ABH Financial Limited

Consolidated Financial Statements and Auditors' Report

31 December 2005

CONTENTS

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

AUDITORS' REPORT

To the Board of Directors of ABH Financial Limited:

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

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

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

Moscow, Russian Federation
12 April 2006

ABH Financial Limited
Consolidated Balance Sheet as at 31 December 2005
(expressed in thousands of US dollars - Note 3)

	Note	2005	2004
Assets			
Cash and cash equivalents	7	878 670	997 278
Mandatory cash balances with central banks		195 849	139 549
Trading securities	8	1 139 666	717 050
Due from other banks	9	1 212 921	570 642
Loans and advances to customers	10	5 727 543	4 100 089
Investments	11	154 506	60 933
Other assets and receivables	12	376 454	275 690
Premises, equipment and intangible assets	13	145 074	146 891
Deferred tax asset	23	5 034	16 587
Total assets		**9 835 717**	**7 024 709**
Liabilities			
Due to other banks	14	781 867	499 958
Customer accounts	15	5 455 171	4 492 072
Promissory notes issued		377 855	206 223
Other borrowed funds	16	1 680 080	706 955
Other liabilities and payables	17	607 404	380 568
Deferred tax liability	23	77 492	28 501
Total liabilities		**8 979 869**	**6 314 277**
Equity			
Share capital	18	160 800	160 800
Fair value reserve for investments available for sale	11	585	-
Revaluation reserve for premises		3 051	4 123
Retained earnings and other reserves	18	689 012	542 634
Net assets attributable to the equity holders of the Company		**853 448**	**707 557**
Minority interest		**2 400**	**2 875**
Total equity		**855 848**	**710 432**
Total liabilities and equity		**9 835 717**	**7 024 709**

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

Petr Smida
Chief Executive Officer

Andrew Baxter
Chief Financial Officer

ABH Financial Limited

Consolidated Statement of Income for the Year Ended 31 December 2005

(expressed in thousands of US dollars - Note 3)

	Note	2005	2004
Interest income	19	706 176	548 467
Interest expense	19	(304 494)	(236 143)
Net interest income		**401 682**	**312 324**
Provision for loan impairment	10	(54 385)	(23 971)
Net interest income after provision for loan impairment		**347 297**	**288 353**
Fee and commission income	20	184 515	145 898
Fee and commission expense	20	(49 024)	(30 380)
Gains less losses arising from trading securities		90 513	63 804
Gains less losses arising from investments	11	7 480	34 009
Gains less losses arising from trading in foreign currencies		(7 810)	(3 468)
Foreign exchange translation gains less losses		40 940	(5 248)
Other impairment provisions	12, 26	8 539	(22 212)
Other operating income	21	30 776	51 073
Operating income		**653 226**	**521 829**
Operating expenses	22	(377 160)	(350 738)
Profit from operations		**276 066**	**171 091**
Share of after tax result of an associated company	11	16 922	13 621
Profit before tax		**292 988**	**184 712**
Income tax expense	23	(112 432)	(31 522)
Profit for the year		**180 556**	**153 190**
Profit is attributable to:			
Equity holders of the Company		180 220	152 770
Minority interest		336	420
Profit for the year		**180 556**	**153 190**

The notes set out on pages 5 to 60 form an integral part of these consolidated financial statements.

(expressed in thousands of US dollars - Note 3)

