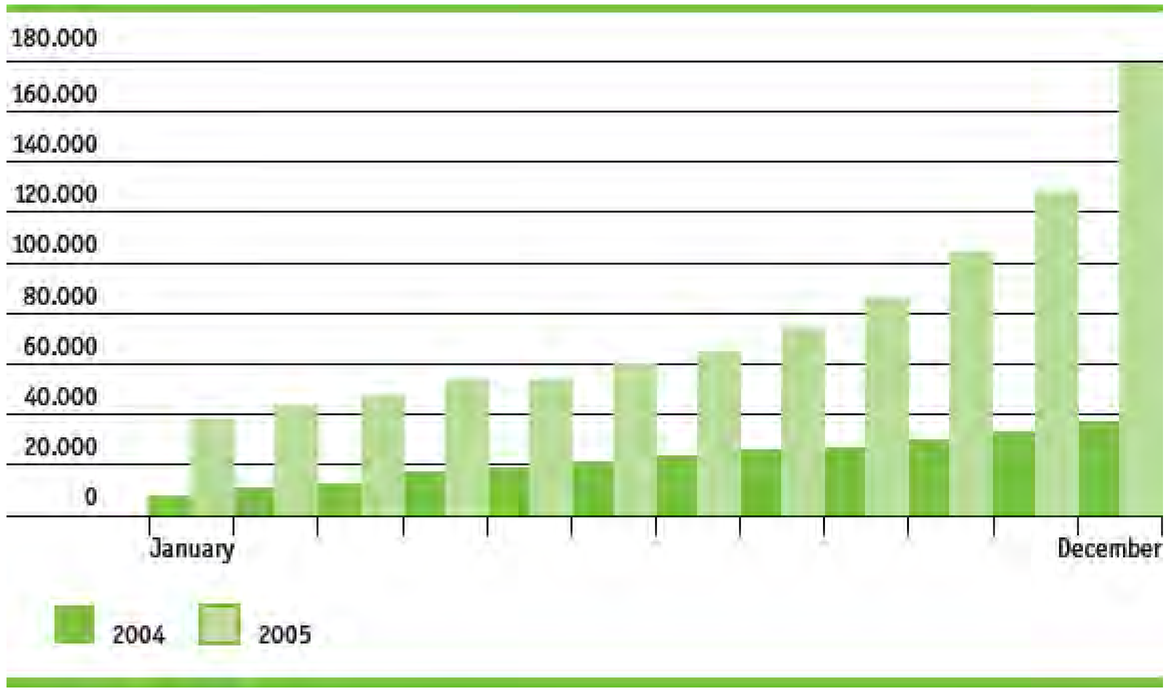
Tomasz Kazmierowski,
Member
of the Executive Board,
Head of Consumer
Finance Business

EVEN AS COMPETITION IN CONSUMER LENDING BECAME MUCH FIERCER IN 2005, ALFA-BANK HAS SUCCEEDED IN STRENGTHENING OUR POSITION IN THIS MARKET. THE EFFORTS OF OUR STRONG AND PROFESSIONAL TEAM HAVE DELIVERED OUTSTANDING RESULTS IN DEVELOPING THE BANK'S CONSUMER LENDING BUSINESS.

Over the last year, we significantly expanded our client base and increased our consumer loan portfolio.

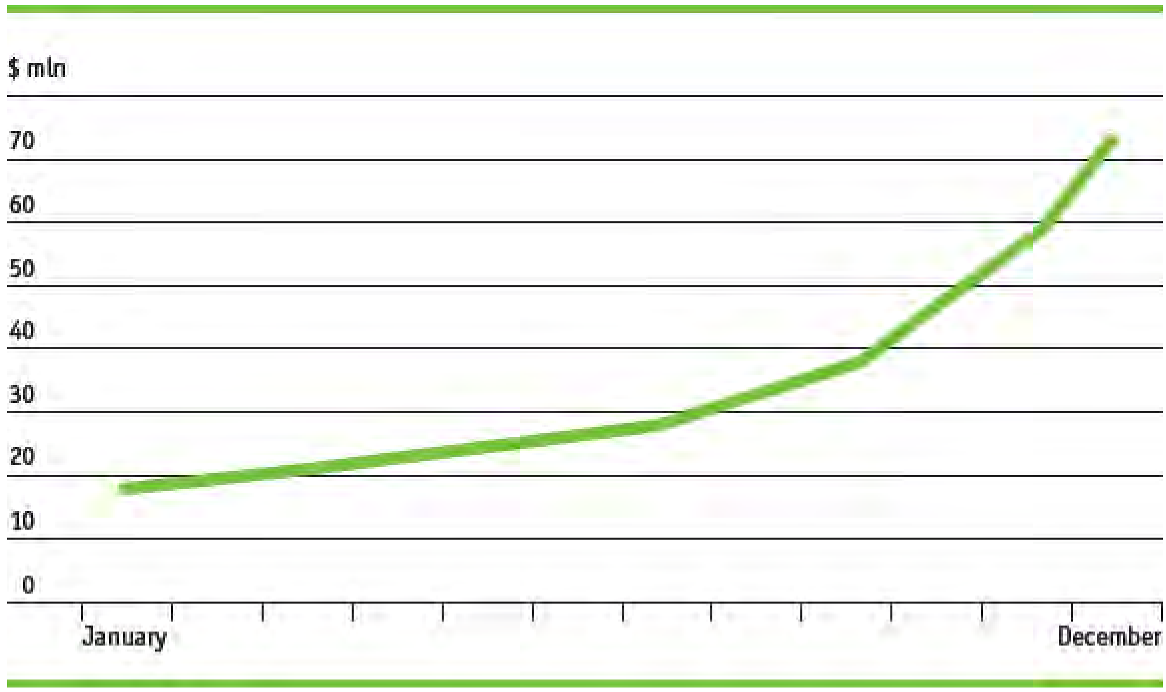
Today, Alfa-Bank offers a wide range of products, developed according to clients' requirements and reflecting demands of the current market. Our new Visa Instant Issue card stands out among new products. The card, which does not feature the holder's name and offers a limited credit, is issued at a retail outlet partnered with the Bank. The client receives the card instantly after his/her documents are processed and can use it immediately to pay for goods and services.

Along with creating new loan products, the Bank has been improving client services. Over the past year, we have introduced new channels for consumer loan redemption and have increased the client-servicing capacity of the Bank's call center. Paying greater attention to the needs of our clients outside Moscow, we introduced the call center's toll-free federal telephone number, accessible from every region of the country. Having successfully introduced an advanced technology to automate a significant part of loan processing, we reduced the time needed to service each client. Today, it takes about 20 minutes to obtain a loan at a retail store.



Client base

of the Consumer Finance business



Loan Portfolio

Increase in 2005

Throughout 2005, we expanded our presence in Russia's regions. As a result, by the end of the year the Bank's consumer loans were available to clients in more than 50 large and mid-size cities across more than 25 regions. While rapidly developing our business, we continue to strive for high quality, and we aim to ensure that the quality of our services and loan products is equally high for all our clients, regardless of location. Expanding beyond Russia's biggest cities, the Bank is establishing partnerships with an increasing number of retailers. The number of retail outlets, where the Bank's products are offered, rose more than ten-fold in 2005 – to 550 from 41. Our partners now include nationwide

retail chains, such as electronics and home appliance retailers Tekhnosila, Mir, Dixis and Eldorado. Alfa-Bank also cooperates with most of the electronic goods retailers that are the biggest in their respective regions.

In 2006 we plan to further accelerate our expansion in the consumer lending market. To achieve this, we will boost our presence across the country and establish partnerships with more retailers, offering them new forms of cooperation. The continuous improvement of our loan products' quality and competitiveness – and thus increasing customer satisfaction – remains our principal goal. We will put a greater focus on sales promotion, fully utilizing our marketing and technological capacity. We are convinced that, clearly following the chosen business strategy, we will develop our success, significantly expanding the Bank's share of the consumer lending market.

8 Investment Bank

Marco Salvi,
Head of
Investment Bank

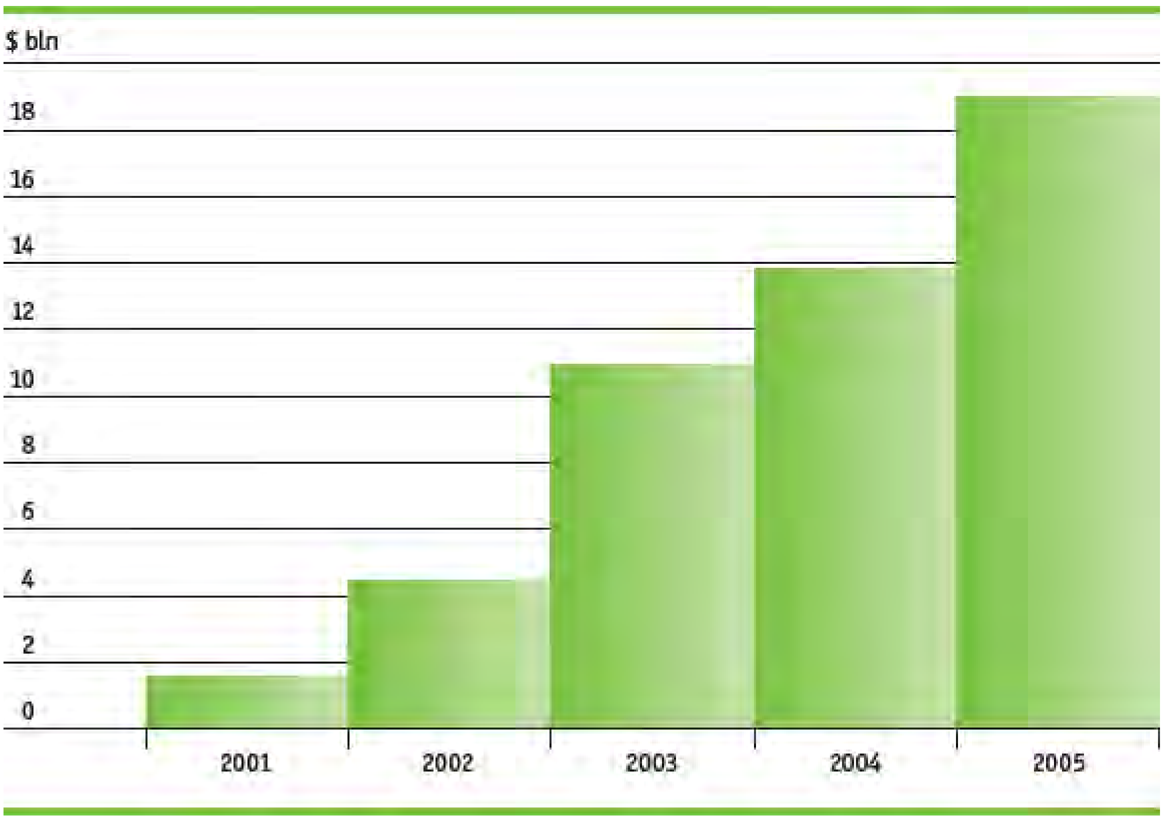
EQUITIES

Sales and Trading

2005 WAS A YEAR OF OUTSTANDING PERFORMANCES, BOTH FOR THE MARKET AND FOR ALFA-BANK'S EQUITIES DIVISION. WITH OPERATIONS IN MOSCOW, LONDON, NEW YORK, AND KIEV, ALFABANK ACCOUNTED FOR USD $1 BILLION IN SECURITIES TRADES, REPRESENTING AN INCREASE OF 37% OVER 2004'S RESULTS. AS A MARKET-MAKER ON THE RTS AND A MICEX OPERATOR, THE BANK ACCOUNTED FOR 5% OF RTS TURNOVER AND 6% OF MICEX TURNOVER AT THE END OF 2005.

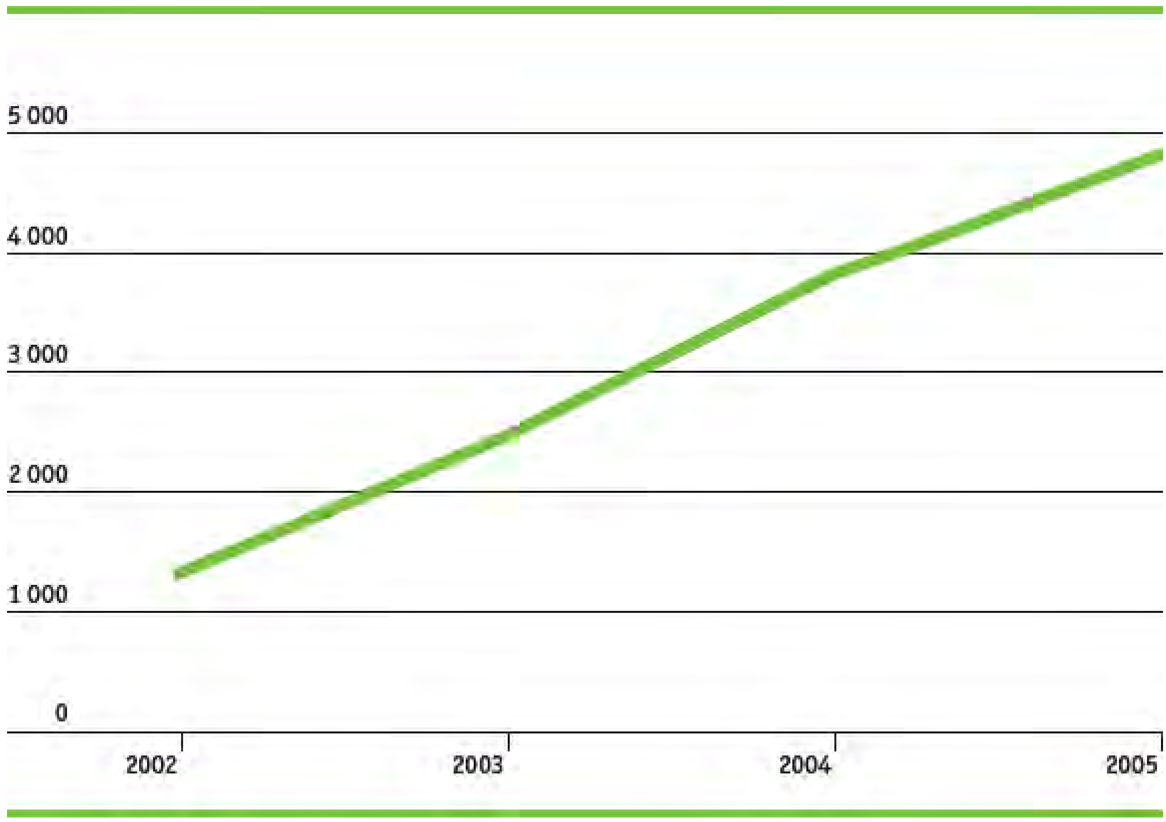
Alfa-Bank's domestic and international client base expanded by more than 30% in 2005, while the Bank's internet broker Alfa-Direct increased its volume of accounts by 23% y-o-y to reach 5 000 clients.

Alfa-Bank trade volumes
in the securities market, 2001–2005



Number of Internet trading accounts

(Alfa-Direct trading system), 2002–2005



Equity Capital Markets

Operations on Russia's capital markets increased significantly in terms of both volume and size in 2005, and Alfa-Bank contributed actively to these developments. The Bank's Capital Markets team made its debut appearance as book-runner in an IPO for tire producer Amtel-Vredestein, and also organized the placement of 12% of that company's capital. Alfa-Bank acted as co-lead manager in two other major IPOs, including the metals company NLMK and the gas producer NOVATEK. In total, the Capital Markets division participated in transactions worth USD $1.85 billion in 2005.

Alfa-Bank continued to expand its activities beyond Russia in 2005, offering the full spectrum of broker services as well as increased coverage of companies and sectors on the markets of Ukraine and Kazakhstan. At the beginning of the year, the Bank conducted a large-scale investment forum in kiev, attended by more than 250 participants including Ukraine's president viktor yushchenko, members of the Ukrainian government and parliament, and Ukrainian business representatives.

