Over the last 15-20 years our country has changed significantly. Today, notions like “the value of time”, “components of success”, “cutting-edge technologies”, “quality financial services”, and “financial supermarket” are of great importance to us. Alfa-Bank has always aspired to be one step ahead. That is why our Bank today consists of branch offices located in all of Russia's 11 time zones; offices that provide a uniform service standard throughout the country, and which make use of cutting-edge technologies like Alfa-Click and Alfa-Mobile. This universal service delivery greatly benefits the customer with time-saving advantages. Alfa-Bank today provides a comprehensive range of modern banking products and services for individuals and corporate customers. We are constantly in motion and continuously progressing.
<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countries</td>
<td>7</td>
</tr>
<tr>
<td>Branches and offices</td>
<td>229</td>
</tr>
<tr>
<td>Employees</td>
<td>11,252</td>
</tr>
<tr>
<td>Corporate clients</td>
<td>45,000</td>
</tr>
<tr>
<td>Retail clients</td>
<td>2,354,464</td>
</tr>
<tr>
<td>Total assets (US$, thsd.)</td>
<td>15,209,943</td>
</tr>
<tr>
<td>Gross loans to customers (US$, thsd.)</td>
<td>9,783,652</td>
</tr>
<tr>
<td>Total equity (US$, thsd.)</td>
<td>1,310,184</td>
</tr>
<tr>
<td>Net profit (US$, thsd.)</td>
<td>190,286</td>
</tr>
</tbody>
</table>
Alfa-Bank Awards and Recognition 2006-2007

- Best Bank in “Best Russian Brands 2006” / Interbrand Zintzmeyer & Lux AG and BusinessWeek /
- Best Local Bank Trading Ruble 2006 / Euromoney /
- NAUFOR’s Elite of the Securities Market Awards. Special Award for Broadening Investment Horizons / The National Association of Securities Market Participants (NAUFOR) /
- Creation of Successful Russian Brand / World Brand Academy /
- Best IT Bank in Russia 2006 / CNews Analytics /
- Best Advertising Campaign of the Year 2006 among banks / Association of Regional Banks of Russia /
- MasterCard 2006 European Co-Brand Award for Alfa-Bank & Aeroflot Program / MasterCard /
- One of the most transparent banks according to the “Transparency and Disclosure by Russian Banks” research / Standard & Poor’s /
- Best IT Project in Financial Services Management (Alfa – Mobile) 2007 / CNews Analytics /
- Best Trade Finance Bank in Russia 2007 / Global Finance /
<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address to the Clients and Business Partners of Alfa-Bank</td>
<td>06:07</td>
</tr>
<tr>
<td>Board of Directors and Management Board</td>
<td>08:09</td>
</tr>
<tr>
<td>CEO's Statement on Key Achievements of 2006 and Strategy for 2007</td>
<td>12:13</td>
</tr>
<tr>
<td>Russian Economy and Banking Sector Review</td>
<td>16:17</td>
</tr>
<tr>
<td>Corporate Banking</td>
<td>22:23</td>
</tr>
<tr>
<td>Retail Banking (Branch Business)</td>
<td>30:31</td>
</tr>
<tr>
<td>Consumer Finance</td>
<td>34:35</td>
</tr>
<tr>
<td>Mortgage Lending</td>
<td>38:39</td>
</tr>
<tr>
<td>Auto Finance</td>
<td>40:41</td>
</tr>
<tr>
<td>Investment Banking</td>
<td>44:45</td>
</tr>
<tr>
<td>Alfa Group Family Companies</td>
<td>52:53</td>
</tr>
<tr>
<td>Summarised Consolidated Financial Statements</td>
<td>60:61</td>
</tr>
<tr>
<td>Corporate Directory</td>
<td>64:65</td>
</tr>
</tbody>
</table>
Alfa-Bank in Russia

Time zones relative to Moscow time

Additional Alfa Banking Group Locations

- Almaty
- Karaganda
- Nicosia
- Amsterdam
- Kiev
- New York
- Astana
- London
- Ust Kamenogorsk
Becoming the leader in an industry does not mean the final summit has been reached. Securing and maintaining that position of leadership, nurturing the trust of clients and partners alike, and strengthening your reputation, are far more challenging elements of running a successful business. Instead of relying on our past successes, we believe in ensuring continuous growth and improvement, responding to market challenges and the needs of our clients, and ultimately being a step ahead at all times.

We are proud to present the Alfa Banking Group (“Alfa-Bank”) annual report for 2006. This has been another successful year in our history, a year during which Alfa-Bank secured its position as the largest private bank in the country, and also maintained its position as a leader in Russian bank ratings. By focusing on key projects and growth across the board, we have strengthened our position in the Russian financial market. The growth rate in Alfa-Bank’s credit portfolio has been in the high double-digits, while our financial performance remained strong.

We are able to call ourselves a universal bank since we offer our clients – individuals as well as organizations – the entire spectrum of banking products and services. Today more than 45,000 corporations and almost 2.4 million individuals form part of our client base. We are proud that they have chosen us. Even more important to us than providing banking products and services of a high quality, is enabling our clients to achieve their most important goals: establishing and developing their businesses, entering the international market, raising their quality of life and continuing to grow with us.

Alfa-Bank’s success in 2006 was based on an effective strategy and business model that took into account both market trends and the expectations of our clients. Our strategy and business model are aimed at the fastest growing segments of the banking business. These are further enabled by our investment in superior technology and operational platforms as well as highly skilled staff. The past year has brought rapid development in Alfa-Bank’s retail business, both in Moscow and the regions. Alfa-Bank’s retail banking business is spearheaded by its network of branches with the aim of providing easy-to-understand, convenient and efficient service to individuals and small enterprises. In 2003, Alfa-Bank launched an upgraded model of its branches. As of December 31, 2006, Alfa-Bank had 87 branches operating under the new branch format, of which 32 were opened in Moscow and 55 were opened in the Russian regions. The main advantages of the new format are universal services and flexibility: today we can provide the same range of services to every client, irrespective of their branch or where they were initially registered.
Our strategic goal is to become Russia’s largest retail bank. To achieve this goal we aim to invest over US$ 200.0 million into the development of a regional network over the next two to three years. We are confident that our investments and activities in Russia’s many regions will stimulate business and accelerate economic growth and development.

Alfa-Bank has always focused on the needs, preferences, and expectations of its clients. As in the past, we have dedicated ourselves to offering new products and enhancing the quality of our services. In 2006, we started to offer our clients mortgages, new products in auto financing, and increased remote banking services through telephone and Internet banking. By investing in these areas we hope to secure our position in the banking system, and to support the middle class by improving their standard of living. We believe that the economic growth and prosperity of the country is closely connected to the increased economic activity of the population.

We have also maintained high growth rates in Alfa-Bank’s Corporate Banking and Investment Banking business units. For the past several years, the bank has maintained its position as a market leader in equity and fixed income brokerage. Alfa-Bank is also considered to be one of the top providers of credit services to corporate clients.

Alfa-Bank understands the inseparable link between business development in Russia and the social well-being of its people as well as stability, and cultural and educational development in the country. Therefore, the Bank pays a lot of attention to social and charity programs. Supporting the National Arts is very important to us. Special attention has been given to the following social programs: Lifeline (for seriously ill children), the World Wildlife Fund, and Alfa Chance, an educational program for Russian school children. Last year, with the support of Alfa-Bank, the largest-ever literature prize was awarded.

Having established a solid foundation for future development in the past year, we now have the opportunity to improve our market position further in the years to come. We are grateful to Alfa-Bank’s management for their professional and well-planned approach to running the business. We are also indebted to our clients and partners for their trust and cooperation. A special thank you should also go to all Alfa-Bank’s employees, for without their dedication and professionalism we would never have been able to achieve the successes of the past year.

Mikhail Fridman,
Chairman of the Board
of Directors

Rushan Khvesyuk,
Chairman of the Executive Board,
Member of the Board of Directors
Tomasz Kazmierowski
Member of the Executive Board, Head of Consumer Finance

Ildar Karimov
Member of the Board of Directors

Andrei Sokolov
Deputy Chairman of the Executive Board

Andrei Kosogov
Member of the Board of Directors

Alexander Gafin
Member of the Board of Directors

Oleg Syusev
First Deputy Chairman of the Board of Directors

Mikhail Fridman
Chairman of the Board of Directors

Vladimir Tatarchuk
Deputy Chairman of the Executive Board, Head of Corporate Banking
2006 started with the successful re-branding of all the Bank’s businesses under one modern brand.

According to RosBusinessConsulting, as of January 1, 2007, Alfa-Bank was Russia’s fourth-largest Bank in terms of assets and shareholders’ equity.

In 2006, growth rates in the Russian Banking market were very strong across all segments. The annual growth rate of banking assets reached around 57.0%. The retail lending market growth was at around 91.0% year-on-year and it remained an area of focus for all major market participants. While the total size of retail loans as a percentage of total loans increased to 8.0% by the end of 2006 from 5.4% of GDP in 2005, there is still significant upside potential for this market.

Alfa-Bank further strengthened its market positions in 2006. The table below summarizes the key figures for the year.

<table>
<thead>
<tr>
<th>In US$, millions</th>
<th>2006</th>
<th>2005</th>
<th>Growth (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>15 209.9</td>
<td>9 835.7</td>
<td>54.6</td>
</tr>
<tr>
<td>Total gross loans</td>
<td>9 783.7</td>
<td>5 967.4</td>
<td>64.0</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>7 946.4</td>
<td>5 455.2</td>
<td>45.7</td>
</tr>
<tr>
<td>Total equity</td>
<td>1 310.2</td>
<td>855.8</td>
<td>53.1</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>190.3</td>
<td>180.6</td>
<td>5.4</td>
</tr>
</tbody>
</table>

The corporate loan portfolio grew by 54.1% to US$ 8 974.4 million, while loans to retail clients increased 5.6 times to US$ 809.3 million as of December 31, 2006. The retail loan portfolio’s share in total gross loans of Alfa-Bank increased to 8.3% by the end of 2006 from 2.4% at the end of 2005.

The Bank’s average after-tax return on equity stood at a solid 17.6% in 2006.

Alfa-Bank’s gross corporate loan portfolio increased by 54.1% in 2006, which is higher than the market average. The main challenge in 2006 was the pace of growth and further diversification of both portfolio and customer base. Strong economic growth, particularly in the trade and services sectors, resulted in small and medium-size enterprises increasing their borrowing demands. Penetration into this sector was fully in line with the Bank’s goal of broadening exposure to new regional markets. To increase competitiveness and cope with
“For us, 2006 was a year of growth and rapid infrastructure development. Alfa-Bank extended its four retail business lines, expanded distribution in the regions and maintained its solid positions in the corporate and investment banking markets. The keystones of our strategy in coming years are to meet our clients' needs and to save their time.”

Petr Smida, Member of the Executive Board,
Chief Executive Officer

increasing pressure on margins for large clients, the Bank continued to develop new, more sophisticated products such as trade and structured finance and cash management products. Cross-selling of Investment Banking products to our client base enjoyed a growing role and will continue in the future.