	Note	2005	2004
Cash flows from operating activities			
Interest received		707 810	547 644
Interest paid		(289 307)	(247 041)
Fees and commissions received		172 468	145 898
Fees and commissions paid		(47 909)	(32 519)
Net income received from trading securities		51 574	50 884
Net (losses incurred)/income received from trading in foreign currencies		(17 570)	4 425
Other operating income received		27 277	39 064
Staff compensation paid		(195 139)	(152 650)
Other operating expenses paid		(136 368)	(142 678)
Income tax paid		(59 398)	(27 063)
Cash flows from operating activities before changes in operating assets and liabilities		**213 438**	**185 964**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with central banks		(64 744)	164 920
Net (increase)/decrease in trading securities		(342 373)	263 613
Net increase in due from other banks		(649 738)	(438 667)
Net increase in loans and advances to customers		(1 781 207)	(574 741)
Net decrease/(increase) in other assets and receivables		77 522	(106 350)
Net increase/(decrease) in due to other banks		272 202	(305 185)
Net increase in customer accounts		1 148 711	782 867
Net increase/(decrease) in promissory notes issued		176 721	(381 945)
Net (decrease)/increase in other liabilities and payables		(65 288)	50 298
Net cash used in operating activities		**(1 014 756)**	**(359 226)**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale	11	3 876	64 311
Acquisition of investments designated as at fair value through profit and loss	11	(45 000)	-
Acquisition of investments available for sale	11	(19 662)	(17 664)
Additional acquisition of investment in associated company		-	(17 070)
Acquisition of premises, equipment and intangible assets, net of disposals	13	(18 450)	(17 065)
Proceeds from disposal of a subsidiary		-	7 832
Dividend income received		1 374	2 764
Net cash (used in)/from investing activities		**(77 862)**	**23 108**
Cash flows from financing activities			
Proceeds from other borrowed funds	16	1 408 680	606 232
Repayment of other borrowed funds	16	(397 644)	(223 782)
Net cash from financing activities		**1 011 036**	**382 450**
Net (decrease)/increase in cash and cash equivalents		**(81 582)**	**46 332**
Cash and cash equivalents as at the beginning of the period	7	997 278	923 191
Effect of exchange rate changes on cash and cash equivalents		(37 026)	27 755
Cash and cash equivalents as at the end of the year	**7**	**878 670**	**997 278**

(expressed in thousands of US dollars - Note 3)

	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
Balance as at 1 January 2004	**160 800**	**22 798**	**5 195**	**358 177**	**6 635**	**553 605**
Transfer of net fair value gains arising on investments available for sale to net profit (Note 11)	-	(24 249)	-	-	-	(24 249)
Impairment of investments available for sale	-	1 451	-	-	-	1 451
Translation movement (Note 18)	-	-	-	30 615	-	30 615
Net income/ (expense) recognised directly in equity	**-**	**(22 798)**	**-**	**30 615**	**-**	**7 817**
Profit for the year	-	-	-	152 770	420	153 190
Total income/ (expense) recognised for the year	-	**(22 798)**	**-**	**183 385**	**420**	**161 007**
Other movements	-	-	(1 072)	1 072	(4 180)	(4 180)
Balance as at 31 December 2004	**160 800**	**-**	**4 123**	**542 634**	**2 875**	**710 432**
Net fair value gains arising on investments available for sale (Note 11)	-	585	-	-	-	585
Translation movement (Note 18)	-	-	-	(34 914)	-	(34 914)
Net income/ (expense) recognised directly in equity	**-**	**585**	**-**	**(34 914)**	**-**	**(34 329)**
Profit for the year	-	-	-	180 220	336	180 556
Total income/ (expense) recognised for the year	**-**	**585**	**-**	**145 306**	**336**	**146 227**
Other movements	-	-	(1 072)	1 072	(811)	(811)
Balance as at 31 December 2005	**160 800**	**585**	**3 051**	**689 012**	**2 400**	**855 848**

1 Principal Activities of ABH Financial Limited

ABH Financial Limited (the “Company” or “ABH”), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the “Group” or the “Alfa Banking Group” (previously referred to as “Alfa Bank Group”)) comprise three main business segments: corporate banking, retail banking and investment banking (refer to Note 24). The corporate and retail banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank (“Alfa Bank” or the “Bank”) and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group’s activities are carried out in the Russian Federation.

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

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

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

Corporate and retail banking. Alfa Bank is a wholly owned subsidiary of ABH. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1991. The Bank operates in all banking sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles (“RR”) and foreign currencies to its clients. On 16 December 2004 the Bank was accepted to the State deposit insurance scheme. The State deposit insurance scheme dictates that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. The Bank is licensed by the Federal Commission on Securities Market for trading securities.

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

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

Investment banking. ABH is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking sector including proprietary trading and brokerage activities, investment and merchant banking and asset management with a primary emphasis on securities within the Russian Federation and Ukraine. Alfa Capital Holdings (Cyprus) Limited was regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002. In 2004, the Cyprus Securities and Exchange Commission (CySEC) became the regulator of Alfa Capital Holdings (Cyprus) Limited. Alfa Capital Holdings (Cyprus) Limited obtained a license on 4 May 2004, No 025/04, from the CySEC to engage principally in brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

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

2 Operating Environment of the Group

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Where necessary, corresponding figures were adjusted to conform with changes in the presentation of the current period. In particular, industry and concentration analysis of loans and advances to customers has been amended, as Management believes that the current period presentation provides a greater scope of information to the user of these consolidated financial statements. Refer to Note 10. Comparatives for the business segments analysis have also been adjusted to include inter-segment revenues and a retail segment. Refer to Note 24.