Research

The Equity Research team expanded its coverage of Russian and Ukrainian stocks in 2005 from 88 to 133 companies, significantly broadening its small and mid-cap coverage in the Banking, Metals, Petrochemicals, and Utilities sectors. The 2005 Russian and Ukrainian Equity Guides were (at that time) the largest research products ever published by Alfa-Bank. Our research analysts made about 50 marketing trips in the US, UK, EU and Russia.

Alfa-Bank's brokerage business in 2006 will continue to increase its presence in the Russian, Ukrainian, and Kazakh stock markets as a mediator between investors and exchanges, improving and expanding its range of products, and seeking new investment opportunities for clients.

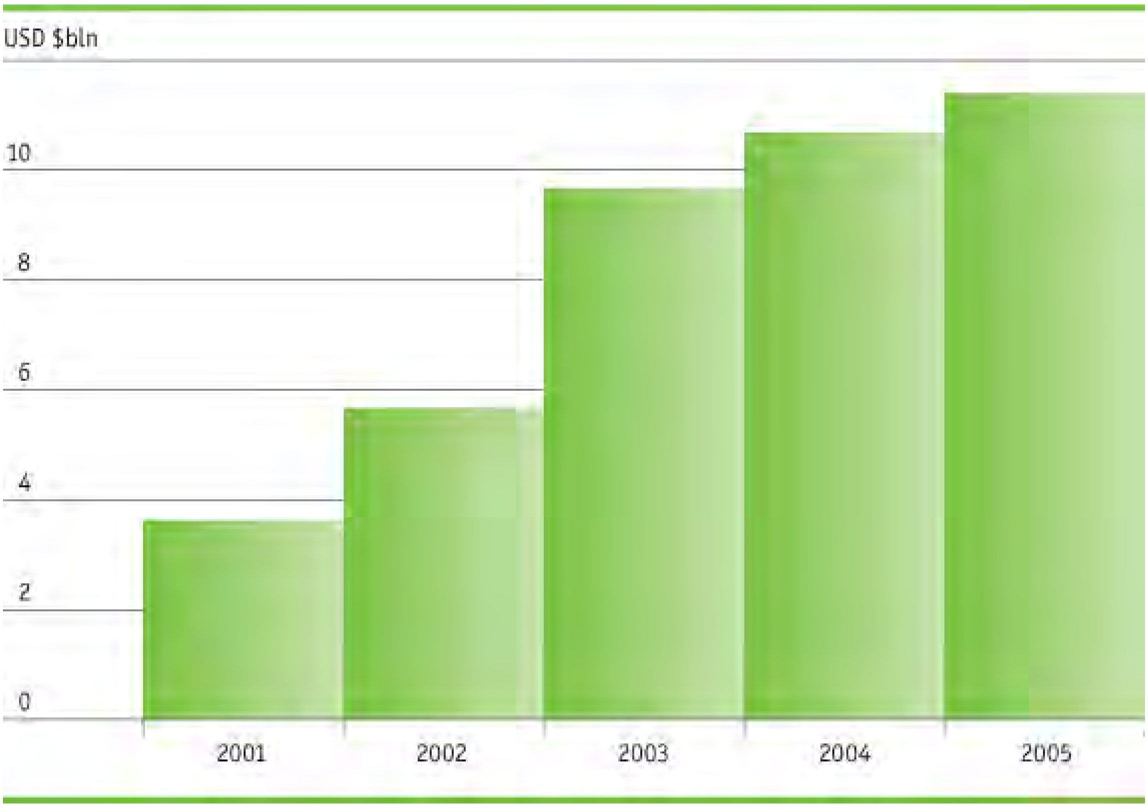
FIXED INCOME

Sales and Trading

Alfa-Bank has substantially increased the volume of ruble bonds operations in the domestic market. the bank's total turnover in ruble denominated instruments in 2005 amounted to USD $3.5 billion, more than doubling since 2004. In 2005, the bank entered the top 5 for traded volume of corporate and sub-federal bonds on MICEX. The bank saw a steady increase in income both in its own and clients' operations. The Bank conducts its own operations and offers a wide range of broker services in all sectors of the ruble debt market (sovereign, municipal, corporate bonds). In 2005, Alfa-Bank firmly maintained the position of one of the leading operators and market makers on the external market for Russian sovereign and corporate debt. The total commercial turnover of Alfa-Bank in the currency bond market amounted to about USD $8.4 billion at par value. The Bank's own operations profitability exceeded the value of the summary index of Russian debt products. The volume of the Bank's operations included some business of its clients. Turnover in clients' operations totaled USD $3.6 billion, which accounted for nearly 43% of the total volume of the Bank's operations. Operations with structured products (credit-linked notes, or CLNs) have become a large part of business in the corporate sector.

In 2005, Alfa-Bank was an active trader of sovereign foreign debt, targeting emerging markets in particular. It also helped its clients to get access to debt of global emerging markets as well as to U.S. treasury and G7 debt markets.

Fixed Income Turnover



DEBT CAPITAL MARKETS

Domestic Market

Since the creation of the Russian ruble debt market, Alfa-Bank has been a leading arranger of corporate ruble-denominated bond sales for Russian issuers.

In 2005, Alfa-Bank participated in the preparation and primary placement of corporate issues totaling more than 33.6 billion rubles, a 1.7 times increase from 2004. In december 2005, Alfa-Bank successfully placed the largest ruble bond issue by a private Russian company, Russneft, worth 7 billion rubles.

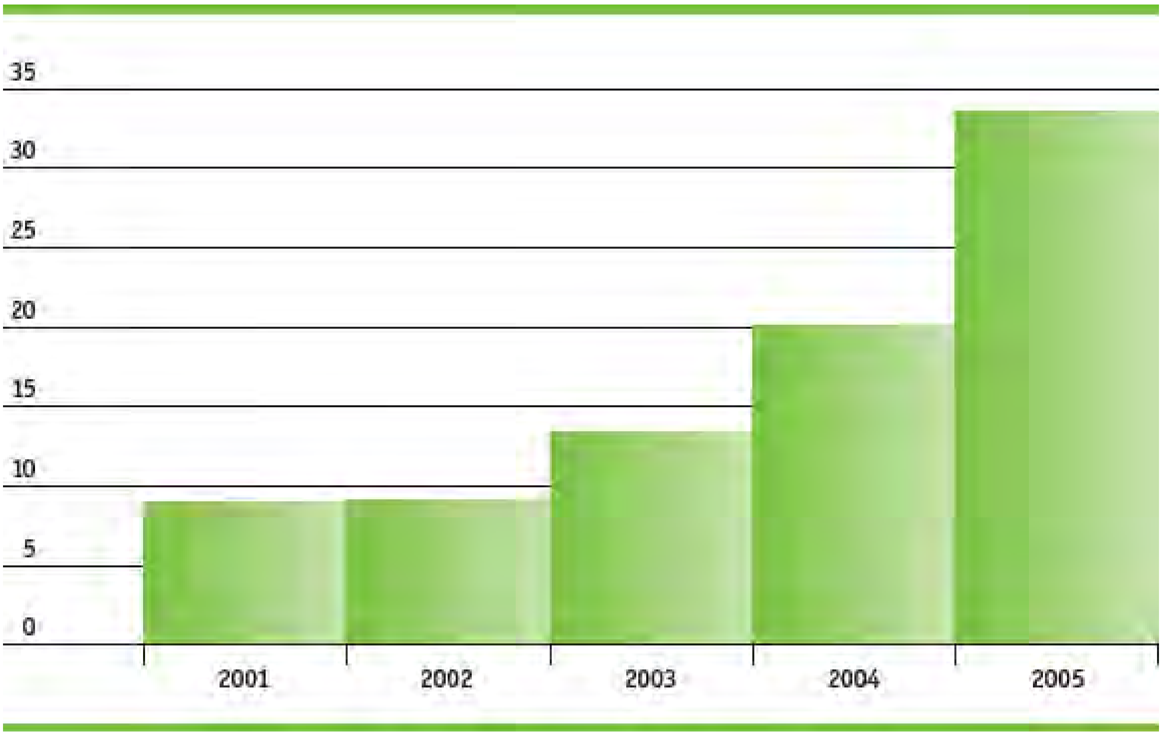
At present, Alfa-Bank provides its clients with the full spectrum of services regarding bond placement, including consultations on bonds' structure, preparation of all issue documents, analytical support of the issue, marketing services, syndication, placement and further support of the secondary market.

Responsibilities of a lead arranger also include market-making, which supports high liquidity of the bonds on the secondary market. Bond issues placed by Alfa-Bank are among the most liquid issues in the ruble-denominated bond market (Russneft, Mechel, Rosinter Restaurants, Sibirtelecom).

Udmurtnefteproduct	Rosinter Restaurants	Russneft
First Ruble-denominated bond issue	Third Ruble-denominated bond issue	First Ruble-denominated bond issue
1 500 000 000 RUR	1 000 000 000 RUR	7 000 000 000 RUR
Lead Arranger, Paying Agent	Lead Arranger, Paying Agent	Lead Arranger, Paying Agent
August 2005	December 2005	December 2005

Alfa-Bank on corporate bonds market:

Participation in primary placement, bln rub



International Market

Alfa-Bank is one of the leaders among CLN lead arrangers. In 2005, Alfa-Bank registered its own global Repackaging Program totaling USD $10 billion. Within the framework of the program, it placed three issues of Credit Linked Notes worth USD $325 million. The program allows Alfa-Bank to offer its clients a complete infrastructure for a CLN issue, to speed up processes of document reconciliation, and to make the process of placement much easier both for the issuer and other market participants. Alfa-Bank provides its clients with a full range of services regarding CLN placement, including consultations on the deal structure, preparation of all necessary issue documents, analytical support of the issue, marketing services, organization of road-shows in key world financial centers, primary placement and further support of the issue on the secondary market.

Amtel Holdings Holland	Svyaznoy Group	Russian Copper Company
Credit Linked Notes $ 175 000 000 Lead Arranger	Credit Linked Notes USD 50 000 000 Lead Arranger	Credit Linked Notes $ 100 000 000 Lead Arranger
June 2005	July 2005	December 2005

DERIVATIVES

In 2005, Alfa-Bank substantially increased the volume of operations on internal and external derivatives markets. This increase was achieved due to a significant expansion of a range of tools and services available to professional market participants and corporate clients. The number of new clients on the market for currency forwards and options grew by 200%, and Russian corporations made up a large part of this pool. Alfa-Bank offers options on Russian stocks and ADRs to investment companies and banks as well as Western hedge funds. The Bank signed agreements with four foreign contractors, significantly increasing its ability to operate on the international market.

In 2005, the Bank completed the adaptation of its internal infrastructure to the demands of the derivative business, which also contributed to an increase in its volumes and profits. Additionally, the Bank consulted one of the top telecommunication companies on the structuring of a financing program worth USD $350 million. This particular transaction is the first of its kind on the Russian market.

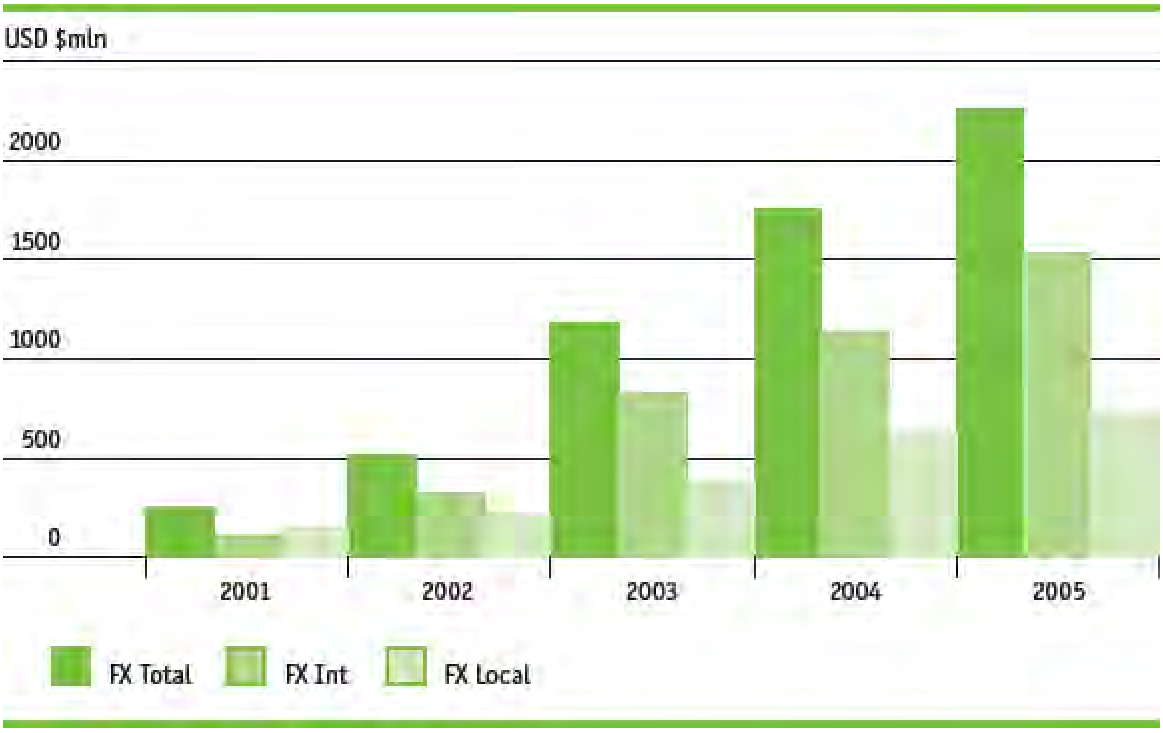
FOREX AND MONEY MARKET

Foreign Exchange

Alfa-Bank continues to be a leading operator on the domestic foreign-exchange market. total Alfa-Bank turnover for ruble/dollar transactions in 2005 was USD $150 billion, or 6-8% of the total Russian foreign-exchange market. In addition, Alfa-Bank has become a leader on the ruble/dollar forward market. The Bank's forward operations allow clients to hedge their currency risks, especially relevant due to the CBR's moving away from the rigid regulation of the ruble/dollar rate toward a free floating ruble rate and full convertibility of the Russian currency. In 2005, the volume of forward operations grew by 1.3 times. The Bank also actively participates in the MICEX derivatives market, where the volume of forward and swap transactions exceeded USD $1.4 billion in 2005. The Bank continues to develop its swap operations, which allow for higher liquidity control and a reduction in funding costs. In 2005, the volume of mutual credit lines with other banks more than doubled, mostly due to enlarged limits by foreign banks and their subsidiaries.

In 2005, Alfa-Bank steadily increased trading volumes on the interbank market, reaching a total turnover of USD $400 billion and a market share of 15% by the end of the year. Key elements to this success were competitive pricing of foreign currency and the improvement of the internet trading system Alfa FX. Alfa-Bank continues to develop Alfa FX for its clients, implementing modern techniques tested on similar systems offered by global banks. in 2005, Alfa-Bank became a leading operator of the Continuous Linked Settlement system, establishing partnerships with more than 50 major world banks. Simultaneously, the volume of operations executed via the electronic broker EBS rose to USD $250 billion. Alfa-Bank has established leading positions on the CIS and Baltic currency markets as well. The economic integration among Russia, Kazakhstan and Belarus has enabled the Bank to increase turnover and operations profitability in the Belarusian ruble and the Kazakh tenge.