The Investment Banking division responded to clients’ increasing interest in the Russian financial markets. The Bank has been a co-leader in a number of initial public offerings for companies such as Rosneft, OGK-5 and Chelyabinsk Zinc. The equity markets division maintained strong positions in trading on the domestic exchanges. In 2006, Alfa-Bank advised on a variety of M&A deals in utilities, oil, aviation and other sectors. The Bank was involved in a number of bond issues, including Don-stroy and Mirax Group’s foreign currency-denominated debt transactions, as well as placements of ruble-denominated bonds for Integra and MOESK. Further development of our corporate client base for Internet-based banking products is a key lever to future profitability.

The Bank successfully diversified its retail market presence by offering clients new auto loan products and launching mortgage operations. Alfa-Bank’s retail portfolio reached US$ 809.3 million, demonstrating a solid increase in market share and we continue to increase our market presence through expansion into the regions.

Over the past year, Alfa-Bank opened an average of one full-scale retail branch per week. In addition we have hundreds of new points of sale in auto and consumer finance. The Bank’s total number of depositors rose 37.7% year-on-year to hit US$ 1.7 million. The retail client base increased by an average of 25 000 customers per week, tripling the number of retail borrowers and taking the total number of retail customers to around 2.4 million people.

Branch-based personal loans exhibited strong growth, representing the most significant part of Alfa-Bank’s retail portfolio. In 2006, Alfa-Bank extended its credit card business by issuing a co-branded MasterCard with Aeroflot. This program was recognized by MasterCard as one of the best co-branding projects globally.

The market responded very positively to Alfa-Bank’s new auto loan program. By December 2006, just 13 months after launch, Alfa-Bank was Russia’s 11th-largest auto lender, according to RosBusinessConsulting.

Going forward our main goal in retail banking will be to continue to expand distribution, to grow profitability and finalize our technology and operational platform development. The result should allow us to grow the customer base and maintain a healthy, diversified, profitable portfolio of assets.
Alfa-Bank remains one of the best-known brands in the Russian market. The overall increase of both corporate and retail customer accounts reached 45.7% year-on-year. We are especially proud of our increase in retail current accounts, the market share of which has increased to 4.0% in 2006 from 3.6% in 2005. Regional penetration helps the geographic diversity of the Bank’s customer accounts.

Holding to the strategy of increasing diversification of funding sources, Alfa-Bank has also been active in the international capital markets. The total amount of funds raised by the Group in 2006 amounted to approximately US$ 2.6 billion. In March 2006, Alfa-Bank successfully closed its debut US$ 350.0 million transaction for the securitization of Diversified Payment Rights (DPR), which was the first ever transaction under a DPR Program executed by a Russian institution. A second DPR transaction was completed in December 2006 and consisted of two tranches (in Euros and US dollars), raising a further total of approximately US$ 560.0 million. In October 2006, Alfa-Bank issued US$ 400.0 million notes under its Euro Medium Term Notes (EMTN) Program. In addition to this, almost US$ 1.0 billion was raised by the Bank in the syndicated loan market and around US$ 300.0 million was attracted through the Euro Commercial Paper (ECP) Program.

Continuous improvements in risk management, operations and IT are vital conditions for sustainable strong growth. We put a great deal of effort into the development of infrastructure and risk management processes to support our growth. We opened a new operations center, a call center based on the latest Avaya technology and implemented next-generation electronic archiving to reduce operational risks. We have also implemented many new IT applications in our risk, treasury, operations and collections systems.

A key area of management’s focus was to develop our human capital. On top of market leading processes we already have identified a TOP 30 talent list and begun the systematic development of key people. We want to understand their strengths and weaknesses, evaluate their performance and develop career plans. We plan to replicate the same approach in the regional offices.

Recognition of Alfa-Bank’s success is illustrated by awards from leading financial publishers and rating agencies. In December 2006, international rating agency Standard & Poor’s upgraded Alfa-Bank’s credit rating to BB from BB- (both with a stable outlook). Prior to this, in June 2006, Moody’s Rating Services upgraded Alfa-Bank’s financial strength rating to D from D-, while the long-term foreign currency deposit rating of the Bank remained unchanged at Ba2. In May 2007, Moody’s has raised the Bank’s financial strength rating again to D+ from D, and the foreign currency deposit rating was upgraded to Ba1 from Ba2.

Alfa-Bank was also recognized as one of Russia’s most transparent Banks, according to the “Transparency and Disclosure by Russian Banks” research issued by Standard & Poor’s.
Alfa-Bank has developed one of the best-recognized brands in the Russian banking industry. In 2006, Interbrand Zintzmeyer & Lux AG and BusinessWeek Russia rated Alfa-Bank first among Russian banks for its brand rating, with an overall ranking of 11th among the most prominent national companies operating in the Russian economy. In addition to this, in the past year our achievements were also acknowledged by such international magazines as Euromoney and Global Finance, independent Russian research agency CNews Analytics (CNA), the Moscow International Currency Association and many others.

In Conclusion

Our business model, focused on profitable, dynamic business segments, along with investment in operating platforms and highly qualified personnel, contributed substantially to the Bank’s success and helped us to achieve strong results in 2006. I believe that Alfa-Bank is well-positioned to continue its healthy growth and maintain its leadership in the Russian banking sector in 2007 and beyond.
Last year Russia enjoyed further improvements in its macroeconomic trends. The country’s trade balance was 14.2% of GDP, and the current account was close to 9.7% of GDP. Significant improvement took place in capital accounts – compared to continuing net capital outflows through 2004 and a modest US$ 0.7 billion inflow in 2005, Russia received a solid US$ 41.6 billion in net capital inflows in 2006. As a result, the Central Bank’s (CBR) reserves reached US$ 303.7 billion by 2007, increasing by US$ 121.5 billion in 2006 alone. Russia currently boasts the third-largest reserves in the world after China (US$ 1,066.3 billion) and Japan (US$ 874.6 billion).

The most significant macroeconomic improvement was seen in Russia’s debt position. The Cabinet used a very positive external environment to fully redeem Russia’s foreign debt to the Paris Club, paying the equivalent of US$ 22.3 billion. Following this payment, Russia’s public foreign debt dropped to US$ 49.0 billion at the end of 2006, or 5.0% of GDP. The entire public debt totaled just 9.0% of GDP, one of the lowest in emerging markets.

Russia’s public debt is now almost entirely covered by the Stabilization Fund. At the end of 2006 the size of the Stabilization Fund reached US$ 89.1 billion, or 9.1% of GDP. This high amount is clearly supported by significant efforts from the Cabinet. While Russian fiscal revenues are increasing on high commodity prices, budgetary expenditures remain under control. Russia’s federal budget surplus was 7.4% of GDP and the enlarged budget surplus reached a record high of 8.5% of GDP in 2006, despite the electoral cycle.

These economic improvements explain additional upgrades in Russia’s sovereign ratings – in 2006 both Fitch and S&P raised Russia’s rating one notch to BBB+. With the size of sovereign debt steadily declining, these ratings upgrades positively affected Russian companies, which continued to increase their corporate debt. Total foreign corporate debt amounted to US$ 260.7 billion as of January 2006, of which about 38.9% was due to external borrowing by banks.

Not surprisingly, the favorable economic conditions were reflected in rapid growth on the financial markets. The RTS index was up by 69.8% in 2006 vs. 83.3% the year before, and it also substantially outperformed the MSCI index. Russia is therefore home to one of the world’s most profitable financial markets.
“The Russian economy maintains strong growth, which in 2006 was significantly supported by retail lending penetration. Banking is now one of the booming sectors of the Russian economy.”

Petr Aven, President, Member of the Board of Directors
Continuing inflows of commodity revenues resulted not only in reserves reaching an all-time high, a positive trade balance and a fiscal surplus, but also in structural economic transformation.

The most crucial change to take place was the de-dollarization of the economy. The share of foreign currency-denominated bank deposits declined to a record low of 16.6% of total banking deposits, down from 24.4% at the end of 2005. A few years ago, foreign currency deposits were as high as 39.2% of the total. Nominal ruble appreciation also increased demand for banking deposits. Retail savings in Russian banks rose from 12.5% of GDP at the end of 2005 to 14.7% of GDP by 2007. Savings growth was also due to the public’s anticipation of increased deposit insurance coverage. While the deposit insurance system previously offered coverage of only US$ 7 000 per person, it began to cover US$ 15 000 per person in 2007.

Another important achievement is the continuing growth in consumption, which now drives Russia’s economic expansion. Russia’s real disposable income rose by 10.2% in 2006, and by 2007 it stood at just 4.0% below the 1991 level. Consequently, the drop in living standards that took place during the 1990s has essentially been overcome. The average salary for Russia reached US$ 395/month and US$ 810/month for Moscow. The increase in household earnings translates into improved living standards: around 10 million Russians travel abroad each year, the country’s birth rate is increasing and its infant mortality rate has dropped from 15 per 1 000 live births in 2001 to 11 per 1 000 live births in 2006.

The strong retail trend is noticeably translating into an increase in retail-focused segments compared to average GDP growth. Growth in the construction sector accelerated to 14.0% in 2006 vs. 10.6% in 2005. The trade sector also maintained a strong 8.7% growth rate. Meanwhile, the industrial sector delivered just 3.9% year-on-year growth, and commodity extraction maintained a very modest growth rate of 2.3% year-on-year in 2006. The manufacturing sector increased at a more rapid 4.4% rate, but its growth slowed significantly compared to previous years.

A significant driver behind the growth in consumption was the acceleration of banking sector penetration. Judging by the size of its banking assets relative to GDP, Russia still lags well behind the EU, China, and non-EU countries in Central and Eastern Europe (CEE). However, total banking assets increased from 44.6% to 54.4% of GDP in 2006 – US$ 533.4 billion in nominal terms. The retail lending segment delivered the fastest growth rate, jumping 91.3% in 2006. Total retail loans in Russia now amount to US$ 78.4 billion, or 8.0% of GDP. In 2006, retail loans financed 40.0% of consumption growth vs. approximately 25.0% in 2005.

### Retail Loans and Living Standards by Country, 2005-2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Retail loan amount per capita, US$</th>
<th>Average monthly salary, US$</th>
<th>Average loan to average salary</th>
<th>Morgages, as % of total retail loans</th>
<th>Morgages, as % GDP</th>
<th>Banking assets, as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>887</td>
<td>601</td>
<td>1.47</td>
<td>35.0%</td>
<td>4.9%</td>
<td>70.0%</td>
</tr>
<tr>
<td>Hungary</td>
<td>1 584</td>
<td>520</td>
<td>3.08</td>
<td>59.0%</td>
<td>9.4%</td>
<td>85.0%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1 261</td>
<td>703</td>
<td>1.79</td>
<td>50.0%</td>
<td>6.0%</td>
<td>95.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>548</td>
<td>395</td>
<td>1.38</td>
<td>16.0%</td>
<td>1.3%</td>
<td>54.4%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>333</td>
<td>259</td>
<td>1.29</td>
<td>33.0%</td>
<td>5.0%</td>
<td>90.0%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>128</td>
<td>154</td>
<td>0.83</td>
<td>26.0%</td>
<td>4.0%</td>
<td>69.0%</td>
</tr>
</tbody>
</table>

Sources: Internet securities, Reuters, Alfa-Bank Research
The retail lending sector is undergoing significant changes in terms of its structure. The mortgage segment, which represented only 0.5% of GDP in 2005, rose to 1.3% of GDP by the end of 2006. This segment tripled in size last year and is undoubtedly delivering the fastest growth rate in the retail lending sector. On a per capita basis, Russia shows very strong growth potential compared to other CEE countries. The debt burden per capita just slightly exceeds the average monthly salary in Russia, while it usually exceeds the average salary by 3-4 times in developed markets.