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

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

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

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

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

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

Transactions denominated in foreign currency are recorded at the exchange rate on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate on that date.

(expressed in thousands of US dollars - Note 3)

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

Investments at fair value through profit or loss. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, as financial assets at fair value through profit or loss. Recognition and measurement of this category of financial assets is consistent with the policy for trading securities.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories in which the Group operates. The income tax charge in the consolidated statement of income for the period comprises current tax and movements in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the period, using the tax rates enacted for the period. Taxes, other than on income, are recorded within operating expenses.

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), "Presentation of Financial Statements" (effective since 1 January 2005). Minority interest is now presented as a component of equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent company'. The Group no longer discloses the number of employees. Certain new disclosures required by the revised standard were made in these financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors *(effective since 1 January 2005)*. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 16 (revised 2003) "Property, Plant and Equipment" (effective since 1 January 2005). In addition to asset retirement obligations incurred as a consequence of installing an item of property, plant and equipment ("PP&E"), the Group now also capitalises costs of dismantlement, removal or restoration which are incurred when using the item for purposes other than to produce inventories.

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

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

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

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

IAS 17 (revised 2003) "Leases" (effective since 1 January 2005). Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date a lease is classified as either an operating or a finance lease. The revised IAS 17 is applied retrospectively to all of the Group's leases in accordance with the transitional provisions of the standard. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates" (effective since 1 January 2005). The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively. Changes in the provisions of this standard did not have any material effect on these consolidated financial statements.

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

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

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

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

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

IAS 36 (revised 2004) "Impairment of Assets" (effective since 31 March 2004). The Group now performs impairment tests of goodwill, intangible assets not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these consolidated financial statements. Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

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

IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement" (effective since 1 January 2005). The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now includes originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

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

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

IFRS 3 (issued 2004) "Business Combinations" (effective since 31 March 2004). The Group applies the transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3, by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment at least annually. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss.

Transitional provisions of IFRS 3 require prospective application of changes in accounting policies for equity method investments acquired before 31 March 2004. From 1 January 2005, the Group discontinued including the amortisation of deemed goodwill in the determination of its share of the profits or losses of associates.

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

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

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

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

(expressed in thousands of US dollars - Note 3)

6 New Accounting Pronouncements (Continued)

IFRS 7 "Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 (revised 2003) introduces disclosures about level of an entity's capital and how it manages capital.

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

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

7 Cash and Cash Equivalents

	2005	**2004**
Cash on hand	275 034	257 376
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	170 513	379 633
Correspondent accounts with other banks		
- Russian Federation	73 835	115 677
- Other countries	100 627	43 358
Overnight placements with other banks		
- Russian Federation	20 740	38 020
- Other countries	237 921	163 214
Total cash and cash equivalents	**878 670**	**997 278**

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

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

(expressed in thousands of US dollars - Note 3)

8 Trading Securities

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

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

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

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

Russian Federation Eurobonds are interest-bearing securities denominated in USD, issued by Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from June 2007 to March 2030, coupon rates from 5.0% to 12.8% during 2005 and yields to maturity from 5.0% to 5.9% as at 31 December 2005, depending on the type of bond issue.

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian municipal authorities, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from May 2006 to July 2014, coupon rates from 6.8% to 13.5% during 2005 and yields to maturity from 4.0% to 7.8% as at 31 December 2005, depending on the type of bond issue.

As at 31 December 2005 trading securities with a fair value of USD 241 764 thousand (2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Notes 14, 26. The amount of trading securities sold to third parties under sale and repurchase agreements includes securities with a fair value of USD 18 499 thousand (2004: Nil) that were pledged to the Group by other banks. Refer to Note 14.

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

Currency and interest rates analyses of trading securities are disclosed in Note 25. The information on trading securities issued by related parties and owned by the Group as at 31 December 2005 is disclosed in Note 29.

(expressed in thousands of US dollars - Note 3)

9 Due from Other Banks

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

As at 31 December 2005 the Group had term placements and reverse sale and repurchase agreements with 9 banks (2004: 3 banks) with an aggregated amount equal to or above USD 50 000 thousand. The total aggregate amount of these term placements and reverse sale and repurchase agreements was USD 799 701 thousand (2004: USD 329 203 thousand) or 65.9% (2004: 57.7%) of the total due from other banks.

As at 31 December 2005 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 39 687 thousand (2004: USD 6 963 thousand).