Daily turnover



Money Market

The Bank continues to occupy one of the top positions among Russian players on the money market. Aggregate daily turnover remains high, reaching the equivalent of USD $1 billion. Transaction volume on the ruble-denominated interbank market comprises 15% of the segment's total turnover. As a result of rising confidence, daily volumes for attracted/placed short-term resources (both overnight and terms up to one year) rose, along with the turnover on currency interbank credits, which reached USD $500 million per day. The terms of placement and the volume of funds placed in the Bank by financial institutions also grew. Alfa-Bank's development and active work with Western contractors have allowed it to establish a firm position on the international market. Year after year, the Bank introduces new products, meeting demands of a variety of clients – counteragent banks, contractors, various financial institutions, as well as a wide range of corporate clients. The product line includes the whole range of the Bank's financing operations, from first-time credits to a whole line of refunding transactions that use various financial assets as collateral. The Bank's liability-forming operations include borrowing on the interbank market, the issue of own promissory notes, and other refinancing transactions.

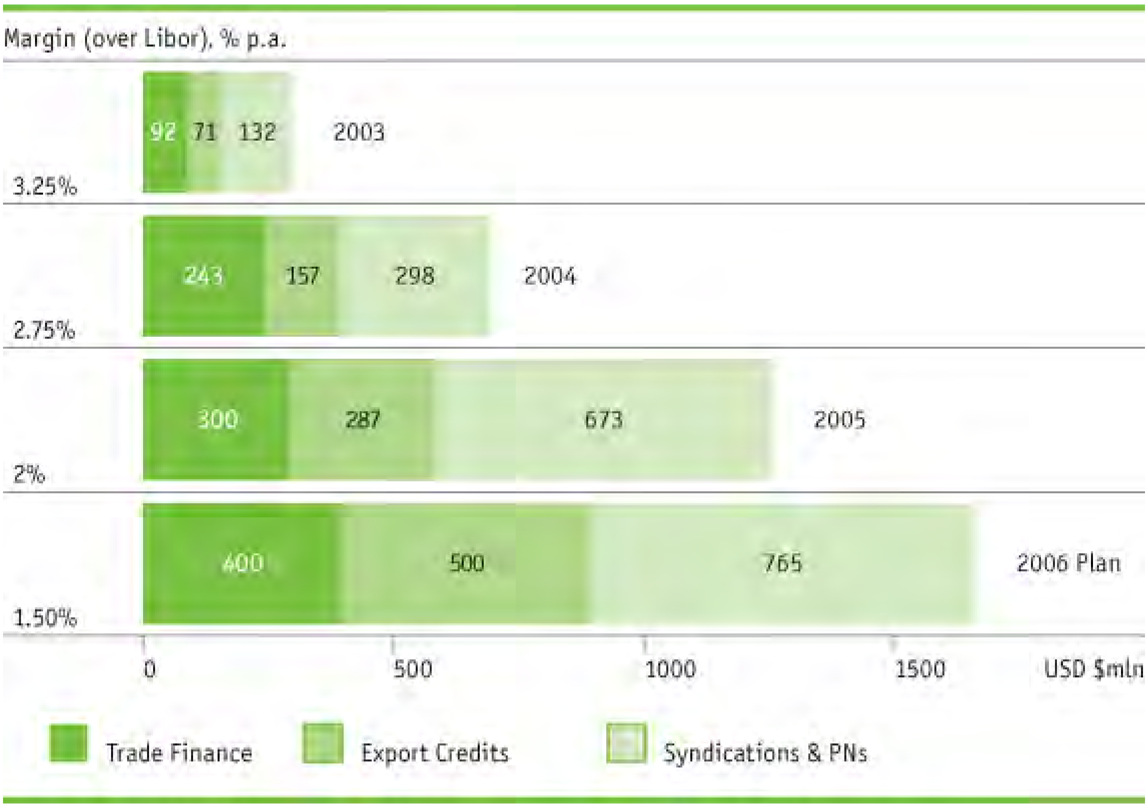
Daily turnover

Along with other leading banks, Alfa-Bank participates in forming the base indicator of the money market – the MOSIBOR rate, calculated by the national currency Association. Today, Alfa-Bank is one of the leaders on the market for promissory notes. In 2005, the Bank sold 29.5 billion rubles of promissory notes.

BANK'S FUNDING. A SUMMARY OF TRANSACTIONS.

Along with building partnerships with a growing number of international banks, Alfa-Bank's financial institutions division was instrumental in arranging about USD $1.2 billion of international interbank term funding for Alfa-Bank's treasury and corporate clients. Over the course of 2005, two large syndicated loans of USD $230 million and USD $275 million were arranged for the Bank's proprietary funding. In addition to these facilities, a loan arranged in 2004 was extended for another year, which, together with promissory notes issued in 2005, provided another USD $88 million of competitively priced international funding for the Bank's Treasury.

2005 was also a very successful year for the Bank's trade and export finance operations, with over USD $600 million worth of transactions arranged by the Bank's financial institutions division and funded by our international correspondent banks on behalf of our clients.



Alfa-Bank's own capital market issues

In 2005, Alfa-Bank increased its own Program of medium-term notes from the amount of USD $400 million to USD $1 billion. The third 3-year tranche, worth USD $250 million, was placed in June 2005. In addition, in November 2005 Alfa-Bank increased the volume of its euro-commercial paper program from USD $200 million to USD $350 million.

In December, Alfa-Bank raised USD $225 million for 10 years via subordinated Eurobonds, which are included in the Bank's equity capital calculation – the first private Russian bank ever to have done so.

ALFA-BANK SUBSIDIARIES

Alfa Capital Markets, UK

Alfa Capital Markets, UK is the FSA-registered London base for Alfa-Bank's international investment banking business. Alfa Capital Markets, authorised to deal in a broad range of securities transactions in the UK's financial markets, including deals in international securities, is a member of the London Stock Exchange. The firm has a well-established and highly regarded equities business, offering its international client base access to Russian and Ukrainian corporates, as well as access to one of the leading financial markets of the world.

In addition, in October 2005 the firm established a fixed income business, offering international clients access to Russian fixed income products. The firm also commenced trading of emerging markets fixed income securities.

Alfa Capital Markets is also active in the corporate advisory business, being particularly well-placed to support Russian and Ukrainian companies in accessing London capital markets. In November 2005, the firm participated as a co-bookrunner in the IPO of Russia's leading tyre producer, Amtel-Vredestein, which raised over USD $200 million for the company.

With a focus on supporting LSE-listed companies with operations in Russia, Ukraine or

Kazakhstan, the firm has obtained additional approvals to act as corporate broker and intends to develop these activities further in the year ahead. Alfa Capital Markets has its own team of oil and gas research specialists, who provide expert advice to the firm's clients.

Alfa Capital Markets, USA

Alfa capital markets (USA), inc., located in New York City, is a broker dealer registered with the US Securities and Exchange Commission (SEC). Alfa Capital Markets is also a member of both the National Association of Securities Dealers (NASD) and the Securities Investors Protection Corporation (SIPC) and an affiliate of Alfa-Bank's international equities business.
Alfa Capital Markets was established in July 2001 to provide brokerage and investment services to U.S. institutional clients investing in Russia and the CIS. Alfa Capital Markets acts as a direct agent/broker in a wide range of products, serving an expanding Russia-focused investor base.
All of the company's business lines leverage Alfa-Bank's extensive Research products. Our staff consists of a robust mix of leading Western and Russian professionals who have worked on Moscow, London and New York markets.

Alfa Capital, Ukraine

In many respects, 2005 was a breakthrough year for the Ukrainian financial industry. As Ukrainian companies set out on the path to international IPO markets, in 2005 two Ukrainian companies made their first stock offerings on the London Stock Exchange.
The Ukrainian securities market's capitalization increased threefold on the year to USD $30 billion, due to the new strategic political and economic direction of the country.
Alfa-Bank has made a significant contribution to the success of the financial industry. Thanks to its energetic and professional team of brokers and analysts, Alfa-Bank continues to show clients new investment opportunities on the rapidly developing Ukrainian market.
Alfa-Bank in Ukraine is one of the leading arrangers of UAH bond issues by Ukrainian companies. In 2005, Alfa-Bank participated in the organization of three bond issues totaling UAH 100 million. At the end of 2005, Alfa-Bank offered the market the third release of its own bonds, totaling UAH 50 million.
Today Alfa-Bank offers the full range of services in the arrangement of bond sales, incuding the preparation of a loan program, the state registration of emissions, underwriting and the subsequent maintenance of bonds released, as well as analytical coverage of the bonds during their entire circulation period. The bank has developed new approaches to UAH bond sales, significantly increasing issuers' opportunities. Alfa-Bank's specialists have developed mechanisms for Ukrainian enterprises to access international capital markets, and the Bank now offers Ukrainian companies services to organize sales of Credit Linked Notes and Eurobonds to attract foreign capital.

9 Partners

ALFA CAPITAL MANAGEMENT

THE YEAR 2005 TURNED OUT TO BE HIGHLY SUCCESSFUL FOR THE RUSSIAN STOCK MARKET AND ONE OF THE MOST PROFITABLE FOR ALFA CAPITAL MANAGEMENT (“ACM”). THE PAST YEAR 2005 ONCE AGAIN PROVED THAT A PORTFOLIO MANAGER’S PROFESSIONALISM IS NO LESS VALUABLE EVEN IN A DYNAMICALLY DEVELOPING MARKET, WHERE THE RISING TIDE SUPPOSEDLY LIFTS ALL BOATS. THE ACM INVESTMENT TEAM, RECOGNIZED AS ONE OF THE MOST EXPERIENCED ON THE MARKET, DEMONSTRATED OUTSTANDING RESULTS, HAVING OUTPERFORMED MOST COMPETITORS AS WELL AS THE MARKET BENCHMARK.

Alfa Capital Aksii (Alfa Capital Equities) earned a net 85.57% return for its investors in 2005. The result exceeded the benchmark RTS index rise of 83.2 % and made Alfa Capital Aksii the fourth-best performer among 42 rated equity funds in Russia. Alfa Capital Fixed Income Fund “Alfa Capital Obligatsii Plus” yielded 16.95%, beating the bond funds’ benchmark (13.58%), and was ranked the fifth-best among 34 competitors.

Alfa Capital Balanced Fund reported a return of 41.58%, compared to the 35.27% average return of balanced funds.

In the first authorized and recognized official ranking “The quality of portfolio management” conducted by the National League of Management Companies together with Expert RA, Alfa Capital Equity Fund and Balanced Fund were awarded the highest “A” rating.

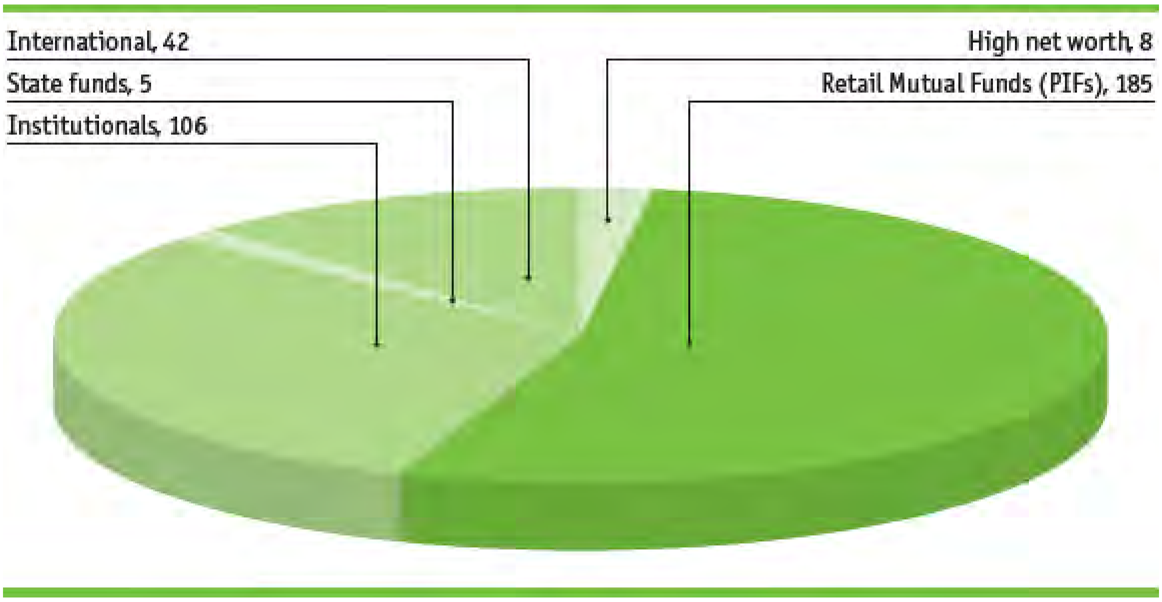
Fund	Mandate	2005 Return, %	Benchmark
Alfa Capital Aksii	Growth	85.57%	RTS – 83.29%
Alfa Capital Balanced Fund	Balanced	41.58%	Balanced index – 70.75%
Alfa Capital Obligatsii Plus	Capital preservation	16.92%	Cbonds – 11.23%
Alfa Capital Reserve	Money Market	7.52%	Deposit rate – 5%
RCF (The Russian Century Fund)	Absolute return	49.26%	5% volatility

In the second half of 2005, Alfa Capital Launched another international open-end fund, the New Russia Growth Fund, which produced a 38.75% net return in its first six months. In December 2005, Alfa Capital started forming a closed-end real estate fund “OSK” with seed capital of USD $9 million.

Over 2005, assets under ACM`s management reached USD $350 million. In 2005, Alfa Capital achieved strong results both in earning returns on its mutual funds’ assets and in attracting new investors to the funds. As a result, Alfa Capital has tripled its market share to 5.1%. It was the second-largest fund-raiser (compared to ninth-largest last year) and the fourth-largest mutual fund manager by assets under management in mutual funds among domestic competitors, according to the rating agency Investfunds.

The inflow of new money with a year-end total net value of USD $42 million exceeded last year's net inflow seven-fold. An emergent new class of Russian private investors, aiming at long-term capital appreciation rather than on short-term speculation, was the main driver of the expansion of ACM mutual funds.

Alfa Capital AUM, USD $ mln



The formation of this new class of investors has ensured the rise of ACM's new investment philosophy. Taking into account the growing interest in mutual funds in Russia, ACM has developed a model based on long-term relationships with clients.

As of the summer of 2005, ACM offers a new service to clients, providing them with personal investment consultants. Investment consultants help clients to understand and formulate their financial goals, to determine time horizons of their investments as well as the unique return-risk trade-off for each client. On this basis, investment consultants help clients to set up a personal financial plan, recommending a particular combination of ACM products in order to achieve clients' financial targets.

The investment consulting practice, a widespread product in Western markets, is only emerging in Russia. ACM is the only Russian company that actively promotes this service in accordance with international standards.

ALFA CAPITAL PARTNERS

ALFA CAPITAL PARTNERS ("ACP") IS A MOSCOW BASED PRIVATE EQUITY AND REAL ESTATE FUND MANAGER FOCUSED ON OPPORTUNITIES IN RUSSIA AND THE CIS. WITH USD $285 MILLION UNDER MANAGEMENT AT THE END OF 2005, ACP HAS ESTABLISHED ITSELF, IN A SHORT PERIOD, AS ONE OF THE EMERGING LEADERS IN RUSSIAN AND CIS PRIVATE EQUITY AND REAL ESTATE. ACP'S MANDATE IS TO GENERATE ATTRACTIVE RETURNS FOR ITS INVESTORS WHO INCLUDE INTERNATIONAL INSTITUTIONS, PRIVATE INVESTORS AND ALFA GROUP.

ACP positions itself as both a partner to international investors seeking to enter the region and a partner to local entrepreneurs and companies seeking financing for growth. Under the leadership of CEO Richard Sobel and Senior Managing Director Daniel Wolfe, ACP employs a rigorous investment process which combines the best of international and local approaches. In 2005 and the first quarter of 2006, Alfa Capital Partners continued to build the foundation for its business, adding eight professionals, bringing the number of professional staff to 17, and total staff to 25.