Russia's banking sector growth is expected to be substantially bolstered by the liberalization of the financial market for foreigners. At the end of 2006 the Central Bank of Russia (CBR) introduced an amendment to the law On Banks and Banking Operations, liberalizing access to banking stocks for foreign investors. Now foreign investors can buy up to 20.0% of any bank's equity capital without the CBR's permission (but must inform the CBR beforehand), and up to 1.0% without informing the CBR of the transaction. In addition, during IPOs foreign investors are able to buy up to 1.0% of any bank's stock without restrictions. These amendments pave the way for better liquidity on the secondary market, and offer Russian banks an interesting opportunity to raise capital on international markets.

2006 seems to have been an important turning point for Russia. During the year the country ceased to be vulnerable to the macroeconomic risks typical of emerging markets. However, economic strategy should address the deeper structural imbalances that are now becoming visible.

One of these imbalances is Russia’s strong dependence on oil. Export revenues have increased the country’s dependence on commodity prices – while fuel exports represented 50.3% of total export revenues in 2000, the share increased to 62.8% in 2006. Metals exports account for nearly 16.0% of total export revenues. The increasing dependence on fuel revenues coincides with the strong growth of imports. Total imports grew by 31.4% year-on-year, or around US$ 39.3 billion. Additional import flows occurred even with the acceleration of investment growth to 13.5% in 2006, at its highest since 2000. Should this strong import growth continue, a decline in the trade balance is very likely by 2009.

The CBR is strengthening the ruble exchange rate, which is becoming an important factor for triggering capital inflows. Russia eliminated currency controls in July 2006, and in doing so liberalized foreign access to ruble-denominated instruments. This significant opening of Russia’s financial markets is seen as part of the country’s strong commitment to stimulating capital inflows to non-strategic sectors of the economy. However, higher FDI inflows have yet to be encouraged. According to the State Statistics Service (Rosstat), FDI was only 1.3% of GDP in 2006. Currently, the capital account surplus is due to short-term capital flows rather than FDI inflows.

While Russia’s GDP growth is no longer as dependent on oil sector output as it was in previous years, diversification is still a very crucial issue. The entire balance of payments surplus is due to the positive trend on the commodities markets. Economic vulnerability to a decline in commodity prices remains significant, and stimulating investment growth is an important step in addressing this dependency. Russian companies are still relatively inefficient in terms of energy consumption. A switch to modern technologies is required to increase their competitiveness. For this reason, increases in electricity and gas prices seem inevitable in the future, suggesting risks of inflationary pressure.
The Russian banking sector is now deeply involved in stimulating economic growth, which calls for additional improvements in banking sector regulation. In particular, amendments to existing regulations should aim to simplify the securitization process, improve the refinancing system, offer better supervision and monitoring of banking activity, and standardize regional banking regulations. The Central Bank’s practices should address changing conditions in the banking sector and help banks in controlling their risks.

Finally, social inequality remains an issue in Russia. In 2006, around 45.0% of total revenue in Russia was still controlled by the richest 20.0% of the population. A middle class is gradually emerging, but its growth appears to be hampered by the underdevelopment of private entrepreneurship, i.e. small and medium-sized businesses, which currently produce just 12.0% of GDP. Conversely, a larger proportion of the population has become dependent on the state. Pensioners represent around 20.0% of Russia’s population, one of the highest figures among CEE countries. The public sector employs around 25.0% of the entire workforce, or about 16 million people.

Generally speaking, increasing macroeconomic stability is not a goal in and of itself. Rather, it is a strong prerequisite for allowing the state to focus on its strategic goals, such as diversifying the economy, increasing economic efficiency and reducing social disparity.

An important development in 2006 was Russia’s continuing progress toward joining the WTO. Last year Russia signed an agreement with the US and entered the stage of multilateral negotiations, paving the country’s way to joining the WTO and drawing closer to meeting international standards of economic regulation. WTO membership would undoubtedly be an important step in enabling Russia to participate in the development of world trade regulations. It will also increase the country’s global role and importance.

However, intensified investment flows are ensuring Russia’s integration into the world economy regardless of WTO membership. Russia’s corporate investments abroad are gaining importance on the world stage – before 2004, only oil companies were actively investing capital in foreign assets, but in 2005-2006 Russia’s non-oil companies, particularly those in the metals and telecom sectors, became active in foreign acquisitions. Russian banks have followed their clients into international markets, particularly in the CIS, and are continuing their development internationally. Although the attempts by a number of Russian companies to acquire foreign assets were hindered by local resistance, more and more projects have been launched internationally. In 2006, Russian companies invested at least US$ 10.0 billion in foreign assets.
Russian companies and banks are widely using debt instruments to finance their growth. The total private foreign debt of Russian companies and banks amounted to 26.6% of GDP by 2007, which is not high compared to international levels. The gradual development of securitization is a particularly welcome trend. An increasing number of Russian banks and companies are using more sophisticated debt instruments to reduce the cost of borrowing. Since the ruble became convertible in the summer of 2006, a larger number of Russian companies are able to offer ruble-linked instruments to bond investors. Continuing ruble appreciation is making the Russian market one of the most profitable among its peers.

Russia’s economy has accumulated strong financial reserves and gained access to world financial markets, both in equity placements and debt issuing. Access to capital is extremely important in order to finance necessary restructuring and to increase productivity in the future. Going forward, the Russian economy needs to avoid being driven purely by oil. Instead, it has to pursue a course that is more diverse and sustainable.
Enabled by the rapidly growing economy, the Russian banking sector demonstrated high growth rates in 2006. The volume of loans issued by Alfa-Bank to corporate clients grew by 54.1%. One of the distinctive tendencies in 2006 was the increased interest that foreign banking institutions showed in the Russian market. As a result, Russian banks had to improve their product lines and standards of client services to compete with more experienced foreign contenders.

Despite the significant growth in all market segments of corporate banking services, Alfa-Bank maintained its leading position in 2006. In terms of the volume of loans placed, Alfa-Bank is still the most active private bank in providing finance. Its portfolio is surpassed only by those of state-owned Sberbank, VTB and Gazprombank. In terms of customer accounts, Alfa-Bank was in fifth place in the country at the end of 2006.

The keys to Alfa-Bank’s success are continuous improvement in product offerings, development of state-of-the-art banking technologies, and meeting the financial needs of clients today and in the longer term.

Our top priorities in the past year were the development of structured debt instruments (syndicates, trade finance and leasing), and settlement products offered by the cash management group, a first for the Russian market. Apart from the existing products and services, the cash management portfolio was complemented in 2006 with special products for holding companies.

Special attention was given to the development of strategies to promote cross-sales of products between Alfa-Bank businesses (investment banking and retail banking products). This helps to create significant synergies, both for our clients and for the Bank.

The leading industries in Alfa-Bank’s credit portfolio in 2006 were trade, construction, power generation and ferrous metals. The highest growth was achieved by companies in the power generation, aviation, construction and finance and investment sectors.

<table>
<thead>
<tr>
<th>Services to Corporate Clients</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of corporate clients</td>
<td>over 45,000</td>
</tr>
<tr>
<td>Total gross corporate loans</td>
<td>US$ 8,974.4 million (+54.1%)</td>
</tr>
<tr>
<td>Corporate loan market share</td>
<td>4.0% (fourth place in the country)*</td>
</tr>
<tr>
<td>Corporate customer account market share</td>
<td>3.3% (fifth place in the country)*</td>
</tr>
<tr>
<td>Corporate overdue loans</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

* Source: Calculated based on statistics of the Central Bank of the Russian Federation
The credit portfolio demonstrated a positive trend, with the share of the 10 largest borrowers reducing to 22.3% by the end of 2006 from 24.1% at the end of 2005. At the same time, the share of mid-term and long-term loans (longer than one year) in the Bank’s portfolio more than doubled.

Despite the significant growth of the corporate loan portfolio, the share of overdue loans is gradually decreasing to 0.4% at the end of 2006 vs. 0.8% at the end of 2005. The reduction illustrates Alfa-Bank’s use of an approach that combines reasonable conservatism with flexibility in assessing risks.
Regional Business Development

The top priority for the Bank’s development in 2006 was intensive regional business growth, especially among medium-sized companies. In the past year, this has become the major segment for development and the area where increased competition emerged between banks.

Apart from the significant quantitative growth of regional companies, the maturing market has faced changes in quality too. As infrastructure develops and becomes more complicated, it brings about more advanced requirements than the traditional mix of banking products. Previously the demand for more sophisticated products was not as strong in the regional market, but recently it has grown.

In response to these market requirements, the Bank made a concerted effort to improve infrastructure and business procedures, and to consolidate product lines in its regional divisions. For Alfa-Bank, it is a matter of principle to offer its clients a unified portfolio of products in all regions of Russia, along with a consistent, superior and individual approach to service delivery.

The cash management business was another top priority, and for further development of this area, branch offices started implementing a special IT platform that will become the basis for development of the cash and settlement business in the years to come.

Apart from internal changes, Alfa-Bank has worked closely with its clients in order to establish long-term relationships. To achieve this, we take efforts to provide clients with the latest information on bank products and services. In the regions several product seminars were presented, which were highly appreciated by our clients. These will continue to be offered in 2007.

In the reporting year, the overall volume of Alfa-Bank’s regional business (excluding Moscow) comprised around 36.0% of the credit portfolio, which demonstrates steady growth. As a result, the volume of loans issued to regional businesses by year-end exceeded US$ 3.0 billion. The active regional strategy of business development enabled an increase in the Bank’s market share in corporate loans in the regions to 3.9% from 3.6%.

Structured Finance

In 2006, Alfa-Bank continued to strengthen its position in the area of structured credit products.

The most significant deals in 2006 included the following:

- Alfa-Bank was one of the participants and major lenders in the provision of a syndicated loan to the Republic of Sakha (Yakutia), the largest region in the Russian Federation. The loan amount of RUR 1 650.0 million was issued to cover the Republic’s budget deficit and to repay the debts of the Government of the Republic. The loan was issued in two tranches: Tranche A in the amount of RUR 850.0 million for two years, and Tranche B in the amount of RUR 800.0 million for three years.

- In September 2006, Alfa-Bank acted as the Co-Arranger of a syndicated loan for an amount of RUR 1 000.0 million for three years to the pharmaceutical distributor CJSC NPK “KATREN”, which at the time was the fourth-largest company in the industry, according to industry agency Pharmexpert.