As at 31 December 2005 the estimated fair value of due from other banks was USD 1 212 921 thousand (2004: USD 570 642 thousand). Refer to Note 28.

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

10 Loans and Advances to Customers

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

Overdue loans include all loans, contractual payments on which are overdue for more than one day.

Movements in the provision for loan impairment were as follows:

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

(expressed in thousands of US dollars - Note 3)

10 Loans and Advances to Customers (Continued)

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

	2005		2004	
	Amount	**%**	**Amount**	**%**
Trade and commerce	872 768	15	642 974	15
Ferrous metallurgy	646 989	11	426 145	10
Construction	616 966	10	456 156	11
Machinery and metal working	505 025	9	309 388	7
Non-ferrous metallurgy	379 028	6	214 420	5
Military	359 058	6	288 461	7
Finance and investment companies	346 050	6	86 637	2
Natural gas industry	284 310	5	52 093	1
Power generation	231 513	4	315 971	7
Oil industry	227 255	4	261 292	6
Coal Industry	195 864	3	230 627	5
Mass media and telecommunications	186 319	3	249 991	6
Chemistry and petrochemistry	169 622	3	122 058	3
Railway transport	125 264	2	39 225	1
Individuals	144 907	2	46 119	1
Food industry	135 839	2	90 130	2
Water transport	107 088	2	79 685	2
Nuclear industry	80 514	1	119 147	3
Agribusiness	63 583	1	20 275	-
Aviation transport	57 813	1	38 699	1
Timber industry	33 362	1	47 109	1
Other	198 297	3	161 333	4
Total loans and advances to customers (gross of provision for loan impairment)	**5 967 434**	**100**	**4 297 935**	**100**

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

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

As at 31 December 2005 the estimated fair value of loans and advances to customers was USD 5 736 713 thousand (2004: USD 4 103 116 thousand). Refer to Note 28.

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

(expressed in thousands of US dollars - Note 3)

11 Investments

	2005	2004
Investment in an associated company	67 171	50 249
Investment at fair value through profit and loss	57 481	-
Investments available for sale	29 854	10 684
Total investments	**154 506**	**60 933**

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

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

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

Investment at fair value through profit and loss. As at 31 December 2005, investment at fair value through profit and loss of USD 57 481 thousand represents a 7.8% interest in Amtel Holdings, a tyre manufacturing company. Initially the Group purchased a 8.3% interest for USD 45 000 thousand in June 2005. The Group's interest in Amtel Holdings decreased as a consequence of its Initial Public Offering in November 2005.

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

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

	2005	2004
As at 1 January	**10 684**	**45 885**
Net fair value gains arising on investments available for sale	585	-
Acquisition of investments available for sale	19 662	17 664
Disposal of investments available for sale	(7 306)	(61 311)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in equity	6 229	9 760
Impairment of investments available for sale	-	(1 314)
Total investments available for sale as at 31 December	**29 854**	**10 684**

(expressed in thousands of US dollars - Note 3)

11 Investments (Continued)

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

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

External independent market quotations were not available for certain investments available for sale. The fair values of these assets were determined by management on the basis of application of various valuation methodologies, including discounted cash flows, consideration of financial information of the investees and results of recent sales of equity interest in the investees between unrelated third parties.

As at 31 December 2005 the estimated fair value of investments available for sale was USD 29 854 thousand (2004: USD 10 684 thousand). Refer to Note 28.

12 Other Assets and Receivables

	2005	2004
Receivables on operations with securities	143 897	58 614
Trade debtors and prepayments	56 081	48 090
Plastic card debtors and other settlements with clients	46 889	31 775
Prepaid taxes	38 829	12 579
Conversion operations and derivative financial instruments	37 222	47 219
Advance payments for finance leases	36 452	31 786
Receivables from related parties	9 758	16 083
Precious metals	-	40 226
Other	14 843	3 176
	383 971	**289 548**
Less: Provision for impairment of receivables	(7 517)	(13 858)
Total other assets and receivables	**376 454**	**275 690**

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

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

As at 31 December 2004 precious metals included gold with a carrying value of USD 21 432 thousand sold under sale and repurchase agreements with other banks. Refer to Note 14.