At the end of 2005, following the first closing of the private equity fund, ACP was spun out of Alfa-Bank and became a wholly owned subsidiary of Alfa Asset Management, in turn a 100% subsidiary of ABH Holdings, which is also the parent of Alfa-Bank. ACP will continue to access the resources and connections, and leverage the synergies possible from Alfa-Bank and Alfa Group.

ACP is currently developing and managing three investment fund initiatives – corporate private equity, maritime infrastructure and real estate – with three dedicated teams.

Private Equity Fund

In December 2005, Alfa Capital Partners accomplished a first closing of Alfa Private Equity Partners, L.P. (Fund) with commitments of USD $105 million. Efforts are underway to achieve a second closing at USD $250 million by summer 2006.

The Fund seeks to provide equity capital to emerging leaders in the new economy in Russia, Ukraine and the CIS. Target sectors include consumer products and services, media and entertainment, property, logistics and transport, business infrastructure, light manufacturing, health care, and agribusiness. These sectors are experiencing high growth, less government regulation, reduced political risks and have limited representation in the region's public equity markets. In the second quarter of 2005, ACP made an investment in United Bakers, acquiring a controlling stake in a leading Russian producer of crackers, biscuits, fillers and extrusion products. United Bakers is currently held by Alfa-Bank, with the expectation it will be offered to the private equity fund in 2006. In the first quarter of 2006, the Fund made its first investment in World Class, Russia's leading fitness club chain with 11 clubs in Moscow and ten franchise locations throughout the FSU.

Maritime Infrastructure Fund

In April 2005, Alfa Capital Partners restructured and re-launched the USD $180 million Great Circle Fund, with sponsorship from the US Government's Overseas Private Investment Corporation (OPIC). Alfa Group is a limited partner and ACP is Regional Manager and part of the General Partner. Great Circle Fund's mandate is to invest in maritime transportation, infrastructure and logistics in emerging markets, primarily in Russia, Ukraine, the Former Soviet Union, southeastern Europe, the Balkans, and Turkey.

Real Estate Fund

In 2005, ACP also made significant progress in developing its real estate fund initiative. ACP and JER partners (USA) agreed to form a joint venture to establish and sponsor the Marbleton Real Estate Fund. The Marbleton Fund seeks to generate attractive risk adjusted returns by investing in real estate in Russia, Ukraine and the CIS with a focus on Moscow, St. Petersburg and Kiev. In late 2005, the EBRD Board approved a Commitment of 20% of the Fund's capital, up to USD $40 million. Marbleton expects to achieve a first closing in the second quarter of 2006, toward a final target of USD $150 million.

The Marbleton Fund seeks to invest in modern property, in value added refurbishment and selectively in development, across a full range of property categories.

ALFASTRAKHOVANIE GROUP

Insurance premium revenue in 2005	7.16 billion rubles
Collections on obligatory car insurance in 2005	992.6 million rubles
Collections on obligatory car insurance in 2nd half 2005	535.3 million rubles
Branch network	219 branches and offices

Clients

Last year was a year of AlfaStrakhovanie Group's efficient cooperation with a number of major clients, including representative offices of such international companies as PepsiCo Holdings, Daimler Chrysler AG and Danone. AlfaStrakhovanie retains strong positions in the high technology and fuel and energy industries, where its services are used by such companies as Golden Telecom, VimpelCom, TNK-BP, Sibneft, Transnefteproduct and Novatek. AlfaStrakhovanie also cooperates with main players of the consumer market, including Douglas Rivoli and retail chains Dikaya Orkhideya, Bustier, Tekhnosila and Eldorado. The company provides risk insurance for state-owned television company GTRK Kultura, Kommersant Publishing House, OAO Aeroflot – Russian Airlines, Major Autor, Metro Cash & Carry, as well as such companies as Wimm-Bill-Dann, MIRAX Group, DON-Stroy and more than 25,000 other companies and enterprises.

Over the past year, AlfaStrakhovanie Group continued developing cooperation with major Russian banks and received accreditation with International Moscow Bank, Impexbank, Bank Petrokommerts, Bank Societe General Vostok and other banks. The number of AlfaStrakhovanie's individual clients has approached 1 million.

Products

New products that AlfaStrakhovanie offered to individual clients in 2005 mostly include complex policies which take only a few minutes to complete, having chosen a necessary set of services and price level.

In the past year, AlfaStrakhovanie included into its product line new complex products to insure apartments, family and neighborhood liability – AlfaCountry Weekend – as well as the AlfaEstate Complex policy for countryside estate owners.

The Group has developed a set of complex products for the insurance of cars, which includes not only insurance of the car itself but also insurance of additional equipment and voluntary motor third-part liability as well as insurance of the driver against injuries in car accidents. The range of these products includes AlfaDrive, AlfaDrive Classic, AlfaDrive Business and AlfaDrive Premier programs. Obligatory motor third-party liability policies (OSAGO) of AlfaStrakhovanie Group can be purchased in all Alfa-Bank branches. The Group has developed a new health insurance program AlfaMed Expat, aimed at foreign citizens residing and working in Russia.

AlfaStrakhovanie Group continues to cooperate with Alfa-Bank in salary projects.

Regions

In 2005, AlfaStrakhovanie Group continued its intensive expansion into Russia's regions. It opened 26 new branches, bringing the total number of its branches and offices in Russia to

219. The Group aims to sustain a high level of services, simultaneously expanding the business. It has invested significant funds to automate all business processes, to form a united information space within the company and to ensure its information security. The Group is upgrading the IT-infrastructure of its regional branches in order to provide services of equally high quality throughout the country. Client relation management systems (CRM) and specialized insurance contract recording systems have been introduced and are operating successfully.

Reliability

The reputation of the Group is based on the strict fulfillment of its commitments to clients. To undertake high risks, the company should be able to back them up by a high level of capitalization. The Group today backs its obligations by own funds of three companies with consolidated charter capital of 2.5 billion rubles.
The international practice of ensuring stability of an insurance business is based on redistributing some of the undertaken commitments to other reliable insurance and reinsurance companies. The Group assumes large financial risks of its clients and bears responsibility for the full sum of potential losses, supported by a reliable portfolio protection program provided by leading international companies Munich Re, Lloyd's of London, Swiss Re, SCOR, Hannover Re as well as by major Russian companies.
AlfaStrakhovanie Group ranks among the 10 largest insurance companies in Russia. In December 2005, the expert RA rating agency for the second time confirmed the highest reliability rating of A++, assigned to the Group. The rating implies that the company will fulfill its financial commitments with high probability even in case of unfavorable economic conditions.

Recognition

AlfaStrakhovanie's professional team has won recognition throughout Russia's insuance and business communities. In its annual rating of Russia's most professional managers, the Association of Russian Managers ranked AlfaStrakhovanie's General Director Vladimir Skvortsov the best manager in the Russian insurance industry and the 25th-best among all Russian managers.
AlfaStrakhovanie Group won the silver award at the Brand of the Year/Effie 2005 competition in the nomination category "Insurance".

10 Consolidated Financial Statements

ABH Financial Limited
Consolidated Financial Statements and Auditors' Report
31 December 2005

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PRICEWATERHOUSECOOPERS

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

AUDITORS' REPORT

To the Board of Directors of ABH Financial Limited:

We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2005, and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Moscow, Russian Federation
12 April 2006

ABH Financial Limited
Consolidated Balance Sheet as at 31 December 2005

(expressed in thousands of US dollars - Note 3)

	Note	2005	2004
Assets			
Cash and cash equivalents	7	878 670	997 278
Mandatory cash balances with central banks		195 849	139 549
Trading securities	8	1 139 666	717 050

Due from other banks	9	1 212 921	570 642
Loans and advances to customers	10	5 727 543	4 100 089
Investments	11	154 506	60 933
Other assets and receivables	12	376 454	275 690
Premises, equipment and intangible assets	13	145 074	146 891
Deferred tax asset	23	5 034	16 587
Total assets		**9 835 717**	**7 024 709**

Liabilities

Due to other banks	14	781 867	499 958
Customer accounts	15	5 455 171	4 492 072
Promissory notes issued		377 855	206 223
Other borrowed funds	16	1 680 080	706 955
Other liabilities and payables	17	607 404	380 568
Deferred tax liability	23	77 492	28 501
Total liabilities		**8 979 869**	**6 314 277**

Equity

Share capital	18	160 800	160 800
Fair value reserve for investments available for sale	11	585	-
Revaluation reserve for premises		3 051	4 123
Retained earnings and other reserves	18	689 012	542 634
Net assets attributable to the equity holders of the Company		**853 448**	**707 557**
Minority interest		**2 400**	**2 875**
Total equity		**855 848**	**710 432**

Total liabilities and equity	**9 835 717**	**7 024 709**

Approved for issue by the Board of Directors and signed on its behalf on 12 April 2006.

Petr Smida
Chief Executive Officer

Andrew Baxter
Chief Financial Officer

ABH Financial Limited
Consolidated Statement of Income for the Year Ended 31 December 2005

(expressed in thousands of US dollars - Note 3)

	Note	2005	2004
Interest income	19	706 176	548 467
Interest expense	19	(304 494)	(236 143)
Net interest income		**401 682**	**312 324**
Provision for loan impairment	10	(54 385)	(23 971)
Net interest income after provision for loan impairment		**347 297**	**288 353**
Fee and commission income	20	184 515	145 898
Fee and commission expense	20	(49 024)	(30 380)
Gains less losses arising from trading securities		90 513	63 804
Gains less losses arising from investments	11	7 480	34 009
Gains less losses arising from trading in foreign currencies		(7 810)	(3 468)
Foreign exchange translation gains less losses		40 940	(5 248)
Other impairment provisions	12, 26	8 539	(22 212)
Other operating income	21	30 776	51 073
Operating income		**653 226**	**521 829**
Operating expenses	22	(377 160)	(350 738)

Profit from operations		**276 066**	**171 091**
Share of after tax result of an associated company	11	16 922	13 621
Profit before tax		**292 988**	**>184 712**
Income tax expense	23	(112 432)	(31 522)
Profit for the year		**180 556**	**153 190**
Profit is attributable to:			
Equity holders of the Company		180 220	152 770
Minority interest		336	420
Profit for the year		**180 556**	**153 190**

ABH Financial Limited
Consolidated Statement of Cash Flows for the Year Ended 31 December 2005

(expressed in thousands of us dollars - Note 3)

	Note	2005	2004
Cash flows from operating activities			
Interest received		707 810	547 644
Interest paid		(289 307)	(247 041)
Fees and commissions received		172 468	145 898
Fees and commissions paid		(47 909)	(32 519)
Net income received from trading securities		51 574	50 884
Net (losses incurred)/income received from trading in foreign currencies		(17 570)	4 425
Other operating income received		27 277	39 064
Staff compensation paid		(195 139)	(152 650)
Other operating expenses paid		(136 368)	(142 678)

Income tax paid		(59 398)	(27 063)
Cash flows from operating activities before changes in operating assets and liabilities		**213 438**	**185 964**

Changes in operating assets and liabilities

Net (increase)/decrease in mandatory cash balances with central banks		(64 744)	164 920
Net (increase)/decrease in trading securities		(342 373)	263 613
Net increase in due from other banks		(649 738)	(438 667)
Net increase in loans and advances to customers		(1 781 207)	(574 741)
Net decrease/(increase) in other assets and receivables		77 522	(106 350)
Net increase/(decrease) in due to other banks		272 202	(305 185)
Net increase in customer accounts		1 148 711	782 867
Net increase/(decrease) in promissory notes issued		176 721	(381 945)
Net (decrease)/increase in other liabilities and payables		(65 288)	50 298
Net cash used in operating activities		**(1 014 756)**	**(359 226)**

Cash flows from investing activities

Proceeds from disposal of investments available for sale	11	3 876	64 311
Acquisition of investments designated as at fair value through profit and loss	11	(45 000)	-
Acquisition of investments available for sale	11	(19 662)	(17 664)
Additional acquisition of investment in associated company		-	(17 070)
Acquisition of premises, equipment and intangible assets, net of disposals	13	(18 450)	(17 065)
Proceeds from disposal of a subsidiary		-	7 832
Dividend income received		1 374	2 764
Net cash (used in) / from investing activities		**(77 862)**	**23 108**

Cash flows from financing activities

Proceeds from other borrowed funds	16	1 408 680	606 232
Repayment of other borrowed funds	16	(397 644)	(223 782)
Net cash from financing activities		**1 011 036**	**382 450**
Net (decrease) / increase in cash and cash equivalents		**(81 582)**	**46 332**
Cash and cash equivalents as at the beginning of the period	7	997 278	923 191
Effect of exchange rate changes on cash and cash equivalents		(37 026)	27 755
Cash and cash equivalents as at the end of the year	**7**	**878 670**	**997 278**

ABH Financial Limited
Consolidated Statement of Equity
31 December 2005

(expressed in thousands of us dollars - Note 3)

	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
Balance as at 1 January 2004	**160 800**	**22 798**	**5 195**	**358 177**	**6 635**	**553 605**
Transfer of net fair value gains arising on investments available for sale to net profit (Note 11)	-	(24 249)	-	-	-	(24 249)
Impairment of investments available for sale	-	1 451	-	-	-	1 451
Translation movement (Note 18)	-	-	-	30 615	-	30 615

Net income / (expense) recognised directly in equity	-	(22 798)	-	30 615	-	7 817
Profit for the year	-	-	-	152 770	420	153 190
Total income / (expense) recognised for the year	-	(22 798)	-	183 385	420	161 007
Other movements	-	-	(1 072)	1 072	(4 180)	(4 180)
Balance as at 31 December 2004	160 800	-	4 123	542 634	2 875	710 432
Net fair value gains arising on investments available for sale (Note 11)	-	585	-	-	-	585
Translation movement (Note 18)	-	-	-	(34 914)	-	(34 914)
Net income / (expense) recognised directly in equity	-	585	-	(34 914)	-	(34 329)
Profit for the year	-	-	-	180 220	336	180 556
Total income / (expense) recognised for the year	-	585	-	145 306	336	146 227
Other movements	-	-	(1 072)	1 072	(811)	(811)
Balance as at 31 December 2005	160 800	585	3 051	689 012	2 400	855 848

ABH Financial Limited
Notes to the Consolidated Financial Statements
31 December 2005
(expressed in thousands of us dollars - Note 3)

1 PRINCIPAL ACTIVITIES OF ABH FINANCIAL LIMITED

ABH Financial Limited (the "Company" or "ABH"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group" or the "Alfa Banking Group" (previously referred to as "Alfa Bank 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" or the "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.

Before June 2004 ABH was wholly owned by Alfa Finance Holdings S.A., which is a subsidiary of CTF Holdings Limited ("CTFH"), the parent company of the Alfa Group Consortium. The Alfa Group Consortium operates in the following significant business segments: oil and gas, financial services, telecommunications and retail trade. In 2004 Mr Fridman, Mr Khan and Mr Kuzmichev (the "Controlling Shareholders") restructured the ownership over ABH. The main purpose of the restructuring was to allow Open Joint Stock Company Alfa Bank ("Alfa Bank") to participate in the State deposit insurance scheme. In the course of the restructuring, ABH Financial Limited and its subsidiaries, including Alfa Bank, were transferred to a newly created company, ABH Holding Corporation ("ABHH"), a British Virgin Islands registered company, owned by individuals. ABHH is owned by the same beneficial shareholders and in the same proportions as ABH Financial Limited was owned prior to the restructuring. The controlling Shareholders collectively control and own a 77.07% interest in ABHH. None of the Controlling Shareholders individually controls or owns 50% or more of an 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 and CTFH.

Refer to Note 30 for a listing of the principal consolidated subsidiaries.

ABH 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 ABH. 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. The 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 the 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 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. The Bank is licensed by the Federal Commission on Securities Market for trading securities.

As at 31 December 2005 the Bank had 31 branches (2004: 32 branches) within the Russian Federation. The Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa Bank Ukraine and Alfa Bank Kazakhstan.

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

Investment banking.