Trade Finance

Trade finance has traditionally been one of the top priorities in Alfa-Bank’s development. Following the 2006 results, Global Finance magazine selected Alfa-Bank as “Best Trade Finance Bank” in Russia. The total volume in trade finance in 2006 was in excess of US$ 500.0 million.
The largest trade finance deals funded by Alfa-Bank during 2006 included:

- an import contract for the supply of cars to OOO Sokia – an official distributor of KIA Motors Corporation Ltd;
- a contract for the purchase of industrial equipment for OJSC GAZ over three years between Daewoo International Corporation and Renault Trucks.

Leasing (Alfa-Leasing)

In 2006, Alfa-Leasing continued its intensive growth and remained one of the largest leasing companies in Russia. According to Expert credit rating agency, Alfa-Leasing was the third-largest leasing company in Russia based on 2006 results. The company’s portfolio of leasing deals has grown by more than 65.0% in one year. At the end of 2006 the portfolio grew to over US$ 1.0 billion.

The 2006 results showed that Alfa-Leasing has a significant share in various leasing market segments, including railway transportation (at the end of 2006 the total fleet exceeded 6 759 railway cars and locomotives), road construction and other construction equipment, cargo transport vehicles, and power equipment.

Alfa-Leasing’s largest deals in 2006 were:

- Various contracts worth over US$ 120.0 million with OJSC Holding Company “Novotrans” for the leasing of railway cars;
- Various contracts worth over US$ 100.0 million with GazVagonTrans Group for the leasing of railway cars;
- Various contracts worth over US$ 90.0 million with DVTG for the leasing of railway cars;
- Various contracts with Leman Pipe worth over US$ 45.0 million for the leasing of railway cars;
- Contracts worth a total of US$ 93.1 million for the supply of equipment to OJSC “LENENERGO”;
- Contracts worth a total of US$ 45.7 million for the supply of equipment under a leasing contract with TGK-10.

In 2006, Alfa-Leasing continued to cooperate with leading Russian and foreign suppliers of equipment, including the Federal State Unitary Enterprise Production Association affiliate URAL-VAGONZAVOD, Altayvagon, AzovObscheMash, Volvo, Hitachi, Komatsu, Toyota and others.

Mergers and Acquisitions

Alfa-Bank is one of the leaders in M&A consulting in Russia, according to ratings published in 2006 by Mergers and Acquisitions magazine. Alfa-Bank offers financial consulting services for mergers, acquisitions and IPO preparation. In 2006, Alfa-Bank was hired by RAO UES (Unified Energy Systems of Russia) as the general financial consultant regarding the placement of additional equity of OGK and TGK.

In 2006, Alfa-Bank also acted as a consultant in M&A deals, including: the arrangement of an open auction to sell the stocks of OJSC Taymirenenergo, fully owned by RAO UES; the sale of CJSC Nortoil public oil company to West Siberian Resources; the acquisition deal of OJSC Nuclear & Power Machine Building (Atomenergomash); the formation of TGK-6 through an exchange of shares of six regional generating companies.
Alfa-Bank Kazakhstan, established in December 1994, provides a full range of banking products and services to both corporate and individual clients. Alfa-Bank Kazakhstan’s head office is located in Almaty and it has two branches in Astana and Karaganda, as well as two representative offices in Ust-Kamenogorsk and Ekibastuz.

Alfa-Bank Kazakhstan services more than 22,000 corporate and individual clients, across a number of industries. According to figures published by Kazakhstan’s Central Bank, Alfa-Bank Kazakhstan is placed among the 20 largest banks in the Republic of Kazakhstan by assets.

Alfa-Bank Kazakhstan’s assets increased by around 45.5% to US$ 179.5 million by the end of 2006 from US$ 123.4 million at the end of 2005. Its gross loan portfolio grew by 33.8% to US$ 96.7 million from US$ 72.3 million at the end of 2005. As of December 31, 2006, total shareholder capital of the Bank stood at US$ 40.1 million vs. US$ 28.5 million at the end of December 2005.

According to Moody’s international credit rating agency, the long-term deposits of Alfa-Bank Kazakhstan are rated Ba3 with a stable outlook and the financial strength rating of Alfa-Bank Kazakhstan is E+.

Amsterdam Trade Bank N.V. (“ATB”) was incorporated in October 1994 in Amsterdam, the Netherlands, and holds a full banking license from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, Alfa-Bank acquired a 100% interest in ATB.

ATB is a member of SWIFT, TARGET and Interpay settlement systems and issues private and corporate EuroCards and MasterCards. ATB is the main correspondent bank of Alfa-Bank for euro-denominated clearing services.

ATB provides banking, consulting and project finance services to a wide range of corporate clients with a particular focus on trade finance services involving Russia, other CIS countries and the European Union. ATB also facilitates foreign direct investment in Russia and the CIS. At the end of 2006, ATB served over 600 corporate clients and over 23,700 private clients.
2006 was characterized by significant growth in business volumes. ATB’s assets increased to € 2,254.7 million at the end of 2006 from € 1,587.5 million at the end of 2005. In close cooperation with Alfa-Bank, ATB continues to expand its loan portfolio. By the end of 2006, it had grown to € 1,026.2 million.

ATB fulfils its high growth potential by attracting deposits in the retail market of the Netherlands. In October 2006, ATB entered the German market with its savings program, which is entirely based on Internet technology.

ATB’s net profit as of December 31, 2006 amounted to € 22.1 million vs. € 13.5 million as of December 31, 2005.

ATB’s equity on December 31, 2006 amounted to € 159.8 million.

Main Priorities for Corporate Business Development in 2007

- Continue to consolidate quality standards and centralize business procedures in all regions where Alfa-Bank operates: introduce a unified real-time online IT-platform and related product offering.
- Continue the intensive development of cash management business. Gradually transfer most of the financial operations of our clients to Alfa-Bank.
- Launch new conceptual program devised for work with small and medium-sized enterprises. Implement new product lines, and develop new standards and procedures to work with companies in this market segment.
- Continue growth of cross-sales with Investment banking and Retail banking businesses.
In 2006, Alfa-Bank achieved significant success in further building its retail business, which remains one of its top priorities. During the reporting period the client base grew significantly, the regional network launched its new format, an intensive sales campaign for the new personal loan product began, and a number of successful co-branding programs were carried out.

The first generation of products including personal loans and credit cards was developed and implemented in 2005. In 2006, Alfa-Bank underwent re-branding, which unified the marketing and communication approach to all the bank’s clients. Obstacles between the old and the new formats were removed when differences in names and color schemes were eliminated.

The strategic target in 2006 was to roll out the new retail business model in the regions. This model enables branches to sell and service the entire range of Alfa-Bank’s online banking products. In 2006, Alfa-Bank opened 55 new branches in 25 regions of the Russian Federation.

Within the next 18 to 24 months, Alfa-Bank’s retail business will reach all economically developed regions of the country.

Alfa-Bank’s clients appreciate the new format’s spacious standardized layout, convenient electronic services, professional and attentive managers, and extended business hours (9:00 a.m. to 8:00 p.m.). The 24/7 self-service areas enjoyed instant popularity, because they enable clients not only to withdraw cash, but also to exchange currency, repay loans, deposit money and make payments. Clients receive account activity notifications via SMS messages. The use of mobile phones and the Internet for banking are relatively new developments in most Russian cities, and have made banking more convenient for our clients.

Retail bank clients can now see the true value of Alfa-Bank’s new format – by the end of 2006, the new regional branches were serving over 370 000 clients. The Moscow branch network also continued to grow during the reporting year – four new branches opened, including two VIP branches.

<table>
<thead>
<tr>
<th>Number of retail clients</th>
<th>1.9 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>of which</td>
<td></td>
</tr>
<tr>
<td>liability product customers</td>
<td>1.7 million</td>
</tr>
<tr>
<td>asset product customers</td>
<td>0.2 million</td>
</tr>
<tr>
<td>Number of ATMs</td>
<td>831</td>
</tr>
<tr>
<td>Personal installment loan and credit card loan portfolio</td>
<td>US$ 398.0 million</td>
</tr>
<tr>
<td>Retail customer accounts</td>
<td>US$ 2 742.4 million</td>
</tr>
</tbody>
</table>
The new product rollout was faster than management initially anticipated. In 2005, personal loans were available only to employees of companies served by Alfa-Bank’s payroll projects, but in 2006 these loans became available to all clients, both in Moscow and in all regions of the Russian Federation. Another success has been the plastic card program, with its 60-day no-interest repayment period. This program is also available in Moscow and all regional branches. From the start, the demand for these products was high – by the end of 2006, the personal loan and credit card portfolio increased to US$ 398.0 million from a negligible level at the end of 2005.

A strong indicator of client trust, and therefore an important factor of success of any banking institution, is growth in current account balances. In 2006, Alfa-Bank’s current account balances almost doubled, which translates into 4.0% of the total retail current accounts balance in the Russian market. This was the fifth-best result in the country and the best among Russian private banks.

This achievement is due to the combination of successful products with the latest IT technology, and the introduction of the best customer service practices by managers who came to Alfa-Bank from well-known international banks and multinational FMCG companies.

The combination of international and Russian managerial expertise gives Alfa-Bank a competitive advantage. Even one-time visitors to Alfa-Bank offices frequently comment on the high quality of customer service. In 2006, Alfa-Bank was considered to be the best bank in terms of customer service levels, according to “Secret Customer”, an independent market survey conducted by Imeesh Pravo magazine and marketing communication agency Nextep Promotion. This helped Alfa-Bank to win the overall ratings (with 85.3 points), leaving its closest competitors – including international banks operating in the Russian market – far behind. The main principles of Alfa-Bank’s retail business division are to identify the customer’s needs, foresee demands, continuously adapt the range of products on offer, and to provide a comprehensive range of products to all clients based on their age and income brackets. Such an approach ensures a return on the initial investment.

Affiliate programs constitute one of the most important elements in making banking services more attractive. It is a crucial component in gaining clients’ trust and increasing customer loyalty. Alfa-Bank initiated a number of affiliate programs, including co-branding projects which allowed clients to get the maximum benefit from the integration of their banking products with the services offered by other large consumer enterprises.

One such affiliate project was a bonus program between Aeroflot and MasterCard, of interest to customers who use plastic cards for direct POS payments. Clients are able to receive bonus miles under the Aeroflot Bonus program, and their accumulated miles can be used for a free flight, an upgrade to a higher class of air travel, or discounts with other participants in the Aeroflot Bonus program. By the end of 2006, more than 50 000 of these cards had been issued.

“Within the next 18 to 24 months Alfa-Bank’s retail business will reach all economically developed regions of the country.”

Viktor Bashkirov, Member of the Executive Board, Director of Retail Banking
Another successful affiliate program was a joint project with *Cosmopolitan* magazine, which focused on women in the 20-35 age group. The project offers a stylish card of regular size, a similar card of a smaller size unusual for Russia, and a broad system of discounts. Several thousand cards have been issued so far and in 2007 we expect that the project will achieve the same success as the MasterCard-Aeroflot project.

One more project deserving of special mention is the development of a VIP format aimed at Alfa-Bank’s high net worth clients. These offices are called A-club, and are set up as a closed elite association. Toward the end of 2006, Alfa-Bank opened two branches in this new format, while a third is under construction.

Alfa-Bank further developed its direct sales channels in 2006, and aims to make direct sales one of its strongest tools in promoting banking services among new and existing clients.