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

(expressed in thousands of US dollars - Note 3)

13 Premises, Equipment and Intangible Assets

	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software	Total
Net book amount as at 31 December 2004	**56 971**	**9 019**	**48 250**	**2 185**	**116 425**	**30 466**	**146 891**
Cost or valuation							
Opening balance	67 551	10 677	110 938	2 185	**191 351**	52 250	**243 601**
Additions and transfers	4 382	3 428	20 990	2 299	**31 099**	7 861	**38 960**
Disposals	(1 211)	(1 250)	(10 177)	-	**(12 638)**	(4 706)	**(17 344)**
Translation movement	(2 303)	(383)	(3 592)	(78)	**(6 356)**	(763)	**(7 119)**
Closing balance	**68 419**	**12 472**	**118 159**	**4 406**	**203 456**	**54 642**	**258 098**
Accumulated depreciation							
Opening balance	10 580	1 658	62 688	-	**74 926**	21 784	**96 710**
Depreciation charge	1 372	274	15 425	-	**17 071**	8 535	**25 606**
Disposals	(119)	(43)	(6 140)	-	**(6 302)**	(53)	**(6 355)**
Translation movement	(359)	(63)	(2 125)	-	**(2 547)**	(390)	**(2 937)**
Closing balance	**11 474**	**1 826**	**69 848**	**-**	**83 148**	**29 876**	**113 024**
Net book amount as at 31 December 2005	**56 945**	**10 646**	**48 311**	**4 406**	**120 308**	**24 766**	**145 074**

(expressed in thousands of US dollars - Note 3)

13 Premises, Equipment and Intangible Assets (Continued)

	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total premises and equipment	Computer software	Total
Net book amount as at 31 December 2003	**50 121**	**10 344**	**46 652**	**10 463**	**117 580**	**32 141**	**149 721**
Cost or valuation							
Opening balance	58 767	11 878	95 351	10 463	**176 459**	45 916	**222 375**
Additions and transfers	6 517	1 403	17 654	(8 551)	**17 023**	5 480	**22 503**
Disposals	(1 134)	(3 334)	(7 310)	-	**(11 778)**	(170)	**(11 948)**
Translation movement	3 401	730	5 243	273	**9 647**	1 024	**10 671**
Closing balance	**67 551**	**10 677**	**110 938**	**2 185**	**191 351**	**52 250**	**243 601**
Accumulated depreciation							
Opening balance	8 646	1 534	48 699	-	**58 879**	13 775	**72 654**
Depreciation charge	1 564	282	16 402	-	**18 248**	7 585	**25 833**
Disposals	(131)	(252)	(5 215)	-	**(5 598)**	(39)	**(5 637)**
Translation movement	501	94	2 802	-	**3 397**	463	**3 860**
Closing balance	**10 580**	**1 658**	**62 688**	**-**	**74 926**	**21 784**	**96 710**
Net book amount as at 31 December 2004	**56 971**	**9 019**	**48 250**	**2 185**	**116 425**	**30 466**	**146 891**

14 Due to Other Banks

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

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

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

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

(expressed in thousands of US dollars - Note 3)

14 Due to Other Banks (Continued)

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

As at 31 December 2005 the estimated fair value of due to other banks was USD 781 867 thousand (2004: USD 499 958 thousand). Refer to Note 28.

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

15 Customer Accounts

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

Economic sector concentrations within customer accounts were as follows:

	2005		2004	
	Amount	%	Amount	%
Individuals	1 792 224	33	1 397 962	31
State and public organisations	942 457	17	535 502	12
Finance and investment companies	811 389	15	1 082 861	24
Trade and commerce	666 000	12	242 443	5
Energy and oil and gas	487 978	9	405 306	9
Manufacturing and construction	299 774	6	299 861	7
Mass media and telecommunications	67 590	1	82 054	2
Science	38 818	1	84 428	2
Other	348 941	6	361 655	8
Total customer accounts	**5 455 171**	**100**	**4 492 072**	**100**

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

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

As at 31 December 2005 the estimated fair value of customer accounts was USD 5 455 171 thousand (2004: USD 4 492 072 thousand). Refer to Note 28.

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

(expressed in thousands of US dollars - Note 3)

16 Other Borrowed Funds

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

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

On 7 June 2005 the Group received a syndicated loan in the amount of USD 230 000 thousand from a consortium of large international banks. The loan matures on 6 June 2006 and bears a floating interest rate equal to LIBOR plus 1.5% per annum payable semi-annually. As at 31 December 2005 the effective interest rate was 6.8% per annum. The issue proceeds net of transaction costs were equal to USD 227 698 thousand.