ABH 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 was regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002. In 2004, the Cyprus Securities and Exchange Commission (CySEC) became the regulator of Alfa Capital Holdings (Cyprus) Limited. Alfa Capital Holdings (Cyprus) Limited obtained a license on 4 May 2004, No 025/04, from the CySEC to engage principally in 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, restrictive currency controls, 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 economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Russian banking system could 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.

In summer 2004 certain banks in the Russian banking sector, and amongst them the Group, experienced severe liquidity problems, which also affected the general confidence in the banking sector. In July to August 2004, to support the Group, the shareholders of the Group and a company controlled by the shareholders placed short term deposits with the Group. Management plans to cover any future liquidity gap via the issuance of different types of debt securities on international markets and/or restructuring its loan portfolio. It is not possible to predict what effect, if any, any significant deterioration in the liquidity or confidence in the Russian banking system may have on the financial position of the Group.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, 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 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).

The 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 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 IFRS.

These 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. The 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 consolidated financial statements is provided under the "Foreign Currency Translation" section of this note.
The preparation of financial statements in conformity with 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 the 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, industry and concentration analysis of loans and advances to customers has been amended, as Management believes that the current period presentation provides a greater scope of information to the user of these consolidated financial statements. Refer to Note 10. Comparatives for the business segments analysis have also been adjusted to include inter-segment revenues and a retail segment. Refer to Note 24.

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 fully consolidated from the date on which control is transferred to the Group. They 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 initially 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.

Foreign currency translation.

The Group determines the appropriate functional currency for each subsidiary. The Bank and other Group companies operating in the Russian Federation use Russian Roubles as a functional currency.

The consolidated statements of income and of cash flows of foreign entities are translated into US Dollars at actual exchange rates at the date of the transaction or at average exchange rates for the period as an approximation of actual exchange rates. The balance sheets are translated into US Dollars at the exchange rate at the balance sheet date. 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 official exchange rate at the balance sheet date. Exchange differences arising from the translation of the net investment in foreign entities are recognised in equity. When a foreign entity is sold, such exchange differences are recorded in the consolidated statement of income as part of the gain or loss on sale.

Transactions denominated in foreign currency are recorded at the exchange rate on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate on that date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Effects of exchange rate changes on the fair value of non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss. Thus, underlying translation differences on equity investments available for sale are recorded through the fair value reserve for investments available for sale in equity.

As at 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487) and the average exchange rate for the year ended 31 December 2005 was USD 1 = RR 28.2864 (2004: USD 1 = RR 28.8150). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside the Russian Federation.

Accounting for the effects of hyperinflation.

A significant proportion of the Group's activities are carried out in the Russian Federation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records of the Bank and other Russian companies of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group no longer apply hyperinflationary accounting. Accordingly, the amounts expressed in the measuring unit current as at 31 December 2002 were treated as the basis for the carrying amounts in these consolidated financial statements.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The CPI used to restate the consolidated financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors were the following:

	CPI	Conversion Factor
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

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. 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.

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 these 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 instruments 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 instrument. 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.

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.

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. 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. 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 other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

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. 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. The Group's investment in associated companies includes goodwill (net of accumulated amortisation) on acquisition. The

Group ceased amortisation of goodwill from 1 January 2005. 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.

Sale and repurchase agreements and lending of securities.

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investments available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. 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.

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.

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	2.5% 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 recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.
Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued.
Promissory notes issued by the Group carry 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, 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 ABH Financial Limited. Dividends that are declared after the balance sheet date are disclosed in the subsequent events note.

Income taxes.

Taxation has 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 calculated on the basis of the expected taxable profit for the period, using the tax rates enacted for the period. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method, on 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 of financial instruments, depreciation of property, plant and equipment, revaluation of derivative contracts 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 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. In particular, revenues from sales of rights to film licenses are recognised in the consolidated statement of income on a straight-line basis over the period of the agreement. But revenues from the assignment of 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. 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.

Derivative financial instruments.
Derivative financial instruments including foreign exchange contracts, currency 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.

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. 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 the Group's Supervisory Board approval and recorded and disclosed within staff costs in the consolidated financial statements.

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

Functional currencies of different entities of the Group.

These consolidated financial statements have been presented in United States Dollars ("US Dollars" or "USD"). 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' 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.

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 interest rate according to the loan agreement and on the estimation of a possible delay in the repayment of the loan and interest on the loan. To the extent that the assessed delay in repayment of principal and the interest on 5% of the loans differs by +/- one month (the latter to extent of the delay currently assessed), the provision would be approximately USD 2 280 thousand higher or USD 2 148 thousand lower.

Provision for losses on credit related commitments.

The Group regularly reviews its portfolio of credit related commitments to determine whether any losses have been incurred on the credit related commitments outstanding. This review is performed in close connection with the review of the loan portfolio, given that many of the Groups borrowers are also its clients in the credit related commitments business. When determining whether a provision for losses on credit related commitments should be created, the Group makes judgement whether risks and uncertainties exist of the clients being able to repay the funds paid by the Group on their behalf to third parties under credit related commitments, given the probability that the Group will actually have to make these payments to third parties. This assessment is therefore made using a multi-factor model, with the primary factor being the expected delay in repayment of funds to be paid by the Group on behalf of its clients. To the extent that the assessed delay in repayment of principal and the interest on 5% of funds to be transferred under credit related commitments differs by +/- one month (the latter to extent of the delay currently assessed), the provision would be approximately USD 322 thousand higher or USD 316 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 2005. 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. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), "Presentation of Financial Statements" (effective since 1 January 2005).

Minority interest is now presented as a component of equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent company'. The Group no longer discloses the number of employees. Certain new disclosures required by the revised standard were made in these financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors (effective since 1 January 2005).

The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 16 (revised 2003) "Property, Plant and Equipment" (effective since 1 January 2005).

In addition to asset retirement obligations incurred as a consequence of installing an item of property, plant and equipment ("PP&E"), the Group now also capitalises costs of dismantlement, removal or restoration which are incurred when using the item for purposes other than to produce inventories.

The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle.

The Group only enters into barter transactions with property, plant and equipment, if any, that have commercial substance. Such transactions are accounted for at fair value. The barter transactions accounting policy is applied prospectively from 1 January 2005 in accordance with the transitional provisions of IAS 16. All other changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 17 (revised 2003) "Leases" (effective since 1 January 2005).

Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date a lease is classified as either an operating or a finance lease. The revised IAS 17 is applied retrospectively to all of the Group's leases in accordance with the transitional provisions of the standard. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates" (effective since 1 January 2005).

The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 24 (revised 2003) "Related Party Disclosures" (effective since 1 January 2005).
The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 27 (revised 2003) "Consolidated and Separate Financial Statements" (effective since 1 January 2005).
The Group's policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the parent. The changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 28 (revised 2003) "Investments in Associates" (effective since 1 January 2005) and IAS 31 (revised 2003) "Interests in Joint Ventures" (effective since 1 January 2005).
The Group's policies were revised and the equity method no longer applies to investments that would otherwise be associates or jointly controlled entities held by the Group's subsidiaries which qualify as venture capital organisations, mutual funds, unit trusts or similar entities. Such investments may now be categorised as at fair value through profit or loss. Additional disclosures required by the revised standards were made in these consolidated financial statements. The changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation" (effective since 1 January 2005).
Additional disclosures required by the revised Standard were made in these consolidated financial statements.

IAS 36 (revised 2004) "Impairment of Assets" (effective since 31 March 2004).
The Group now performs impairment tests of goodwill, intangible assets not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these consolidated financial statements. Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in

accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 (revised 2004) "Intangible Assets"
(effective since 31 March 2004).

The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination.
The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38. No adjustment resulted from this reassessment.

IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement"
(effective since 1 January 2005).

The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now includes originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.
The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules that are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

IFRS 3 (issued 2004) "Business Combinations"
(effective since 31 March 2004).

The Group applies the transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3, by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can

be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment at least annually. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss.
Transitional provisions of IFRS 3 require prospective application of changes in accounting policies for equity method investments acquired before 31 March 2004. From 1 January 2005, the Group discontinued including the amortisation of deemed goodwill in the determination of its share of the profits or losses of associates.

IFRS 5 (issued 2005) "Non-current Assets Held for Sale and Discontinued Operations"
(effective since 1 January 2005).
The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group now considers as assets 'held for sale' those assets that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

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 2006 or later periods and which the Group has not early adopted:

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

IAS 39 (Amendment) - The Fair Value Option
(effective from 1 January 2006).
IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category.

IAS 39 (Amendment) - Financial Guarantee Contracts
(effective from 1 January 2006).
Issued financial guarantees, other than those previously asserted by the entity to be insurance

contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

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. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 (revised 2003) introduces disclosures about level of an entity's capital and how it manages capital.

Other new standards or interpretations.

The Bank has also not early adopted amendments to IAS 19 (Actuarial Gains and Losses, Group Plans and Disclosures), IAS 21 (Net Investment in a Foreign Operation), IAS 39 (Cash Flow Hedge Accounting of Forecast Intragroup Transactions), the new IFRIC interpretations 4 to 9 and the new standard IFRS 6 including related subsequent corrections to it and to IFRS 1.

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

7 CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	275 034	257 376
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	170 513	379 633
Correspondent accounts with other banks		
- Russian Federation	73 835	115 677
- Other countries	100 627	43 358
Overnight placements with other banks		
- Russian Federation	20 740	38 020

- Other countries	237 921	163 214
Total cash and cash equivalents	**878 670**	**997 278**

As at 31 December 2005 the Group had accounts with 7 banks (2004: 7 banks) with an aggregated amount of correspondent accounts and overnight placements equal to or above USD 10 000 thousand. The total aggregate amount of these correspondent accounts and overnight placements was USD 351 383 thousand (2004: USD 317 296 thousand) or 81.1% (2004: 88.1%) of the gross correspondent accounts and overnights placements with other banks.

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

8 TRADING SECURITIES

	2005	2004
Corporate shares	460 825	331 152
Corporate bonds	236 976	109 664
Corporate Eurobonds	167 031	79 653
Russian Federation Eurobonds	85 321	91 272
Municipal bonds	53 245	15 335
Eurobonds of other states	46 467	12 457
Promissory notes	34 886	-
ADRs and GDRs	9 694	17 506
Other	45 221	60 011
Total trading securities	**1 139 666**	**717 050**

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 Ukranian Hryvnyas, and are freely tradable in the Russian Federation and the Ukraine respectively. These bonds have maturity dates ranging from January 2006 to March 2012, coupon rates from 4.0% to 16.3% during 2005 and yields to maturity from 6.3% to 13.2% as at 31 December 2005, depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from March 2006 to April 2034, coupon rates from 4.1% to 12.8% during 2005 and yields to maturity from 2.8% to 13.3% as at 31 December 2005, depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by

Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from June 2007 to March 2030, coupon rates from 5.0% to 12.8% during 2005 and yields to maturity from 5.0% to 5.9% as at 31 December 2005, depending on the type of bond issue.
Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian municipal authorities, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from May 2006 to July 2014, coupon rates from 6.8% to 13.5% during 2005 and yields to maturity from 4.0% to 7.8% as at 31 December 2005, depending on the type of bond issue.
As at 31 December 2005 trading securities with a fair value of USD 241 764 thousand (2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Notes 14, 26. The amount of trading securities sold to third parties under sale and repurchase agreements includes securities with a fair value of USD 18 499 thousand (2004: Nil) that were pledged to the Group by other banks. Refer to Note 14.
As at 31 December 2005 the long balance sheet position of the Group was partially offset by the short forward and futures 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 31 December 2005 is disclosed in Note 29.

9 DUE FROM OTHER BANKS

	2005	2004
Term placements with other banks	1 171 600	564 585
Reverse sale and repurchase agreements with other banks	41 321	6 057
Total due from other banks	**1 212 921**	**570 642**

As at 31 December 2005 the Group had term placements and reverse sale and repurchase agreements with 9 banks (2004: 3 banks) with an aggregated amount equal to or above USD 50 000 thousand. The total aggregate amount of these term placements and reverse sale and repurchase agreements was USD 799 701 thousand (2004: USD 329 203 thousand) or 65.9% (2004: 57.7%) of the total due from other banks.
As at 31 December 2005 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 39 687 thousand (2004: USD 6 963 thousand).
As at 31 December 2005 the estimated fair value of due from other banks was USD 1 212 921 thousand (2004: USD 570 642 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

	2005	2004
Current loans	5 760 564	4 185 006
Finance lease receivables	154 589	79 967
Overdue loans	52 281	32 962
Less: Provision for loan impairment	(239 891)	(197 846)
Total loans and advances to customers	**5 727 543**	**4 100 089**

Overdue loans include all loans, contractual payments on which are overdue for more than one day.
Movements in the provision for loan impairment were as follows:

	2005	2004
Provision for loan impairment as at 1 January	**197 846**	**175 723**
Provision for loan impairment during the period	54 385	23 971
Loans written off during the period as uncollectible	(12 340)	(1 848)
Provision for loan impairment as at 31 December	**239 891**	**197 846**

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

	2005		2004	
	Amount	%	Amount	%
Trade and commerce	872 768	15	642 974	15
Ferrous metallurgy	646 989	11	426 145	10
Construction	616 966	10	456 156	11
Machinery and metal working	505 025	9	309 388	7
Non-ferrous metallurgy	379 028	6	214 420	5
Military	359 058	6	288 461	7
Finance and investment companies	346 050	6	86 637	2
Natural gas industry	284 310	5	52 093	1

Power generation	231 513	4	315 971	7
Oil industry	227 255	4	261 292	6
Coal Industry	195 864	3	230 627	5
Mass media and telecommunications	186 319	3	249 991	6
Chemistry and petrochemistry	169 622	3	122 058	3
Railway transport	125 264	2	39 225	1
Individuals	144 907	2	46 119	1
Food industry	135 839	2	90 130	2
Water transport	107 088	2	79 685	2
Nuclear industry	80 514	1	119 147	3
Agribusiness	63 583	1	20 275	-
Aviation transport	57 813	1	38 699	1
Timber industry	33 362	1	47 109	1
Other	198 297	3	161 333	4
Total loans and advances to customers (gross of provision for loan impairment)	**5 967 434**	**100**	**4 297 935**	**100**

As at 31 December 2005 aggregate loans and advances to the 20 largest borrowers of the Group amounted to USD 2 212 062 thousand (2004: USD 1 928 999 thousand) or 37.1% (2004: 44.9%) of the gross loans and advances to customers, while aggregate loans and advances to the 10 largest borrowers of the Group amounted to USD 1 438 901 thousand (2004: USD 1 301 774 thousand) or 24.1% (2004: 30.3%) of the gross loans and advances to customers.

As at 31 December 2005 loans to customers in the amount of USD 16 754 thousand (2004: USD 78 624 thousand) have been pledged as collateral with respect to due to other banks. Refer to Notes 14, 26.

As at 31 December 2005 the estimated fair value of loans and advances to customers was USD 5 736 713 thousand (2004: USD 4 103 116 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

	2005	2004
Investment in an associated company	67 171	50 249

Investment at fair value through profit and loss	57 481	-
Investments available for sale	29 854	10 684
Total investments	**154 506**	**60 933**

Investment in an associated company.

As at 31 December 2005 the investment in an associated company in the amount of USD 67 171 thousand (2004: USD 50 249 thousand) represented a 31.5% (2004: 29.1%) interest in CTC Media Inc. ("CTC"), formerly Story First Communications Inc., a Delaware corporation primarily investing in television and radio ventures.

In August 2004 the Group purchased an additional 5.8% interest in CTC for USD 17 070 thousand. From time to time the Group's interest in CTC decreases as a result of acquisitions and other transactions of CTC partially paid for by shares of CTC. In July 2005 CTC repurchased some of its shares and the Group's share increased as a result.