The key areas of focus will be:

- **alliances (retail outlets)**
- **telephone sales and cross-sales (Call Center)**
- **sales and cross-sales to employees of companies participating in payroll projects, and employees of companies in our target market.**

From a cost-benefit perspective, this method of sales is the most flexible and profitable. Distribution of retail bank products to the employees of companies has become one of our main cross-sale channels. This corporate sales channel is now successfully used in all the regions.

For maximum convenience in using the bank’s products and to keep up with our growing customer base, Alfa-Bank has been actively developing its ATM network, which had grown to 831 by the end of 2006. In Alfa-Bank offices, 24-hour facilities are furnished with new machines capable of dispensing cash, receiving deposits and paying third parties for goods and services. Today all Alfa-Bank branches are equipped with these.

In the future, Alfa-Bank’s retail business will focus on distribution and growth in the most profitable market segments. We are developing analytical tools to ensure proper targeting of new clients, as well as cross-selling and up-selling to our current client base. Our high level of service and efficiency are important points of differentiation with the competition.
2006 was a crucial year for Alfa-Bank in promoting its consumer lending services in the regions. With minimal costs and using up-to-date customer service technologies and IT solutions, Alfa-Bank has managed to increase its client base, expand the product line, and find new business partners.

In 2006, Alfa-Bank's already extensive consumer finance network was enhanced with the addition of sales outlets in 64 cities. Contracts signed with new business partners totaled 1,575. At the end of the reporting year, Alfa-Bank had 2,418 active outlets, 2,062 of which are served by the Bank's employees, 259 are served by the employees of partner trading organizations (using Alfa-Partner technology), and 97 are outlets for the supply of Visa Electron Instant Issue credit cards.

In 2006, the gross consumer loan portfolio grew by 131.1% to around US$ 171.0 million. In the past year, the portfolio structure changed significantly: its regional share grew to around 75.0% by the end of 2006 from around 40.0% at the end of 2005. The almost twofold growth reflects the huge potential of the regional markets compared to the Moscow market.

As a result of these successes, Alfa-Bank won tenders in 2006 for strategic cooperation with national retail networks, whereas the market in general showed a reduction in the number of bank partners. A significant partnership was established with Eldorado, one of the major players in the electronics and home appliances sector, and large gains were made in the credit
turnover of commercial enterprises like Tekhnosila, MIR and Dixis. Consequently, the task of increasing the Bank's share in the credit turnover of its national-level business partners was accomplished.

In September 2006, Alfa-Bank launched Alfa-Partner, a new technology that promotes cooperation with retail businesses. This program is unique in the Russian market, and the business model has given the bank sound competitive advantages and an increase in the number of sales outlets with no increase in costs. In 2007, Alfa-Bank intends to continue adding to the number of sales offices for this project.

In order to enable us to improve the quality of customer service and to simplify the process of obtaining and repaying loans, Alfa-Bank is proactively implementing up-to-date customer service and information technologies. In 2006, the Bank transferred the entire process of issuing consumer loans to an online system based on a centralized platform. This allowed for a dramatic reduction in the time it took for a loan to be approved – from 10-15 minutes to one minute. This system is capable of working 24/7 and of assisting clients in all the regions of the Russian Federation simultaneously. In terms of speed of service and other capabilities, it is considered to be one of the most advanced systems of consumer lending in the Russian market.

The number of points where it is possible to repay loans is growing. They include the branches of numerous business partners, post offices of Russian Post, payment systems Elecsnet, Contact, Rapida, CyberPlat, as well as money machines and terminals of Alfa-Bank with the deposit function. In November 2006, we launched a new Internet product called Alfa-Payment (Alfa-Platezh), which provides full information on the terms of making payments. This is also a unique service in the Russian market.

Alfa-Bank is always expanding its spectrum of services. In 2006, we started issuing fully functional Visa cards to our clients who have good credit histories. With this product our clients can make purchases using Alfa-Bank funds in any commercial establishment that accepts Visa cards. By offering Alfa-Bank clients more freedom in using credit resources, we expand and secure mutually beneficial cooperation with them. The Bank continues to use a system of careful selection of honest users of financial products and so improves the quality of its credit portfolio. To motivate our regular clients, we lower interest rates, and for the most active among our clients, we increase the credit limit.

Additional services Alfa-Bank offers its clients are life insurance and a service package called Alfa-Security (Alfa-Khranitel). The latter is of special interest since it is one of the newest products in the world. The purpose of Alfa-Security is to protect mobile phones and keys: lost items are quickly returned to their owners thanks to the monetary reward we pay to the person who finds and returns them.

“In 2006, the gross consumer loan portfolio grew by 131.1% to around US$ 171.0 million. In the past year, the portfolio structure changed significantly: its regional share grew to around 75.0% by the end of 2006 from around 40.0% at the end of 2005.”

Tomasz Kazmierowski, Member of the Executive Board, Head of Consumer Finance
In cooperation with national retail networks, Alfa-Bank has sponsored a number of marketing events, the most remarkable of which were: “Credit you cannot talk about!”, “Time to buy gifts!” and “Good credit!” Clients of Alfa-Bank and retail enterprises were given the chance to buy goods on credit on better terms. This project fully paid for itself by creating a more favorable reception for the products of Alfa-Bank and its business partners. In 2007, Alfa-Bank plans to expand these events. The Bank plans to conduct events not only with national retail networks, but also with regional networks. This will raise the level of awareness of Alfa-Bank as the main bank working in the consumer lending market.

In 2007, Alfa-Bank intends to increase its consumer market share through further expansion of its product range. The Bank aims to improve customer service further, to launch a number of advanced technologies for consumer and other lending, and to form mutually beneficial agreements with a wide range of business partners.
The Russian mortgage lending market is growing so rapidly that it almost triples every year. Recently, three Russian banks securitized their mortgage portfolios, denominated them in both US dollars and Russian rubles.

Alfa-Bank introduced its mortgage lending program in August 2006. The strategy for development of this business comprises two elements: intensive development in the regional markets while preserving strong positions in Moscow and St. Petersburg. Alfa-Bank’s goal is to create a powerful mortgage network, based on the existing network of branches and offices, and to offer clients a simple and convenient method to buy a home.

In the second half of 2006, Alfa-Bank successfully started its mortgage programs in four cities: Moscow, St. Petersburg, Nizhny Novgorod, and Novosibirsk. Specialized new mortgage centers were built in Moscow and St. Petersburg.

Alfa-Bank paid special attention to the development of relationships with real estate companies, mortgage brokers, corporate clients, and clients of Alfa-Bank to whom mutually beneficial terms of cooperation were offered. By the end of 2006, Alfa-Bank had put into place more than ten contracts with large companies in the mortgage lending market. This established one more way to attract clients. Additionally, the Bank is able to offer a personal loan program to clients in all the areas where it is active.

Worth mentioning are current lending programs that offer low initial payments of 10.0% and 15.0% of the cost of real estate, and mortgage loans using real estate as security.
In 2007, new products are being planned, among them loans to buy apartments in buildings under construction. Alfa-Bank also plans to expand its mortgage lending activities to at least the 20 most economically developed regions in Russia.

Ilya Zibareff, Head of Mortgage Lending

In 2007, new products are being planned, among them loans to buy apartments in buildings under construction. Alfa-Bank also plans to expand its mortgage lending activities to at least the 20 most economically developed regions in Russia.

We believe that our strategy and professional team will help us to achieve good results and become a leader in the mortgage lending market.
At the end of 2005 Alfa-Bank established its Auto Finance Division to introduce auto loan programs. In the first year, this business unit issued over 15,000 auto loans for a total amount of US$ 194.0 million. Auto finance offices were opened in 60 Russian cities. According to Ros-BusinessConsulting, Alfa-Bank gained around 2.0% market share in auto finance by the end of 2006.

In 2006, the auto loan market grew rapidly, with sales volumes doubling. Market experts estimate the size of the market to be around US$ 9.5 billion. Major players have all taken strong positions.

In 2006, Alfa-Bank developed the following auto loan plans:

- classic car loans
- express car loans
- zero-down payment loans.

Along with the creation of these auto loan products, the Bank started testing and streamlining its customer service system in this area. Thanks to efficient technology in credit surveillance, it now takes no more than 60 minutes to finalize decisions regarding car loan applications. Consequently the client is able to receive a car from the car dealer on the same day a loan is applied for at the credit consultant in the car dealer’s office. The independent system of working with car dealers and insurance companies allows for the sale of loans through business partners. This saves Alfa-Bank the costs of maintaining its own sales outlets with the associated costs of staff, equipment, and overheads. It also means that all paperwork is prepared in the car dealership, a significant convenience for prospective clients.

During 2006, Alfa-Bank made an effort to expand its presence in this sector, and by the end of 2006 we had established auto loan offices in over 60 cities of Russia.

The number of car dealerships constituting the basis for Alfa-Bank auto financing activities has exceeded 1,000. In these car dealerships, Alfa-Bank sets up independent systems to sell auto loans. Alfa-Bank cooperates with both authorized dealers and non-authorized dealers in the new and previously-owned markets for cars manufactured in Russia and abroad.

Auto Loan Portfolio, US$ million
One of the most important factors in the auto loan business is auto insurance. To guarantee that a wide choice is available to our clients, Alfa-Bank now cooperates with 15 insurance companies in the Russian market.

In 2006, Alfa-Bank put in place a GM Finance Private Label Agreement to promote cooperation in the area of auto loans with General Motors CIS, a major car manufacturer. Other key business partners of Alfa-Bank include OAO Severstal-Auto and HONDA Motors Rus Co Ltd. Cooperation with large manufacturers has enabled us to develop and implement special auto loan offers with low interest rates on car brands like Opel, Chevrolet, Saab, Cadillac, Hummer, Fiat, Ssang Yong, UAZ Patriot, and HONDA. These offers are valid anywhere in Russia through the dealer networks of our business partners, which offer Alfa-Bank as the bank of primary choice.

Alfa-Bank’s auto finance portfolio includes 40 car brands. The share of Russian cars is approximately 30.0% against 70.0% foreign cars.

A special offer, which includes a range of additional services and loan support when buying a vehicle, is available to VIP clients. Due to the close cooperation between the Auto Finance Division, car dealers and insurance companies, Alfa-Bank can now apply an individual approach to its clients. The cap on VIP deals has been raised to US$ 200 000, and loans are offered for up to six years.

Alfa-Bank is always interested in attracting new business partners and is in the process of creating a solid foundation for close, long-term cooperation with car manufacturers and dealers. Attention is given to expansion of product offerings, lending programs for different vehicles, and a buy-back loan program. The launch of the new Internet system GEMINI will significantly increase the operational efficiency of sales outlets and reduce the handling time of credit applications.

In 2007, Alfa-Bank plans to further accelerate its Auto Finance growth rates.

Portoflio Breakdown by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Moscow</td>
<td>60</td>
</tr>
<tr>
<td>2 – St. Petersburg</td>
<td>20</td>
</tr>
<tr>
<td>3 – Other regions</td>
<td>20</td>
</tr>
</tbody>
</table>
2006 was another excellent year for the Russian and CIS stock markets and also for Alfa-Bank’s Equities business. Russia’s total market capitalization grew to more than US$ 1.0 trillion, making it the second-largest among emerging markets.