The share of profit of the associated company after tax for the year ended 31 December 2005 was USD 16 922 thousand (2004: USD 13 621 thousand net of amortization of goodwill).

Investment at fair value through profit and loss.

As at 31 December 2005, investment at fair value through profit and loss of USD 57 481 thousand represents a 7.8% interest in Amtel Holdings, 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 Holdings decreased as a consequence of its Initial Public Offering in November 2005.

The difference between the initial investment of USD 45 000 thousand and the fair value of USD 57 481 thousand has been recorded in the consolidated income statement as USD 1 251 thousand of gains less losses arising from investments and as USD 11 230 thousand of commission income for consulting services provided by the Group in relation to the Initial Public Offering of Amtel Holdings.

Investments available for sale.

The movements in the fair value of investments available for sale were as follows:

	2005	2004
As at 1 January	**10 684**	**45 885**
Net fair value gains arising on investments available for sale	585	-
Acquisition of investments available for sale	19 662	17 664
Disposal of investments available for sale	(7 306)	(61 311)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in equity	6 229	9 760

Impairment of investments available for sale	-	(1 314)
Total investments available for sale as at 31 December	**29 854**	**10 684**

These investments cover industries, which are not part of the long-term strategy of the Group. Management of the Group is focused on an eventual exit strategy for each of these companies. Investments available for sale consist of:

Name	Nature of business	Country of registration	Fair value 31 December 2005	Fair value 31 December 2004
United Bakers	Foods production	Russia	13 501	-
Noble Gibbons	Real estate consulting	Russia	8 718	4 425
Other			7 635	6 259
Total			**29 854**	**10 684**

External independent market quotations were not available for certain investments available for sale. The fair values of these assets were determined by management on the basis of application of various valuation methodologies, including discounted cash flows, consideration of financial information of the investees and results of recent sales of equity interest in the investees between unrelated third parties.
As at 31 December 2005 the estimated fair value of investments available for sale was USD 29 854 thousand (2004: USD 10 684 thousand). Refer to Note 28.

12 OTHER ASSETS AND RECEIVABLES

	2005	2004
Receivables on operations with securities	143 897	58 614
Trade debtors and prepayments	56 081	48 090
Plastic card debtors and other settlements with clients	46 889	31 775
Prepaid taxes	38 829	12 579
Conversion operations and derivative financial instruments	37 222	47 219
Advance payments for finance leases	36 452	31 786
Receivables from related parties	9 758	16 083

Precious metals	-	40 226
Other	14 843	3 176
	383 971	289 548
Less: Provision for impairment of receivables	(7 517)	(13 858)
Total other assets and receivables	376 454	275 690

Movements in the provision for impairment of receivables were as follows:

	2005	2004
Provision for impairment of receivables as at 1 January	13 858	7 752
(Release)/charge of provision for impairment of receivables during the period	(6 341)	6 106
Provision for impairment of receivables as at 31 December	7 517	13 858

As at 31 December 2004 precious metals included gold with a carrying value of USD 21 432 thousand sold under sale and repurchase agreements with other banks. Refer to Note 14. Currency and maturity analyses of other assets and receivables are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

13 PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Premises	Leasehold improvements	Office and computer equipment	Construction 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	4 382	3 428	20 990	2 299	31 099	7 861	38 960

transfers							
Disposals	(1 211)	(1 250)	(10 177)	-	(12 638)	(4 706)	(17 344)
Translation movement	(2 303)	(383)	(3 592)	(78)	(6 356)	(763)	(7 119)
Closing balance	**68 419**	**12 472**	**118 159**	**4 406**	**203 456**	**54 642**	**258 098**

Accumulated depreciation

Opening balance	10 580	1 658	62 688	-	74 926	21 784	96 710
Depreciation charge	1 372	274	15 425	-	17 071	8 535	25 606
Disposals	(119)	(43)	(6 140)	-	(6 302)	(53)	(6 355)
Translation movement	(359)	(63)	(2 125)	-	(2 547)	(390)	(2 937)
Closing balance	**11 474**	**1 826**	**69 848**	**-**	**83 148**	**29 876**	**113 024**
Net book amount as at 31 December 2005	**56 945**	**10 646**	**48 311**	**4 406**	**120 308**	**24 766**	**145 074**
Net book amount as at 31 December 2003	**50 121**	**10 344**	**46 652**	**10 463**	**117 580**	**32 141**	**149 721**

Cost or valuation

Opening balance	58 767	11 878	95 351	10 463	176 459	45 916	222 375
Additions and transfers	6 517	1 403	17 654	(8 551)	17 023	5 480	22 503
Disposals	(1 134)	(3 334)	(7 310)	-	(11 778)	(170)	(11 948)
Translation movement	3 401	730	5 243	273	9 647	1 024	10 671
Closing balance	**67 551**	**10 677**	**110 938**	**2 185**	**191 351**	**52 250**	**243 601**

Accumulated depreciation

Opening balance	8 646	1 534	48 699	-	58 879	13 775	72 654
Depreciation charge	1 564	282	16 402	-	18 248	7 585	25 833
Disposals	(131)	(252)	(5 215)	-	(5 598)	(39)	(5 637)
Translation movement	501	94	2 802	-	3 397	463	3 860
Closing balance	10 580	1 658	62 688	-	74 926	21 784	96 710
Net book amount as at 31 December 2004	56 971	9 019	48 250	2 185	116 425	30 466	146 891

14 DUE TO OTHER BANKS

	2005	2004
Term placements of other banks	455 311	315 138
Sale and repurchase agreements with other banks	209 857	126 131
Correspondent accounts of other banks		
- Russian Federation	70 721	43 761
- Other countries	45 978	14 928
Total due to other banks	781 867	499 958

As at 31 December 2005 trading securities with a fair value of USD 241 764 thousand (2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Notes 8, 26.

As at 31 December 2005 loans to customers in the amount of USD 16 754 thousand (2004: USD 78 624 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Notes 10, 26.

As at 31 December 2005 securities pledged with the Group by its customers under margin requirements of transactions with derivatives with a fair value of USD 18 499 thousand (2004: Nil) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Notes 8, 26.

As at 31 December 2004 gold with a carrying value of USD 21 432 thousand has been sold under sale and repurchase agreements with other banks. Refer to Note 12.

As at 31 December 2005 the estimated fair value of due to other banks was USD 781 867

thousand (2004: USD 499 958 thousand). Refer to Note 28.
Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

15 CUSTOMER ACCOUNTS

	2005	2004
Commercial organisations		
- Current/settlement accounts	1 348 572	1 296 757
- Term deposits	1 371 918	1 261 851
Individuals		
- Current/demand accounts	782 108	433 787
- Term deposits	1 010 116	964 175
State and public organisations		
- Current/settlement accounts	4 981	79 534
- Term deposits	937 476	455 968
Total customer accounts	5 455 171	4 492 072

Economic sector concentrations within customer accounts were as follows:

	2005		2004	
	Amount	%	Amount	%
Individuals	1 792 224	33	1 397 962	31
State and public organisations	942 457	17	535 502	12
Finance and investment companies	811 389	15	1 082 861	24
Trade and commerce	666 000	12	242 443	5
Energy and oil and gas	487 978	9	405 306	9
Manufacturing and construction	299 774	6	299 861	7
Mass media and telecommunications	67 590	1	82 054	2
Science	38 818	1	84 428	2
Other	348 941	6	361 655	8

Total customer accounts	5 455 171	100	4 492 072	100

As at 31 December 2005 the Group had 10 customers (2004: 6 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 2 437 235 thousand (2004: USD 1 840 528 thousand) or 44.7% (2004: 41.0%) of the total customer accounts, of which 487 588 thousand (2004: USD 983 082 thousand) represented balances outstanding to Alfa Group Consortium and its shareholders.

Included in customer accounts are balances in the amount of USD 202 163 thousand (2004: USD 97 556 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 26.

As at 31 December 2005 the estimated fair value of customer accounts was USD 5 455 171 thousand (2004: USD 4 492 072 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

	2005	2004
Syndicated loans	578 190	225 218
Euro-Commercial Paper	276 602	46 390
Euro Medium Term Notes maturing in 2008	248 603	-
Subordinated Loan	224 762	-
Euro Medium Term Notes maturing in 2006	192 816	191 348
Euro Medium Term Notes maturing in 2007	153 587	-
Russian Rouble denominated bonds maturing in 2010	1 925	68 195
Eurobonds	-	175 690
Other	3 595	114
Total other borrowed funds	1 680 080	706 955

On 24 June 2004 the Group received a syndicated loan in the amount of USD 120 000 thousand from a consortium of large international banks. Initially the loan had a maturity date of 24 June 2005 and bore a floating interest rate equal to LIBOR plus 2.0% per annum payable semi-annually. On 24 June 2005 the Group repaid USD 47 000 thousand of this loan and rolled over the balance in the amount of USD 73 000 thousand. The rolled over balance matures on 15 June 2006. As at 31 December 2005 the effective interest rate was 6.6% per annum. The issue proceeds net of transaction costs were equal to USD 118 757 thousand.

On 7 June 2005 the Group received a syndicated loan in the amount of USD 230 000 thousand from a consortium of large international banks. The loan matures on 6 June 2006 and bears a floating interest rate equal to LIBOR plus 1.5% per annum payable semi-annually. As at 31 December 2005 the effective interest rate was 6.8% per annum. The issue proceeds net of transaction costs were equal to USD 227 698 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 equal to LIBOR plus 1.0% per annum payable semi-annually. As at 31 December 2005 the effective interest rate was 6.8% per annum. The issue proceeds net of transaction costs were equal to USD 272 216 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 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. The issue proceeds net of transaction costs and discount amounted to USD 187 469 thousand and the effective interest rate at origination was 9.1%. 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%.

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 31 December 2005 the nominal value of outstanding notes was USD 267 000 thousand and EUR 16 000 thousand (2004: USD 46 800 thousand and EUR Nil) and they were issued at a discount to the nominal value ranging from 2.1% to 7.1% depending on the type of issue. As at 31 December 2005 the average effective interest rate at origination on notes outstanding was 7.9% for USD-denominated notes and 4.3% 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 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.28% per annum payable semi-annually until maturity on 9 December 2015. As at 31 December 2005 the effective interest rate was 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 31 December 2005 the estimated fair value of other borrowed funds was USD 1 686 950 thousand (2004: USD 710 672 thousand). Refer to Note 28.

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

17 OTHER LIABILITIES AND PAYABLES

	Note	2005	2004
Conversion operations and derivative financial instruments		246 211	96 589
Payables on operations with securities		124 707	56 103
Accrued staff costs		106 948	83 653
Plastic card and other settlements with clients		49 125	31 921
Trade creditors		26 068	61 228
Provision for losses on credit related commitments	26	18 925	21 123
Payable to related parties		13 208	298
Taxation payable		9 370	12 496
Other		12 842	17 157
Total other liabilities and payables		**607 404**	**380 568**

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

As at 31 December 2005 payables on operations with securities included a liability to return securities with a fair value of USD 18 499 thousand (2004: Nil), borrowed from other banks and sold by the Group to third parties under sale and repurchase agreements. Refer to Notes 8, 14, 26.

As at 31 December 2005 the estimated fair value of payables on operations with securities, conversion operations and derivative financial instruments was USD 370 918 thousand (2004: USD 152 692 thousand). Refer to Note 28.

Currency and maturity analyses of other liabilities and payables 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 31 December 2005 and 31 December 2004 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.

Other reserves within retained earnings and other reserves represent the cumulative translation reserve arising from the translation of net investments in foreign subsidiaries. The total negative cumulative translation reserve as at 31 December 2005 amounted to USD 293 268 thousand (2004: USD 258 354 thousand).

19 INTEREST INCOME AND EXPENSE

	2005	2004
Interest income		
Loans and advances to customers	626 660	489 311
Due from other banks, correspondent accounts and overnight placements	46 066	14 138
Trading securities	33 450	45 018
Total interest income	**706 176**	**548 467**
Interest expense		
Other borrowed funds	92 585	40 485
Term deposits of legal entities	85 239	63 248
Term deposits of individuals	62 585	56 360
Due to other banks	31 093	27 274
Promissory notes issued	17 352	26 530
Current/settlement accounts	15 640	22 246
Total interest expense	**304 494**	**236 143**
Net interest income	**401 682**	**312 324**

Refer to Note 29 for details of related party transactions.

20 FEE AND COMMISSION INCOME AND EXPENSE

	2005	2004
Fee and commission income		
Commission on settlement transactions	85 280	60 800
Commission on cash and foreign currency exchange transactions	33 846	29 852
Commission for consulting services	31 547	23 377
Commission on transactions with securities	18 728	14 585
Commission on guarantees issued	10 985	11 632

Other	4 129	5 652
Total fee and commission income	**184 515**	**145 898**

Fee and commission expense

Commission for consulting services	22 598	9 687
Commission on settlement transactions	19 171	12 779
Commission on cash and foreign currency exchange transactions	3 467	2 203
Commission on transactions with securities	2 768	4 893
Other	1 020	818
Total fee and commission expense	**49 024**	**30 380**
Net fee and commission income	**135 491**	**115 518**

Refer to Note 29 for details of related party transactions.

21 OTHER OPERATING INCOME

	2005	2004
Revenue from sale of rights to film licences	12 643	10 937
Charges on late repayment of loans and other penalties	7 136	7 297
Dividend income	1 374	2 764
Gains less losses from trading in precious metals	481	1 616
Structured finance	-	11 960
Other	9 142	16 499
Total other operating income	**30 776**	**51 073**

Revenue from sale of rights to film licenses resulted from certain complex structured transactions, which stipulated the receipt of those rights by the Group as part of the transactions.

Structured finance income included mainly results of operations with debts of other companies, which were either acquired at a discount, and then settled at a higher value resulting in a gain for the Group or assistance in collection to creditors.

22 OPERATING EXPENSES

	2005	2004
Staff costs	216 062	187 049
Depreciation and other expenses related to premises and equipment	30 106	34 969
Rent	24 026	20 792
Computer and telecommunications expenses	20 157	20 674
Consulting and professional services	15 449	16 607
Taxes other than income tax	13 069	20 387
Maintenance	12 328	12 659
Administrative expenses	9 490	6 589
Advertising and marketing	5 517	7 714
Travel expenses	4 547	3 046
Heat and utilities	4 509	3 951
Other	21 900	16 301
Total operating expenses	**377 160**	**350 738**

Included within staff costs are long-term bonuses accrued in 2005 in the amount of USD 14 886 thousand (2004: USD 5 083 thousand), which were payable at least after one year from the moment of their accrual.

23 INCOME TAXES

Income tax expense comprises the following:

	2005	2004
Current tax	51 888	33 056
Deferred tax	60 544	(1 534)
Income tax expense for the period	**112 432**	**31 522**

The statutory income tax rate applicable to the majority of the Bank's income is 24% (2004: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2004: from 0% to 15%). Reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004
IFRS profit before TAX	292 988	184 712
Theoretical tax charge at the applicable statutory rate of 24%	70 317	44 331
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Differences in treatment of loan provisions between IFRS and statutory tax	30 958	(32 513)
- Non deductible expenses	8 637	1 545
- Income which is exempt from taxation	(1 880)	(6 370)
- Loss incurred in lower tax jurisdictions	3 838	24 495
- Other	562	34
Income tax expense for the year	112 432	31 522

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%.

	2004	Movement	2005
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	12 259	(195)	12 064
Provision for loan impairment	28 689	(17 552)	11 137
Accruals	6 913	(3 284)	3 629
Other	3 740	2 279	6 019
Gross deferred tax asset	51 601	(18 752)	32 849
Deferred tax asset netted off within entities of the Group	(35 014)	7 199	(27 815)
Deferred tax asset	16 587	(11 553)	5 034
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(18 722)	(2 447)	(21 169)
Trading securities	(28 501)	(35 543)	(64 044)

Accruals	(9 179)	7 078	(2 101)
Other	(7 113)	(10 880)	(17 993)
Gross deferred tax liability	(63 515)	(41 792)	(105 307)
Deferred tax liability netted off within entities of the Group	35 014	(7 199)	27 815
Deferred tax liability	**(28 501)**	**(48 991)**	**(77 492)**
Total net deferred tax liability	**(11 914)**	**(60 544)**	**(72 458)**
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	9 822	2 437	12 259
Provision for loan impairmentv	5 490	23 199	28 689
Accruals	3 910	3 003	6 913
Other	1 361	2 379	3 740
Gross deferred tax asset	**20 583**	**31 018**	**51 601**
Deferred tax asset netted off within entities of the Group	(20 583)	(14 431)	(35 014)
Deferred tax asset	**-**	**16 587**	**16 587**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(17 292)	(1 430)	(18 722)
Trading securities	453	(28 954)	(28 501)
Accruals	(9 926)	747	(9 179)
Other	(7 266)	153	(7 113)
Gross deferred tax liability	**(34 031)**	**(29 484)**	**(63 515)**
Deferred tax liability netted off within entities of the Group	20 583	14 431	35 014
Deferred tax liability	**(13 448)**	**(15 053)**	**(28 501)**
Total net deferred tax liability	**(13 448)**	**1 534**	**(11 914)**

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. The presentation for the comparative information as at 31 December 2004 and for the year 2004 has been changed to conform to the current period presentation. Comparative information is also provided for the retail business segment, which was not separated from the corporate banking segment in 2004.
Segment information for the main reportable business segments of the Group for the years ended 31 December 2005 and 31 December 2004 is set out below:

2005	Corporate banking	Investment banking	Retail banking	Eliminations	Total
Segment revenue					
External operating income before provisions	766 387	206 376	87 637	-	1 060 400
Revenues from other segments	941 814	139 511	96 361	(1 177 686)	-
Total revenues	**1 708 201**	**345 887**	**183 998**	**(1 177 686)**	**1 060 400**
Total revenues comprise:					
Interest income					706 176
Fee and commission income					184 515

Gains less losses arising from trading securities					90 513
Gains less losses arising from investments					7 480
Foreign exchange translation gains less losses					40 940
Other operating income					30 776
Total revenues					**1 060 400**
Segment results	**252 240**	**171 034**	**(71 692)**	**-**	**351 582**
Unallocated costs					(75 516)
Profit from operations					**276 066**
Share of profit of associated company					16 922
Profit before income tax					**292 988**
Income tax expense					(112 432)
Profit					**180 556**
Profit is attributable to					
Equity holders of the Company					180 220
Minority interest					336
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	-	-	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**
Other segment items					
Capital expenditure	(13 637)	(4 142)	(21 181)	-	(38 960)

Depreciation expense	(8 819)	(2 790)	(13 997)	-	(25 606)
Other non-cash (expense)/income	(45 286)	-	(560)	-	(45 846)

2004	Corporate banking	Investment banking	Retail banking	Eliminations	Total
Segment revenue					
External operating income before provisions	589 418	230 012	23 821	-	843 251
Revenues from other segments	626 192	82 504	28 372	(737 068)	-
Total revenues	**1 215 610**	**312 516**	**52 193**	**(737 068)**	**843 251**
Total revenues comprise:					
Interest income					548 467
Fee and commission income					145 898
Gains less losses arising from trading securities					63 804
Gains less losses arising from investments					34 009
Foreign exchange translation gains less losses					-
Other operating income					51 073
Total revenues					**843 251**
Segment results	**86 215**	**184 489**	**(28 594)**	**-**	**242 110**
Unallocated costs					(71 019)
Profit from operations					**171 091**
Share of profit of associated company					13 621
Profit before income tax					**184 712**

Income tax expense					(31 522)
Profit					**153 190**
Profit is attributable to					
Equity holders of the Company					152 770
Minority interest					420
31 December 2004					
Segment assets	**5 794 378**	**1 978 892**	**1 455 397**	**(2 270 794)**	**6 957 873**
Investment in an associated company		50 249			50 249
Unallocated assets					16 587
Total assets					**7 024 709**
Segment liabilities	**5 390 248**	**1 603 271**	**1 477 073**	**(2 270 794)**	**6 199 798**
Unallocated liabilities					114 479
Total liabilities					**6 314 277**
Other segment items					
Capital expenditure	(7 192)	(2 919)	(12 392)	-	(22 503)
Depreciation expense	(8 257)	(3 351)	(14 225)	-	(25 833)
Other non-cash (expense)/income	(13 938)	(8 067)	(24 178)	-	(46 183)

Geographical segments.

Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2005.

	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	1 032 983	47 756	27 826	5 402	25 699	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 and receivables	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	**7 310 275**	**1 479 338**	**844 607**	**163 171**	**38 326**	**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 and payables	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	**1 788 172**	**(1 442 496)**	**491 994**	**113 242**	**(95 064)**	**855 848**

As at 31 December 2004 the Group had the following segment information for the main geographical segments:

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	760 387	116 145	39 877	80 512	357	997 278
Mandatory cash balances with central banks	107 920	28 756	2 873	-	-	139 549
Trading securities	647 566	20 373	38 027	-	11 084	717 050
Due from other banks	279 379	254 541	33 237	3 485	-	570 642
Loans and advances to customers	3 710 450	116 610	268 001	4 949	79	4 100 089

Investments	60 933	-	-	-	-	60 933
Other assets and receivables	167 706	82 058	18 332	849	6 745	275 690
Premises, equipment and intangible assets	132 685	1 138	13 068	-	-	146 891
Deferred tax asset	16 587	-	-	-	-	16 587
Total assets	**5 883 613**	**619 621**	**413 415**	**89 795**	**18 265**	**7 024 709**
Liabilities						
Due to other banks	272 856	161 637	35 659	4 581	25 225	499 958
Customer accounts	3 873 973	326 178	191 175	83 502	17 244	4 492 072
Promissory notes issued	168 851	36 812	560	-	-	206 223
Other borrowed funds	68 309	638 646	-	-	-	706 955
Other liabilities and payables	206 404	150 259	16 302	7 603	-	380 568
Deferred tax liability	28 501	-	-	-	-	28 501
Total liabilities	**4 618 894**	**1 313 532**	**243 696**	**95 686**	**42 469**	**6 314 277**
Net balance sheet position as at 31 December 2004	**1 264 719**	**(693 911)**	**169 719**	**(5 891)**	**(24 204)**	**710 432**

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2005 and 31 December 2004.
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 and 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.
The majority 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 primary 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.

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

	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	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 and receivables	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 and payables	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)	**(345 038)**	**(274)**	**135 170**	**(4 797)**	**(214 939)**
Credit related commitments (Note 26)	**188 048**	**559 991**	**291 250**	**2 625**	**1 041 914**

As at 31 December 2004 the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	217 780	606 365	107 935	65 198	997 278
Mandatory cash balances with central banks	-	107 920	28 756	2 873	139 549
Trading securities	544 129	128 792	21 861	22 268	717 050
Due from other banks	344 921	205 011	-	20 710	570 642
Loans and advances to customers	2 483 357	1 326 943	246 962	42 827	4 100 089
Investments	60 933	-	-	-	60 933
Other assets and receivables	155 174	61 172	19 796	39 548	275 690
Premises, equipment and intangible assets	-	132 685	1 138	13 068	146 891
Deferred tax asset	-	16 587	-	-	16 587
Total assets	**3 806 294**	**2 585 475**	**426 448**	**206 492**	**7 024 709**
Liabilities					
Due to other banks	260 142	114 391	97 925	27 500	499 958
Customer accounts	1 957 069	2 063 067	354 133	117 803	4 492 072
Promissory notes issued	46 924	155 997	2 740	562	206 223
Other borrowed funds	638 646	68 309	-	-	706 955
Other liabilities and payables	291 104	32 516	52 914	4 034	380 568
Deferred tax liability	-	28 501	-	-	28 501
Total liabilities	**3 193 885**	**2 462 781**	**507 712**	**149 899**	**6 314 277**
Net balance sheet position	**612 409**	**122 694**	**(81 264)**	**56 593**	**710 432**
Off-balance sheet net notional position (Note 27)	**688 362**	**(389 629)**	**57 645**	**(435 562)**	**(79 184)**
Credit related commitments (Note 26)	**768 746**	**173 645**	**132 303**	**901**	**1 075 595**

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.

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 31 December 2005 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 31 December 2005 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	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	1 139 666	-	-	-	-	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 and receivables	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	**3 819 985**	**1 600 675**	**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 and payables	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	**(733 762)**	**(824 367)**	**331 829**	**1 836 875**	**245 273**	**855 848**
Cumulative liquidity gap	**(733 762)**	**(1 558 129)**	**(1 226 300)**	**610 575**	**855 848**	

The liquidity position of the Group as at 31 December 2004 is set out below.

	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	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	717 050	-	-	-	-	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises, equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 753 564**	**1 328 408**	**1 247 908**	**1 398 406**	**296 423**	**7 024 709**
Liabilities						

Due to other banks	260 592	141 421	17 185	80 760	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	178 037	241 378	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 777 416**	**2 114 668**	**987 011**	**406 681**	**28 501**	**6 314 277**
Net liquidity gap	**(23 852)**	**(786 260)**	**260 897**	**991 725**	**267 922**	**710 432**
Cumulative liquidity gap	**(23 852)**	**(810 112)**	**(549 215)**	**442 510**	**710 432**	

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.

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'.

The table below summarises the Group's exposure to interest rate risks as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	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	652 195	-	-	-	487 471	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 and receivables	174 219	160 281	5 160	25 903	10 891	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**3 586 303**	**1 861 521**	**1 200 937**	**2 383 980**	**802 976**	**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 and payables	68 391	237 016	38 882	16 904	246 211	607 404

Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 307 536**	**2 700 986**	**681 693**	**965 951**	**323 703**	**8 979 869**
Net sensitivity gap	**(721 233)**	**(839 465)**	**519 244**	**1 418 029**	**479 273**	**855 848**
Cumulative sensitivity gap	**(721 233)**	**(1 560 698)**	**(1 041 454)**	**376 575**	**855 848**	

The table below summarises the Group's exposure to interest rate risks as at 31 December 2004:

	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	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	212 830	1 325 683	1 237 619	1 323 957	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 418 140**	**1 387 014**	**1 247 908**	**1 326 566**	**645 081**	**7 024 709**
Liabilities						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955

Other liabilities and payables	149 952	98 991	10 555	24 481	96 589	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 680 827**	**2 213 233**	**925 864**	**369 263**	**125 090**	**6 314 277**
Net sensitivity gap	**(262 687)**	**(826 219)**	**322 044**	**957 303**	**519 991**	**710 432**
Cumulative sensitivity gap	**(262 687)**	**(1 088 906)**	**(766 862)**	**190 441**	**710 432**	

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.

	2005				2004			
	USD	RR	Euro	Other curren-cies	USD	RR	Euro	Other curren-cies
Assets								
Correspondent accounts and overnight placements with other banks	0.5%	4.1%	1.1%	0.3%	1.4%	0.5%	0.0%	2.1%
Mandatory cash balances with central banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	7.7%	8.2%	3.4%	11.5%	7.9%	10.2%	4.9%	7.8%
Due from other banks	4.0%	6.4%	3.9%	3.0%	5.4%	2.1%	-	11.7%
Loans and advances to customers	10.6%	12.9%	7.3%	12.8%	11.2%	13.6%	8.1%	14.3%
Liabilities								
Due to other banks	3.1%	5.3%	3.3%	0.0%	2.8%	2.3%	3.3%	0.9%
Customer accounts								
- current and settlement accounts	0.1%	0.1%	0.0%	0.0%	0.6%	1.1%	0.9%	1.0%
- term deposits	5.2%	5.4%	4.5%	10.9%	5.7%	5.2%	5.5%	9.8%
Promissory notes issued	4.3%	6.9%	1.0%	0.0%	3.8%	6.6%	6.7%	13.0%
Other borrowed funds	7.9%	9.0%	4.3%	12.0%	8.2%	7.4%	-	-

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. 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 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.

In addition, the tax consequences of transactions for Russian taxation purposes are 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 consolidated statement of income as presented in these 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 taxation or the tax charge recorded in these consolidated financial statements.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties and transactions with unrelated parties if the price differs from similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

The Group occasionally conducts intercompany transactions at off-market rates. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of any such challenge can not be 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 and customs positions will be sustained. Accordingly, as at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision). The Group estimates that it has potential obligations from exposure to other than remote tax risks of USD 4 715 thousand (2004: USD 5 576 thousand).

Capital commitments.

As at 31 December 2005 the Group had capital commitments of USD 118 100 thousand, of which USD 13 400 thousand relates to construction expenditure, modernisation and repair of premises, USD 43 800 thousand relates to construction of the new Alfa Building, USD 48 400 thousand relates to purchase and installation of new computer systems, USD 12 500 thousand relates to other capital expenditure commitments. As at 31 December 2004 the Group had capital commitments of USD 30 499 thousand, of which USD 9 660 thousand related to construction expenditure, modernisation and repair of premises, USD 9 630 thousand relates to purchase and installation of new computer systems, USD 11 209 thousand related 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 premises and equipment operating leases were as follows:

	2005	2004
Not later than 1 year	12 346	11 754
Later than 1 year and not later than 5 years	32 319	26 666
Later than 5 years	6 704	7 341
Total operating lease commitments	51 369	45 761

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:

	Note	2005	2004
Guarantees issued		547 336	597 850
Export letters of credit		217 005	346 945
Import letters of credit	15	296 498	151 923
Less: provision for losses on credit related commitments	17	(18 925)	(21 123)
Total credit related commitments		**1 041 914**	**1 075 595**

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:

	2005	2004
Provision for losses on credit related commitments as at 1 January	**21 123**	**7 782**
(Release)/charge of provision for losses on credit related commitments during the period	(2 198)	13 341
Provision for losses on credit related commitments as at 31 December	**18 925**	**21 123**

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:

	2005 Nominal value	2004 Nominal value
Shares in companies held in custody	308 121	132 506
Corporate bonds held in custody	206 267	143 833
Promissory notes of companies held in custody	57 670	69 535
OVGVZ held on account with Vneshtorgbank	27 346	31 595

Client OFZ securities held on an account with NDC	18 739	19 302
Eurobonds	17 700	3 659
Other	137	7 951

Assets pledged and restricted.

As at 31 December 2005 the Group had the following assets pledged as collateral:

	Note	2005	2004
Trading securities	8, 14	241 764	83 594
Loans and advances to customers	10, 14	16 754	78 624
Precious metals	12, 14	-	21 432
Total		**258 518**	**183 650**

As at 31 December 2005 the Group has pledged securities under sale and repurchase agreements with other banks that had been pledged with the Group by its customers under margin requirements of transactions with derivatives in the amount of USD 18 499 thousand (2004: Nil). Refer to Notes 8, 14.

In addition to the above, as at 31 December 2005, the Group held collateral in securities received from other banks in the amount of USD 55 420 thousand (2004: USD 6 936 thousand), including securities purchased under reverse sale and repurchase agreements in the amount of USD 39 687 thousand (2004: USD 6 963 thousand), that it is allowed to sell or repledge. Refer to Note 9.

Mandatory cash balances with central banks in the amount of USD 195 849 thousand (2004: USD 139 549 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. The principal or agreed amounts and fair values of derivative instruments held 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 31 December 2005.