Every aspect of our business – equity distribution, research, trading and Internet brokerage – expanded significantly. The Equity Division’s total transaction volumes reached almost US$ 50.0 billion dollars, more than double last year’s result. Our number of active clients, most notably domestic investors, increased dramatically. In a market where overall liquidity increased rapidly in 2006, the Bank was able to keep its share of market turnover on MICEX, the leading exchange, at around 6.0%.

Alfa-Bank was also active in Ukraine and Kazakhstan – trading shares, holding conferences and investor visits, and expanding research coverage of local companies. The total number of companies under coverage in the CIS exceeded 200, including more than 140 Russian companies and more than 60 companies in Ukraine and Kazakhstan.

In 2007, Alfa-Bank intends to continue expanding its efforts in the CIS.
“The Equity Division’s total transaction volumes reached almost US$ 50.0 billion dollars, more than double last year’s result.”

Edward Kaufman,
Head of Investment Banking

2006 was a defining year for Russian capital markets in terms of both size and number of deals. The total volume of IPOs topped US$ 18.0 billion and included the largest public offering in Russian history, which raised nearly US$ 10.7 billion for state-owned oil company Rosneft.

Alfa-Bank participated in this deal and several others, including acting as bookrunner in the first public offering of OGK-5, a power generation asset of national utility giant RAO UES. Alfa-Bank also acted as a Senior Co-manager in the IPO of Varyag Resources on the Stockholm Stock Exchange.

- **Rosneft**
  - Offering of 13.2% of capital
  - Co-manager
  - US$ 10 656 235 911
  - 2006

- **OGK-5**
  - Offering of 14.4% of capital
  - Global Consultant and Bookrunner
  - US$ 451 791 167
  - 2006

- **Chelyabinsk Zinc Plant**
  - Offering of 37.9% of capital
  - Co-lead Manager
  - US$ 323 610 000
  - 2006

- **Varyag Resources**
  - Offering of 100% of capital
  - Senior co-manager
  - US$ 60 668 000
  - 2006
In 2006, the number of client accounts of Alfa-Direct grew by around 70.0% to more than 8,500. This makes Alfa-Bank the largest provider of Internet trading services among Russian banks.

During 2007, Alfa-Bank intends to increase the number of Alfa-Direct clients significantly by offering these services to its top retail clients, and by establishing a training center for new investors.

Alfa Capital Markets (ACM UK) in London, UK, acts as a major platform for the distribution of primary deals from Russia and other CIS countries. It is also one of the leading Russian brokerage operations in Europe. A team of sales and trading executives, based in London, serves a large number of institutional and hedge fund clients in the UK and continental Europe. The client base of ACM UK grew by more than 20.0% in 2006, and continues to develop rapidly. This resulted in a year-on-year increase of almost 30.0% in the volume of client orders through ACM UK. The company is a branch of Alfa Capital Holdings (Cyprus) Ltd and is regulated by the Financial Services Authority of the United Kingdom (FSA).

Alfa Capital Markets (ACM USA) is regulated by the US Securities and Exchange Commission (SEC), and is based in New York. The company was set up in 2001 as an affiliate of Alfa-Bank. To date, 2006 has been the most successful year for ACM USA in terms of profitability, client acquisition and sales volumes. The team is focused on serving institutional and hedge fund clients in the USA, Canada and Latin America. Apart from strong results in trading Russian securities, the New York office was also successful in working with clients in the Ukrainian market.

Alfa Capital Markets (UK)

Alfa Capital Markets (USA)

Alfa Capital Ukraine

Alfa Capital has been operating in the Ukrainian market since 1995 and is one of the most active brokerages in the country. In 2006, the business was integrated into the overall Equities business of Alfa-Bank in order to leverage shared resources, management and clients.

In 2006, the Ukrainian stock market once again proved its ability to attract international and domestic investors. The PFTS index grew by around 44.0% year-on-year, while Alfa Capital’s own KAC-20 index of the most liquid stocks increased by 22.0% year-on-year. Both of these
benchmark indices reached record highs in 2006.

Overall, the market continues to be highly illiquid but the trend is positive, with total trading volumes on the PFTS nearly doubling to US$ 1.2 billion and total market capitalization growing to US$ 44.3 billion.

In January 2006, Alfa Capital Ukraine, in conjunction with Alfa-Bank, held its third annual investment forum in Kiev. Once again the forum attracted top-notch speakers from the government, industry and banking. Participants discussed Ukraine’s current economic situation, future development of its capital markets, the government’s privatization program as well as future business opportunities in Ukraine’s metals, energy and telecommunications sectors.
In 2006, Alfa-Bank was one of the leading operators and market makers in Russian government bonds and debt instruments provided to the Russian corporate sector. The share of client business in the total volume of operations was relatively large. The market dealt with the flow of volumes from hard-currency sovereign bonds and corporate Eurobonds trading, to ruble-denominated corporate bonds, Credit Linked Notes and Loan Participation Notes (CLNs and LPNs). In many cases Alfa-Bank acted as both lead manager and market maker.

In 2006, Alfa-Bank actively traded from its own portfolio of promissory notes denominated in foreign currencies, mainly those of emerging markets. The Bank also offered its clients access to the debt markets of these countries and the bond markets of the US Treasury and G8 countries.

In the reporting year, Alfa-Bank significantly increased the volume of trading in the domestic market of ruble bonds. Total Bank turnover in the ruble market in 2006 was US$ 5.2 billion, 1.5 times higher than the turnover in 2005. The Bank maintained the leading position in the turnover of corporate and sub-federal bonds on MICEX. Alfa-Bank's income on own and client operations grew steadily.

The bank carries out its own operations and provides broker services to clients in all the sectors of the ruble bond market (state bonds, municipal bonds, corporate bonds).

Since the establishment of the ruble bond market, Alfa-Bank has maintained a leading position among lead-managers of bonds for Russian companies. In 2006, Alfa-Bank participated in the placement of 29 bond issues for a total amount of around 61.0 billion rubles, 1.8 times higher than in 2005. The largest issue placed by the Bank in 2006 was the corporate issue of OJSC MOESK ruble bonds for the amount of 6.0 billion rubles.

Currently Alfa-Bank offers its clients comprehensive services in arranging the issuing of ruble bonds. These services include consulting on the structure of the loan, preparation of issue documents, analytical support of the issue, organizing of marketing activities, formation of an underwriter syndicate, placement of the issue, and organization of the secondary market.

As a result of Alfa-Bank’s comprehensive and high quality services in this area, and the involvement of a skilled team, many of our clients use our services repeatedly.

During the original placement, the Bank tries to maximize distribution of the issue. As the issue sponsor, Alfa-Bank maintains quotations in a narrow spread that ensures high liquidity of the bond issue.

<table>
<thead>
<tr>
<th>Year</th>
<th>Participation in Original Placements, in RUR billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>60</td>
</tr>
</tbody>
</table>
Alfa-Bank is a leader in arranging Credit Linked Notes (CLNs). Within the framework of its Global Repackaging Program, Alfa-Bank has placed five issues of Credit Linked Notes for Russian and Ukrainian companies. In 2006, Alfa-Bank took part in the preparation and placement of five issues of Eurobonds and CLNs for a total amount of US$ 635.0 million, twice as high as it was in 2005. The program makes it possible for Alfa-Bank to offer its clients complete infrastructure support for a CLN issue, a fast process of document reconciliation, and an easier placement process for both the issuer and other market participants. Alfa-Bank’s comprehensive range of services regarding CLN placement includes consultations on the deal structure, preparation of all necessary issue documents, analytical support of the issue, marketing, organizing of road-shows in key world financial centers, primary placement, and ongoing support of the issue on the secondary market.

Alfa-Bank’s Eurobonds: Participation in Original Placements, in US$ million

<table>
<thead>
<tr>
<th>Company</th>
<th>Issue Type</th>
<th>Amount (RUR)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integra</td>
<td>2nd ruble-denominated bond</td>
<td>3,000,000,000</td>
<td>2006</td>
</tr>
<tr>
<td>MOESK</td>
<td>1st ruble-denominated bond</td>
<td>6,000,000,000</td>
<td>2006</td>
</tr>
<tr>
<td>Mechel</td>
<td>2nd ruble-denominated bond</td>
<td>5,000,000,000</td>
<td>2006</td>
</tr>
<tr>
<td>Ural-Plant of Precious Metals</td>
<td>1st ruble-denominated bond</td>
<td>1,500,000,000</td>
<td>2006</td>
</tr>
</tbody>
</table>

Alfa-Bank is a leader in arranging Credit Linked Notes (CLNs). Within the framework of its Global Repackaging Program, Alfa-Bank has placed five issues of Credit Linked Notes for Russian and Ukrainian companies. In 2006, Alfa-Bank took part in the preparation and placement of five issues of Eurobonds and CLNs for a total amount of US$ 635.0 million, twice as high as it was in 2005. The program makes it possible for Alfa-Bank to offer its clients complete infrastructure support for a CLN issue, a fast process of document reconciliation, and an easier placement process for both the issuer and other market participants. Alfa-Bank’s comprehensive range of services regarding CLN placement includes consultations on the deal structure, preparation of all necessary issue documents, analytical support of the issue, marketing, organizing of road-shows in key world financial centers, primary placement, and ongoing support of the issue on the secondary market.
Alfa-Bank has established correspondent banking relationships with a large number of financial institutions both within Russia and abroad. This process usually begins with the exchange of SWIFT and/or telex authentication keys, which enable banks to operate through special secured interbank communication channels, and with the exchange of statutory documents and financial statements. More advanced levels of correspondent banking relationships may involve the opening of Nostro accounts and entering into various interbank agreements.

As of 31 December 2006, Alfa-Bank had a global correspondent network with approximately 450 institutions and Nostro accounts with leading banks in the CIS, the United States, Western Europe and Asia. International and domestic clearing is carried out through SWIFT. Alfa-Bank’s counterparties in the international clearing operations include, among others, JPMorgan Chase, Commerzbank, Dresdner Bank, Wachovia and HSBC. Alfa-Bank focuses ongoing efforts on increasing cooperation with international financial institutions.

In 2006, the Bank attracted over US$ 1.5 billion by means of international interbank financing. It also received three syndicated loans for the amounts of US$ 438.0 million, US$ 220.0 million (club deal) and US$ 340.0 million, respectively. Based on 2006 results, Alfa-Bank is in third place behind two state-owned banks in terms of the volumes of attracted syndicated loans.

In the reporting year, Alfa-Bank has significantly increased the volume of its operations in derivative instruments in the domestic and external markets. This growth was dependent on a significant expansion in the spectrum of derivative instruments and services, especially in the area of financing secured by Russian shares.
Trends in the Russian derivatives market have been very positive. Regulatory acts made it possible to obtain access to a new category of participants. In 2006, equity options were in great demand, while client interest in foreign currency options dropped. The equity-linked financing business transformed into a business of complex structured products.

Among the new clients in both areas are Russian mutual funds and companies that manage portfolios of wealthy clients. The number of international counterparties has increased. They signed ISDA and other documents with the Bank for further development of the business.