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value
Deliverable forwards						
Foreign currency						
- sale of foreign currency	283 412	(323)	2 508	433 981	(939)	1
- purchase of foreign currency	272 499	(1 688)	2 246	426 517	(4 520)	1 405
Securities						
- sale of securities	405 456	(1 252)	1 854	48 168	(274)	931
- purchase of securities	73 262	(454)	1 143	18 947	-	1 905
Non-deliverable forwards						
Foreign currency						
- sale of foreign currency	-	-	-	197 439	(1 419)	305
- purchase of foreign currency	-	-	-	112 376	(147)	797
Securities						
- sale of securities	-	-	-	404 781	(214 159)	-
- purchase of securities	75 053	-	232	-	-	-
Futures						
Securities						
- sale of securities	-	-	-	78 335	(230)	-
Spot						
Foreign currency						
- sale of foreign currency	740 366	(231)	-	1 697 697	(39)	40
- purchase of foreign currency	770 496	(1 853)	1 413	1 687 108	(3 352)	2 706
Call options						

Foreign currency						
- written call options	-	-	-	18 901	(143)	-
- purchased call options	-	-	-	18 901	-	143
Securities						
- written call options	-	-	-	77 508	(10 308)	-
- purchased call options	22 950	-	505	41 091	-	8 161
Put options						
Foreign currency						
- written put options	-	-	-	18 621	(84)	-
- purchased put options	-	-	-	18 621	-	84
Securities						
- written put options	-	-	-	85 278	(1 760)	-
- purchased put options	-	-	-	96 813	-	1 852
Interest rate swaps						
Paying fixed interest, receiving floating interest	-	-	-	311 380	(1 639)	1 621
Total return swaps						
Paying floating interest, receiving total return on securities	-	-	-	7 815	-	23
Total		(5 801)	9 901		(239 013)	19 974

The principal or agreed amounts and fair values of derivative instruments held 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 31 December 2004.

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Negative fair value	Positive fair value	Principal or agreed amount at fair value	Negative fair value	Positive fair value

Deliverable forwards

Foreign currency						
- sale of foreign currency	20 542	-	542	131 566	-	-
- purchase of foreign currency	36 403	(1 148)	259	306 322	(5 471)	3 031
Securities						
- sale of securities	108 818	(140)	1 024	333 570	(79 017)	153
- purchase of securities	29 685	-	2 065	-	-	-

Non-deliverable forwards

Foreign currency						
- sale of foreign currency	-	-	-	6 063	(358)	-
- purchase of foreign currency	9 617	-	604	68 468	-	1 846
Securities						
- sale of securities	1 120	-	1	-	-	-
- purchase of securities	34 719	(19)	173	-	-	-
Precious metals						
- sale of precious metals	-	-	-	23 857	(27)	595
- purchase of precious metals	-	-	-	4 712	(54)	12
Commodities						
- sale of precious metals	5 290	(59)	87	-	-	-
- purchase of precious metals	5 838	(119)	40	-	-	-

Futures

Foreign currency						
- sale of foreign currency	-	-	-	81 312	(1 839)	59
- purchase of foreign currency	-	-	-	365 451	(4 876)	1 123
Securities						
- sale of securities	-	-	-	39 178	(206)	20
- purchase of securities	-	-	-	5 597	(1)	36
Precious metals						

- sale of precious metals	-	-	-	25 569	(19)	230
- purchase of precious metals	-	-	-	13 016	(427)	43
Commodities						
- sale of commodities	-	-	-	5 356	(52)	76
- purchase of commodities	-	-	-	4 950	(53)	75
Spots						
Foreign currency						
- sale of foreign currency	9 478	(13)	12	48 309	-	168
- purchase of foreign currency	9 478	(321)	61	44 712	(89)	1 463
Call options						
Securities						
- written call options	19 190	(643)	-	19 179	(1 160)	
- purchased call options	51 190	-	1 389	5 805	-	643
Put options						
Securities						
- purchased put options	10 225	-	149	14 530	-	948
Total		(2 462)	6 406		(93 649)	10 521

Forward and futures positions in securities as at 31 December 2005 are summarised below. As at 31 December 2005 and 31 December 2004 the major respective securities' long balance sheet positions of the Group exceeded the respective securities' short deliverable forward positions. Refer to Note 8.

	2005		2004	
	Principal or agreed amount		Principal or agreed amount	
	Sale	Purchase	Sale	Purchase
Corporate shares of Russian entities	404 781	-	306 713	-
Corporate bonds	154 934	-	-	-
Corporate Eurobonds	120 941	36 000	34 017	-

Russian Federation Eurobonds	118 563	36 601	90 958	23 748
US Treasury Notes	78 335	75 053	40 298	40 316
Municipal bonds	34 800	-	-	-
Eurobonds of other states	24 386	11 004	10 700	5 937
ADRs and GDRs	-	8 604	-	-
Total	**936 740**	**167 262**	**482 686**	**70 001**

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.
The following table summarises the carrying amounts and fair values of the principal financial assets and liabilities.

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents (Note 7)	878 670	878 670	997 278	997 278
Mandatory cash balances with central banks	195 849	195 849	139 549	139 549
Trading securities (Note 8)	1 139 666	1 139 666	717 050	717 050
Due from other banks (Note 9)	1 212 921	1 212 921	570 642	570 642
Loans and advances to customers (Note 10)	5 727 543	5 736 713	4 100 089	4 103 116
Investment at fair value through profit and loss (Note 11)	57 481	57 481	-	-
Investments available for sale (Note 11)	29 854	29 854	10 684	10 684

Financial liabilities				
Due to other banks (Note 14)	781 867	781 867	499 958	499 958
Customer accounts (Note 15)	5 455 171	5 455 171	4 492 072	4 492 072
Promissory notes issued	377 855	379 690	206 223	204 513
Other borrowed funds (Note 16)	1 680 080	1 686 950	706 955	710 672
Payables on operations with securities and derivative financial instruments (Note 17)	370 918	370 918	152 692	152 692

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 that 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.

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.

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.

Investments available for sale.

The estimated fair value of investments available for sale 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.

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.

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.

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. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

The most significant related parties of the Group are the Alfa Group Consortium (refer to Note 1) and TNK-BP, a Russian-British oil and gas extraction and refining joint-venture company, which is 25% owned by the Alfa Group Consortium.

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:

		2005			2004	
	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other

Trading securities as at the year end	**1 049**	**-**	**7 632**	**58**	**-**	**12 545**
Loans and advances to customers as at the year end (gross of provision for impairment)	**20 867**	**82 051**	**43 096**	**12 785**	**47 042**	**30 591**
USD, effective contractual rate of 1.0%-4.0%	-	157	-	-	-	-
USD, effective contractual rate of 8.8% - 10.3%	20 867	55 129	2 031	-	-	-
USD, effective contractual rate of 10.8% - 12.5%	-	-	4 005	-	3 250	-
USD, effective contractual rate of 12.6-14.0%	-	24 259	37 060	131	41 612	28 688
USD, effective contractual rate of 14.1%-18.0%	-	609	-	-	-	-
RUR, effective contractual rate of 8.5%-10,5%	-	152	-	-	-	-
RUR, effective contractual rate of 10.7% - 19.0%	-	1 745	-		12 654	2 180-
USD, effective contractual rate of 0%	-	-	-	-	-	1 903
Provision for loan impairment as at 1 January	**(326)**	**(2 244)**	**-**	**-**	**-**	**(38)**
Provision for loan impairment during the year	(293)	142	(71)	(326)	(2 244)	38
Provision for loan impairment as at 31 December	**(619)**	**(2 102)**	**(71)**	**(326)**	**(2 244)**	**-**
Interest income for the year (based on effective contractual interest rates)	**183**	**7 860**	**5 262**	**2 775**	**3 915**	**1 248**
Receivables as at the year end	**-**	**7 296**	**2 462**	**9**	**16 074**	**-**
Customer accounts						
Current/settlement accounts as at the year end	**133 497**	**29 381**	**-**	**110 330**	**13 981**	**28 612**

RUR, effective contractual rate of 0.0-2.0%	129 628	17 606	-	105 007	10 196	24 671
USD, effective contractual rate of 0.0-2.0%	1 455	10 063	-	4 392	3 647	3 941
EUR, effective contractual rate of 0.0-2.0%	7	1 238	-	308	138	-
UAH, effective contractual rate of 0.0-2.0%	2 407	474	-	623	-	-
Term deposits as at the year end	**27 430**	**458 207**	**-**	**55 268**	**969 191**	**21 664**
RUR, effective contractual rate of 2.0% - 12.5%	8 801	4 608	-	19 332	5 767	21 664
USD, effective contractual rate of 1.8% - 7.3%	18 629	425 109	-	35 936	963 424	-
UAH, effective contractual rate of 9.0%	-	28 490	-	-	-	-
Interest expense for the year (based on effective contractual interest rates)	**2 966**	**31 473**	**-**	**1 914**	**25 596**	**1 174**
Promissory notes issued as at the year end	**3 543**	**1 505**	**-**	**1 296**	**2 552**	**-**
RUR, effective contractual interest rate of 0.0%	3 543	-	-	1 259	209	-
RUR, effective contractual interest rate of 5.0% - 11.1%	-	1 505	-	22	2 343	-
USD, effective contractual interest rate of 4.1%-7.7%	-	-	-	15	-	-
Payables as at the year end	**1**	**5 590**	**7 617**	**-**	**298**	**11 821**
Guarantees issued by the Group	**107 956**	**420**	**-**	**96 883**	**18**	**-**
Provision for losses on guarantees issued as at 1 January	**(2 756)**	**-**	**-**	**-**	**-**	**(18)**

Provision for losses on guarantees issued during the year	254	(9)	-	(2 756)	-	18
Provision for losses on guarantees issued as at 31 December	(2 502)	(9)	-	(2 756)	-	-
Import letters of credit as at the year end	-	-	7 074	-	-	6 101
Fee and commission income	3 152	5 351	774	3 191	2 340	452
Fee and commission expense	-	-	-	-	-	-
Income from securities transactions with related parties	-	2 459	270	-	58	-
Other income for the year	10	430	-	1 444	3 919	1 797
Other expenses for the year	-	247	-	117	1 190	-

Included in the "other" category above are balances and income and expenses from transactions with the Group's associate company and some members of its management. During 2004 the Group disposed an asset management business to a company within the Alfa Group Consortium for USD 4 832 thousand realising a gain of USD 3 971 thousand.
Key management compensation is presented below:

	2005	2004
Accrued key management compensation	31 532	22 267
Salaries	-	-
Bonuses	31 532	22 267
- short-term bonuses	24 683	19 744
- long-term bonuses	6 849	2 523

	2005	2004
Key management compensation expense	27 497	22 160
Salaries	6 377	6 673
Bonuses	21 120	15 487

- short-term bonuses	14 859	13 890
- long-term bonuses	6 261	1 597

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 CONSOLIDATED 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-Russia Finance B.V. (Netherlands)
	Alfa Securities Limited (UK)
	Amsterdam Trade Bank (Netherlands)
	Alfa MTN Projects Limited
	Alfa ECP Issuance Limited

As at 31 December 2005 and 31 December 2004 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 31 December 2005 (2004: 94.7% owned and controlled). The Group intends to dispose of a part or its entire share in Alfa Bank Ukraine in 2006.

31 SUBSEQUENT EVENTS

On 28 March 2006 the Group issued long term notes in the amount of USD 350 000 thousand maturing in 2011 and payable in tranches, which are securitized by the Group's diversified payment rights, i.e. its rights to funds being transferred by its clients through its correspondent accounts. The notes issued carry a coupon rate of LIBOR plus 1.6%.

Corporate Directory

General license
No. 1326 issued by the RF
Central Bank on January 29, 1998

Corporate Head Office
27 Kalanchevskaya Street
Moscow 107078
Russian Federation
Tel: +7 495 929 91 91
+7 495 974 25 15
Telex: 412089 ALFARU
S.W.I.F.T.: ALFA RU MM

E-mail: mail@alfabank.ru
http://www.alfabank.com/
http://www.alfabank.ru/

Corporate Bank
Head of Corporate Business
Vladimir Tatarchuk
Tel: +7 495 795 36 36
+7 495 788 03 00
Fax: +7 495 745 87 07
E-mail: vtatarch@alfabank.ru

Retail Business
Head of Retail Business
Viktor Bashkirov
Tel: +7 095 788 69 20
Fax: +7 095 788 69 32
E-mail: vbashkirov@alfabank.ru

Consumer Finance
Head of Consumer Finance
Tomasz Kazmierowski
Tel: +7 495 783 53 37
Fax: +7 495 783 53 39

Auto Financing
Head of Auto Financing
Sergey Silantev
Tel: +7 495 785 35 67

Alfa Capital Markets
Chief Executive
Simon Roache
21st Floor, City Tower
40 Basinghall Street
London EC2V 5DE

United Kindgom
Tel: +44 (0) 20 7588 8500
Fax: +44 (0) 20 7382 4170
E-mail: s.roache@alfa-cm.com

Alfa Capital Markets Inc.
President
David Denson
540 Madison Avenue, 30th floor
New York NY 10022
United States
Tel: +1 212 421 75 00
Fax: +1 212 421 86 33
E-mail: DDenson@alfa-usa.com

Amsterdam Trade Bank N.V.
Chairman of the Board
Alexei V. Drovossekov
E-mail: a.drovossekov@atbank.nl
Managing Director
Anton Den Held
E-mail: a.denheld@atbank.nl
Managing Director
Jan P.J. Konijn
e-mail: j.konijn@atbank.nl
Herengracht 475
Amsterdam 1017 BS
The Netherlands
Tel: +31 20 556 95 02
Fax: +31 20 639 15 46
http:// www.atbank.nl

Alfa-Bank Ukraine
4/6 Desyatinnaya
Kiev 01025

Ukraine

Tel: +38 044 490 46 00

Fax: +38 044 490 46 01

E-mail: mail@alfabank.kiev.ua

Mortgage Lending

Head of Mortgage Lending

Ilya Zibareff

Tel: +7 495 967 80 60

Fax: +7 495 967 80 61

Financial Institutions

Head of International Banking

and Financial Institutions

Maxim Topper

Tel: +7 495 929 91 88

Fax: +7 495 792 58 43

E-mail: mtopper@alfabank.ru

Equities

Managing Director, Head of Equities

Dominic Gualtieri

Tel: +7 495 795 36 49

Fax: +7 495 745 78 97

E-mail: dgualtieri@alfa-bank.com

Fixed Income

Managing Director,

Head of Fixed Income & DCM

Oleg Belov

Tel. +7 495 788 64 00

+7 495 785 74 03

Fax:+7 495 745 78 99

E-mail: obelov@alfabank.ru

Derivatives

Managing Director, Head of Derivatives

Simon Vine

Tel. +7 495 788 03 09

Fax:+7 495 745 78 99

E-mail: simon_vine@alfabank.ru

Research

Head of Research

Ronald P. Smith

Tel: +7 495 795 36 13

Fax: +7 495 795 78 97

E-mail: rsmith@alfabank.ru

Alfa Capital Ukraine

77-A, Chervonoarmiyska Street

Kiev, 03150

Alfa-Bank Kazakhstan

57a Masanchi Street

Almaty 050012

Kazakhstan

Tel: +7 3272 92 00 12

Fax: +7 3272 50 78 03

E-mail: infokz@alfabank.ru

Alfa Capital

Chairman Bernard Sucher

48 Myasnitskaya Street

Moscow 107078

Russian Federation

Tel: +7 095 797 31 52

Fax: +7 095 797 31 51

E-mail:info@alfacapital.ru

Alfa Capital Partners Ltd.

Chief Executive Officer

Richard Sobel

32/1 Sadovaya-Kudrinskaya Street

123001, Moscow

Russian Federation

Tel: +7 095 775 18 28

Fax: +7 095 775 18 27

E-mail: info@alfacp.ru

Media and Public Relations

Vice President

Svetlana Smirnova

Tel: +7 095 785 96 50

Fax: +7 095 788 69 81

E-mail: media@alfabank.ru

Investor Relations

Head of Investor Relations

Elena Ershova

Tel: +7 495 795 37 11

Fax: +7 495 788 64 20

E-mail: eershova@alfabank.ru

Ukraine

Tel: (+38 044) 490 16 00

Fax:(+38 044) 490 16 01

E-mail: mail@alfacapital.com.ua

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