The department also structured a program of Diversified Payment Rights Securitization Notes. This is the first investment rating of debt liabilities of a Russian private bank and has appeared to be innovative even beyond Russia. The program was highly recommended by Credit magazine as one of the most complicated transactions in its class of instruments in the world. Over a period of one year, the Bank made two issues of securitization notes under this program. The total volume of attracted funds exceeded US$ 900.0 million. Among the investors who bought securitization notes are the largest international pension funds. For some of them our bond was their first Russian instrument. Thanks to high demand among investors, the volume of the second issue was the largest ever in the world in this class of product not wrapped by monoliners. This emphasizes the significance of the program – not only for Alfa-Bank’s reputation, but also for the entire Russian market.

In 2006, the Derivatives team also started projects of asset-backed securitizations for the Bank.

Alfa-Bank currently acts as a leading market maker on the ruble/US dollar foreign exchange markets, including both the bank-to-bank market and MICEX, acting both on behalf of clients and for its own account. Total turnover in relation to currency operations in rubles and US dollars in 2006 was around US$ 300.0 billion, which represents approximately 5.0% of the Russian currency market.

In 2006 Alfa-Bank consistently increased volumes of trade transactions on the FOREX interbank market, and the total amount of such transactions reached US$ 1.3 billion, representing approximately 15.0% market share as of 31 December 2006.

In 2006 Alfa-Bank became a leader on the CIS and Baltic countries' currency markets. Economic integration of Russia, Kazakhstan and Belarus permitted an increase in turnover and profitability of operations with the currencies of Belarus and Kazakhstan.

In terms of money markets, Alfa-Bank continues to take a leading position among Russian participants. Aggregate daily turnover remains at a high level and reached almost US$ 2.0 billion at the end of 2006. The volume of operations on the ruble interbank market represents around 15.0% of the total turnover in this sector.

Alfa-Bank was named the “Best Local Bank Trading Ruble” by Euromoney’s 2006 Foreign Exchange Survey in May 2006. It was included among the top ten banks for the Best FOREX Desk 2006 and the Best Forward Desk 2006 by the Moscow International Currency Association.
AlfaStrakhovanie Group is one of the largest Russian insurers, with a comprehensive portfolio of services that includes both complex programs to protect business interests and a wide spectrum of insurance products for individuals. The Group has a stable position among market leaders. It has over 300 insurance branches and offices operating all over Russia.

www.alfastrah.ru

AlfaStrakhovanie Group forms part of Alfa-Group's industrial and financial holding company, which includes companies like Alfa-Bank, TNK-BP, VimpelCom, MegaFon, Golden Telecom, Perekrestok and others.

AlfaStrakhovanie Group has the reputation of being reliable and stable. The consolidated authorized capital of the Group by the end of 2006 was 2.3 billion rubles. High levels of reliability in the insurance operations are supported by re-insurance programs with large companies like Munich Re, Swiss Re, Hannover Re, Gen Re, SCOR and Lloyd's of London. Cooperation with syndicates is achieved through international brokers like Willis, Marsh, AON and Benfield.

According to a survey by United Financial Group and Expert RA Rating Agency, AlfaStrakhovanie Group is among the five top companies in the insurance market. In December 2006, Expert RA confirmed the highest reliability index of AA+ for AlfaStrakhovanie Group in 2003. This rating means that the Group will perform its financial obligations with high probability, even in unfavorable economic conditions.

Collections in 2006  9 274 024 000 rubles
Payments in 2006  3 287 048 000 rubles
Compulsory third party liability motor vehicle insurance collections in 2006  1 248 005 000 rubles
Branches and offices  over 300

Our clients are people who have more important things to consider than their insurance. It is essential to take up as little of their time as possible. That is why we focus on efficiency and quality of customer service, the development of convenient and easy insurance products, and flexible insurance programs that take into account the needs of each client.

One of the most important tasks of the company is to provide top-class services in a business world characterized by rapid growth. The newest software allows us to significantly increase the speed of customer service processes while not affecting quality. The company's branches
operate in a single information space, which drastically simplifies and expedites all business processes. This is why we are able to guarantee reliable insurance protection to our clients anywhere in the country.

**Products**

For corporate clients, AlfaStrakhovanie Group develops comprehensive insurance programs which allow for the specific characteristics of each client’s business. For individuals, we offer simple, clear, and convenient insurance policies with a number of optional services.

AlfaDrive | AlfaDrive Classic | AlfaDrive Business | AlfaDrive Premier | AlfaKasco | AlfaPersonal | AlfaMed Expat | AlfaCity | AlfaCity Universal | AlfaCity Complex | AlfaCountry | AlfaCountry Weekend | AlfaCountry Complex | AlfaIpoteka (Mortgage) | AlfaTravel | AlfaTravel Business | AlfaTour | AlfaREMONT

**Clients**

Over 20,000 companies entrust their businesses to us for protection. Among these companies are major banks, large ship-owners and freight carriers, companies in the nuclear, metallurgical and machine-building industries, representatives of large foreign companies, and public and state-owned enterprises and organizations.


The number of individual clients is now close to 1 million.

**Recognition**

One of the most significant achievements of the company was the creation of a professional team which was recognized in the insurance and business industry. Svetlana Ovchinnikova, first deputy general director, was rated among the top 200 businesswomen in Russia by *Career* magazine. Vladimir Skvortsov took fourth place among finance sector professionals in an annual survey of “Russia’s Top 500 Professional Managers” conducted by the Association of Russian Managers. The following people were also included in the ratings: first deputy general director Svetlana Ovchinnikova (top 100 financial directors), deputy general director of regional policy Vladimir Sorokin (top 100 commercial directors), and IT director Andrey Pedorenko (top 100 IT directors).

In 2006, SuperBrand voted to put AlfaStrakhovanie Group on the short list of the strongest
b2b brands. This was not the first award for AlfaStrakhovanie Group in the area of brand promotion. The Group was also awarded the silver prize in the category “Insurance Brand of the Year” in the EFFIE 2005 awards – a prestigious international competition for efficient marketing communications. The competition surveys 30 countries.

In October 2006, following the results of an independent survey conducted by *Imeesh Pravo* magazine, AlfaStrakhovanie Group took first place in a ranking of the customer service levels of insurance companies.

In November 2006, *Company* magazine awarded AlfaStrakhovanie Group with the title “Company of 2006” in the category “best customer services provided and for the launch of a mass product in the CASCO segment.”

In 2006, Alfa Capital Management turned ten years old, and this was a year of strategic change for the company. In September, a new business development plan was adopted, and this included the formulation of new targeted performance indicators for 2007-2011. Key targets are to increase the volume of assets to US$ 10.0 billion, and attain 10.0% market share in the Russian Collective Investments sector by 2011. Apart from the development of the retail business, Alfa Capital Management is now also focusing on growth in Asset Management for major private and corporate investors.

Implementation of the new strategy has impacted all the areas of the company’s business. In the second half of 2006, when a new senior management was formed, the organizational structure was optimized, departments were established to deal with major private and corporate investors, and new investment products and services were introduced.

From September to December 2006, staff numbers at Alfa Capital Management doubled. In order to hire and retain skilled staff, a new motivation system was implemented. This offers more individual recognition as well as opportunities to satisfy career ambitions.

Based on 2006 results, the aggregate value of assets under management of Alfa Capital Management’s private and corporate clients is around 12.0 billion rubles. The net asset value of mutual funds under the company’s management exceeded 8.0 billion rubles, twice as much as in the previous year. The number of investor accounts has grown from 6 098 to 15 843. In 2006 Alfa Capital Management took third place in terms of the net asset value in open and interval mutual funds among Russian asset management companies.

In December 2006, Alfa Capital Management founded six new mutual funds: interval mutual investment fund “Alfa Capital Growth Stocks,” open-end mutual investment fund “Alfa Capital MICEX Index,” and four open sectoral mutual funds – “Alfa Capital Oil&Gas,” “Alfa Capital Telecommunications,” “Alfa Capital Power Industry,” and “Alfa Capital Metallurgy.” Consequently, the company now manages 11 mutual funds, four of which are sectoral. As early as in the first quarter of 2007, the sectoral mutual funds managed by Alfa Capital Management took leading positions in ratings assessing the efficiency of mutual funds.

For the convenience of clients, Alfa Capital Management introduced a new service based on the Alfa-Click Internet banking service in December 2006. This service allows clients to pay for mutual fund assets managed by Alfa Capital Management online through Alfa-Bank’s Internet banking facilities.
Alfa Capital Management’s business activities in asset management were highly praised by independent experts in 2006:

- Best Mixed Asset Investments for the past three years in the category IMF (Mixed). Alfa Capital was the winner of the Finance 2006 prize sponsored by Finance magazine.
- First place for Alfa Capital Bonds Plus in the ratings of OEMFs conducted by Popular Finance magazine.
- Highest rating was assigned in the category IMF (Mixed) to Alfa Capital by the SmartMoney survey. Ratings were based on fund performance from the past three years.
- Level A quality of asset management by an OEMF went to Alfa Capital Bonds Plus – the highest asset management quality rating given by Expert RA-NLU.

### Profitability of Mutual Funds in 2006

<table>
<thead>
<tr>
<th>Fund</th>
<th>Profitability in 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEMF Alfa Capital Stocks</td>
<td>42.44%</td>
</tr>
<tr>
<td>OEMF (Mixed) Alfa Capital Balanced</td>
<td>34.90%</td>
</tr>
<tr>
<td>OEMF Alfa Capital Bonds Plus</td>
<td>14.93%</td>
</tr>
<tr>
<td>OEMF (Bonds) Alfa Capital Reserve</td>
<td>6.28%</td>
</tr>
<tr>
<td>IMF (Mixed) Alfa Capital</td>
<td>39.86%</td>
</tr>
</tbody>
</table>

### Assets under Management as at 29.12.06, in US$ million

- 1 – Institutional clients: 107.85
- 2 – State-owned funds: 7.15
- 3 – Mutual funds: 314.45
- 4 – Individual trust management: 12.57
- 5 – Corporate clients: 15.15

Alfa Capital Partners (ACP) is a Moscow-based private equity and real estate fund manager focused on opportunities in Russia and the CIS. With US$ 621.0 million under management at the end of the first quarter of 2007, ACP has established itself, in a short period, as one of the leaders in Russian and CIS private equity. ACP's mandate is to generate attractive returns for its investors, who include international institutions, private investors and Alfa Group.

ACP positions itself as a partner to both international investors seeking to enter the region and 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 international and local approaches. In 2006, ACP continued to build the foundation for its business. ACP currently serves as manager or adviser to three investment fund initiatives – corporate private equity, maritime infrastructure and real estate – each with a dedicated team with US$ 621.0 million under management.
In December 2006, ACP closed the Alfa Private Equity Partners, L.P. (the Private Equity Fund) with commitments of US$ 170.0 million. In February 2007, the Private Equity Fund held its final closing at US$ 200.0 million. The Private Equity 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, business infrastructure, light manufacturing, health care, and agribusiness. These sectors are experiencing high growth and profitability, little government interference and, notwithstanding their attractiveness to investors, they have limited representation in the region's public equity markets.

Alfa Capital Partners entered and relaunched the US$ 180.0 million Great Circle Fund in April 2005. Alfa Group is a limited partner in, and ACP is the regional manager of, the Great Circle Fund. With sponsorship from the US Government's Overseas Private Investment Corporation, the Great Circle Fund’s mandate is to invest in maritime transportation, transportation infrastructure and logistics in Russia, Ukraine, Central Asia, Central and Eastern Europe, the Balkan states and Turkey. Linked to both the commodities and retail markets, expansion and renewal of both infrastructure and transportation-related assets and services in these regions are under way. The Great Circle Fund made an investment in June 2006 in Russian Logistics Service, a leading Russian logistics company servicing the FMCG sectors with nationwide coverage. RLS’s strategy is to use capital and other support from the Great Circle Fund to build out its national network, increase warehouse-related services and generally take advantage of the rapid retail expansion throughout Russia and the CIS.

The Marbleton Property Fund (the Marbleton Fund) was set up as a joint venture between ACP and JER Partners, a leading international real estate private equity firm based in McLean, Virginia. 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, the Moscow region, St. Petersburg and Kiev. Although originally aiming to raise US$ 150.0 million, the Marbleton Fund had commitments of US$ 241.0 million as of the end of the first quarter of 2007. ACP expects final closing of the Marbleton Fund to take place in the second quarter of 2007. The Marbleton Fund will invest in modern property, in value-added refurbishment, and selectively in development, across a full range of property categories.
Economic indexes

Profit increases

2004
2003
INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of ABH Financial Limited:

1  The accompanying summarised financial statements have been derived from the consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group” as defined in Note 1 to the consolidated financial statements) for the year ended 31 December 2006. These summarised financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on whether these summarised financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

2  We have audited the consolidated financial statements of the Group for the year ended 31 December 2006, from which these summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated 25 April 2007 we expressed an unqualified opinion on the consolidated financial statements from which the summarised financial statements were derived.

3  In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

4  For a better understanding of the financial position of the Group and the results of its operations for the year ended 31 December 2006 and of the scope of our audit, the summarised financial statements should be read in conjunction with the consolidated financial statements from which the summarised financial statements were derived and our audit report thereon.

Moscow, Russian Federation
25 April 2007

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers.
Consolidated Balance Sheet as at 31 December 2006

<table>
<thead>
<tr>
<th>In thousands of US Dollars</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,672,681</td>
<td>878,670</td>
</tr>
<tr>
<td>Mandatory cash balances with central banks</td>
<td>256,579</td>
<td>195,849</td>
</tr>
<tr>
<td>Trading securities</td>
<td>673,199</td>
<td>897,902</td>
</tr>
<tr>
<td>Repurchase receivables</td>
<td>495,849</td>
<td>241,764</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1,667,662</td>
<td>1,212,921</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>9,480,359</td>
<td>5,727,543</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>198,806</td>
<td>67,171</td>
</tr>
<tr>
<td>Other investments</td>
<td>21,918</td>
<td>87,335</td>
</tr>
<tr>
<td>Other assets</td>
<td>531,747</td>
<td>376,454</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>208,403</td>
<td>145,074</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>2,740</td>
<td>5,034</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>15,209,943</td>
<td>9,835,717</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>1,430,440</td>
<td>781,867</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>7,946,381</td>
<td>5,455,171</td>
</tr>
<tr>
<td>Promissory notes issued</td>
<td>529,593</td>
<td>377,855</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>3,126,296</td>
<td>1,455,318</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>224,837</td>
<td>224,762</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>625,797</td>
<td>607,404</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>16,415</td>
<td>77,492</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>13,899,759</td>
<td>8,979,869</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>344,800</td>
<td>160,800</td>
</tr>
<tr>
<td>Fair value reserve for investments available for sale</td>
<td>70</td>
<td>585</td>
</tr>
<tr>
<td>Revaluation reserve for premises</td>
<td>25,929</td>
<td>3,051</td>
</tr>
<tr>
<td>Retained earnings and other reserves</td>
<td>939,376</td>
<td>689,012</td>
</tr>
<tr>
<td><strong>NET ASSETS ATTRIBUTABLE TO THE EQUITY HOLDERS OF ABH FINANCIAL LIMITED</strong></td>
<td>1,310,175</td>
<td>853,448</td>
</tr>
<tr>
<td>Minority interest</td>
<td>9</td>
<td>2,400</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>1,310,184</td>
<td>855,848</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td>15,209,943</td>
<td>9,835,717</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Income for the Year Ended 31 December 2006

### In thousands of US Dollars

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1,028,117</td>
<td>706,176</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(477,843)</td>
<td>(304,494)</td>
</tr>
<tr>
<td><strong>NET INTEREST INCOME</strong></td>
<td>550,274</td>
<td>401,682</td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(127,223)</td>
<td>(54,385)</td>
</tr>
<tr>
<td><strong>NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT</strong></td>
<td>423,051</td>
<td>347,297</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>223,326</td>
<td>184,515</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>(54,977)</td>
<td>(49,024)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>68,970</td>
<td>90,513</td>
</tr>
<tr>
<td>Gains less losses arising from investments</td>
<td>68,989</td>
<td>7,480</td>
</tr>
<tr>
<td>(Losses less gains)/gains less losses arising from foreign currencies</td>
<td>(53,049)</td>
<td>33,130</td>
</tr>
<tr>
<td>Other impairment provisions</td>
<td>7,903</td>
<td>8,539</td>
</tr>
<tr>
<td>Gain on disposal of subsidiaries</td>
<td>11,059</td>
<td>–</td>
</tr>
<tr>
<td>Gain on disposal of interest in associated company</td>
<td>33,501</td>
<td>–</td>
</tr>
<tr>
<td>Other operating income</td>
<td>70,419</td>
<td>30,776</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(535,342)</td>
<td>(377,160)</td>
</tr>
<tr>
<td>Share of results of associates</td>
<td>7,830</td>
<td>16,922</td>
</tr>
<tr>
<td><strong>PROFIT BEFORE TAX</strong></td>
<td>271,680</td>
<td>292,988</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(81,394)</td>
<td>(112,432)</td>
</tr>
<tr>
<td><strong>PROFIT</strong></td>
<td>190,286</td>
<td>180,556</td>
</tr>
</tbody>
</table>

### Attributable to:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity holders of the Company</td>
<td>190,333</td>
<td>180,220</td>
</tr>
<tr>
<td>Minority interest</td>
<td>(47)</td>
<td>336</td>
</tr>
<tr>
<td><strong>PROFIT</strong></td>
<td>190,286</td>
<td>180,556</td>
</tr>
</tbody>
</table>
## Consolidated Statement of Cash Flows for the Year Ended 31 December 2006

*In thousands of US Dollars*

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>997 454</td>
<td>707 810</td>
</tr>
<tr>
<td>Interest paid, other than on other borrowed funds and subordinated debt</td>
<td>(324 999)</td>
<td>(225 286)</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>224 706</td>
<td>172 468</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(68 563)</td>
<td>(47 909)</td>
</tr>
<tr>
<td>Net income received from trading securities</td>
<td>81 492</td>
<td>51 574</td>
</tr>
<tr>
<td>Net income received/(losses incurred) from trading in foreign currencies</td>
<td>56 500</td>
<td>(17 570)</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>23 207</td>
<td>27 277</td>
</tr>
<tr>
<td>Staff compensation paid</td>
<td>(287 191)</td>
<td>(195 139)</td>
</tr>
<tr>
<td>Other operating expenses paid</td>
<td>(194 418)</td>
<td>(136 368)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(134 846)</td>
<td>(59 398)</td>
</tr>
</tbody>
</table>

**Total Cash Flows from Operating Activities Before Changes in Operating Assets and Liabilities**: 373 342 277 459

<table>
<thead>
<tr>
<th>Changes in Operating Assets and Liabilities</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in mandatory cash balances with central banks</td>
<td>(55 771)</td>
<td>(64 744)</td>
</tr>
<tr>
<td>Net increase in trading securities and repurchase receivables</td>
<td>(17 116)</td>
<td>(342 373)</td>
</tr>
<tr>
<td>Net increase in due in due from other banks</td>
<td>(4 520 176)</td>
<td>(1 781 207)</td>
</tr>
<tr>
<td>Net decrease in due to other banks</td>
<td>78 302</td>
<td>77 522</td>
</tr>
<tr>
<td>Net decrease in other assets</td>
<td>176 692</td>
<td>176 721</td>
</tr>
<tr>
<td>Net increase in due to other banks</td>
<td>915 180</td>
<td>272 202</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>2 729 337</td>
<td>1 148 711</td>
</tr>
<tr>
<td>Net decrease in due to other banks</td>
<td>23 207</td>
<td>27 277</td>
</tr>
<tr>
<td>Net decrease in other liabilities</td>
<td>(29 999)</td>
<td>(65 288)</td>
</tr>
</tbody>
</table>

**Net Cash Used in Operating Activities**: (950 987) (950 735)

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of investments available for sale</td>
<td>(12)</td>
<td>(19 662)</td>
</tr>
<tr>
<td>Proceeds from disposal of investments available for sale</td>
<td>27 751</td>
<td>3 876</td>
</tr>
<tr>
<td>Acquisition of investments at fair value through profit and loss</td>
<td>(133)</td>
<td>(45 000)</td>
</tr>
<tr>
<td>Acquisition of additional interest in associates</td>
<td>(11 800)</td>
<td>(45 000)</td>
</tr>
<tr>
<td>Proceeds from disposal of interests in associates</td>
<td>18 250</td>
<td>(20 510)</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(83 111)</td>
<td>(38 960)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>4 014</td>
<td>20 510</td>
</tr>
<tr>
<td>Cash inflow on disposal of subsidiaries</td>
<td>12 000</td>
<td>–</td>
</tr>
<tr>
<td>Cash outflow on disposal of subsidiaries</td>
<td>(21 180)</td>
<td>–</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>2 640</td>
<td>1 374</td>
</tr>
</tbody>
</table>

**Net Cash Used in Investing Activities**: (51 581) (77 862)

<table>
<thead>
<tr>
<th>Cash Flows from Financing Activities</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital contribution</td>
<td>184 000</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from other borrowed funds</td>
<td>2 743 453</td>
<td>1 185 070</td>
</tr>
<tr>
<td>Repayment of other borrowed funds</td>
<td>(1 057 237)</td>
<td>(397 644)</td>
</tr>
<tr>
<td>Interest paid on other borrowed funds</td>
<td>(105 140)</td>
<td>(64 021)</td>
</tr>
<tr>
<td>Proceeds from subordinated debt</td>
<td>–</td>
<td>223 610</td>
</tr>
<tr>
<td>Interest paid on subordinated debt</td>
<td>(19 406)</td>
<td>–</td>
</tr>
</tbody>
</table>

**Net Cash from Financing Activities**: 1 745 670 947 015

<table>
<thead>
<tr>
<th>Net Increase/(Decrease) in Cash and Cash Equivalents</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>743 102</td>
<td>(81 582)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>878 670</td>
<td>997 278</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>50 909</td>
<td>(37 026)</td>
</tr>
</tbody>
</table>

**Cash and cash equivalents at the end of the year**: 1 672 681 878 670
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on January 29, 1998

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