On 16 November 2005 the Group received a syndicated loan in the amount of USD 275 000 thousand from a consortium of large international banks. The loan matures on 15 November 2006 and bears a floating interest rate equal to LIBOR plus 1.0% per annum payable semi-annually. As at 31 December 2005 the effective interest rate was 6.8% per annum. The issue proceeds net of transaction costs were equal to USD 272 216 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme (“MTN Programme”). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 1 000 000 thousand. On 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. The issue proceeds net of transaction costs and discount amounted to USD 187 469 thousand and the effective interest rate at origination was 9.1%. On 9 February 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount USD 150 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 9 February 2007. The issue proceeds net of transaction costs and discount amounted to USD 148 381 thousand and the effective interest rate at origination was 8.4%. On 28 June 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 250 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 2 July 2008. The issue proceeds net of transaction costs and discount amounted to USD 248 394 thousand and the effective interest rate at origination was 8.1%.

(expressed in thousands of US dollars - Note 3)

16 Other Borrowed Funds (Continued)

On 11 December 2003 the Group established a Euro Commercial Paper Programme ("ECP Programme"). Initially the aggregate principal amount of outstanding notes issued under the ECP Programme at any time was not to exceed USD 200 000 thousand and the term of the notes was not to be more than 365 days. In November 2005, the maximum allowed principal amount of outstanding notes was increased to USD 350 000 thousand. On 20 December 2005, the Group issued its first EURO-denominated notes. As at 31 December 2005 the nominal value of outstanding notes was USD 267 000 thousand and EUR 16 000 thousand (2004: USD 46 800 thousand and EUR Nil) and they were issued at a discount to the nominal value ranging from 2.1% to 7.1% depending on the type of issue. As at 31 December 2005 the average effective interest rate at origination on notes outstanding was 7.9% for USD-denominated notes and 4.3% for EUR-denominated notes.

On 9 December 2005 the Group received a subordinated loan in the amount of USD 225 000 thousand through a special purpose entity, which issued notes to fund the transaction. The loan bears a fixed interest rate of 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.28% per annum payable semi-annually until maturity on 9 December 2015. As at 31 December 2005 the effective interest rate was 8.9% per annum. The issue proceeds net of transaction costs were equal to USD 223 610 thousand. The Group has an option to repay this subordinated loan on 9 December 2010.

As at 31 December 2005 the estimated fair value of other borrowed funds was USD 1 686 950 thousand (2004: USD 710 672 thousand). Refer to Note 28.

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

17 Other Liabilities and Payables

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

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

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

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

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

(expressed in thousands of US dollars - Note 3)

18 Share Capital, Retained Earnings and Other Reserves

As at 31 December 2005 and 31 December 2004 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share and rank equally. Each share carries one vote.

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

19 Interest Income and Expense

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

Refer to Note 29 for details of related party transactions.

(expressed in thousands of US dollars - Note 3)

20 Fee and Commission Income and Expense

	2005	2004
Fee and commission income		
Commission on settlement transactions	85 280	60 800
Commission on cash and foreign currency exchange transactions	33 846	29 852
Commission for consulting services	31 547	23 377
Commission on transactions with securities	18 728	14 585
Commission on guarantees issued	10 985	11 632
Other	4 129	5 652
Total fee and commission income	**184 515**	**145 898**
Fee and commission expense		
Commission for consulting services	22 598	9 687
Commission on settlement transactions	19 171	12 779
Commission on cash and foreign currency exchange transactions	3 467	2 203
Commission on transactions with securities	2 768	4 893
Other	1 020	818
Total fee and commission expense	**49 024**	**30 380**
Net fee and commission income	**135 491**	**115 518**

Refer to Note 29 for details of related party transactions.

21 Other Operating Income

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

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

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

(expressed in thousands of US dollars - Note 3)

22 Operating Expenses

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

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

23 Income Taxes

Income tax expense comprises the following:

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

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

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

(expressed in thousands of US dollars - Note 3)

23 Income Taxes (Continued)

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

	2004	Movement	2005
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	12 259	(195)	12 064
Provision for loan impairment	28 689	(17 552)	11 137
Accruals	6 913	(3 284)	3 629
Other	3 740	2 279	6 019
Gross deferred tax asset	**51 601**	**(18 752)**	**32 849**
Deferred tax asset netted off within entities of the Group	(35 014)	7 199	(27 815)
Deferred tax asset	**16 587**	**(11 553)**	**5 034**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(18 722)	(2 447)	(21 169)
Trading securities	(28 501)	(35 543)	(64 044)
Accruals	(9 179)	7 078	(2 101)
Other	(7 113)	(10 880)	(17 993)
Gross deferred tax liability	**(63 515)**	**(41 792)**	**(105 307)**
Deferred tax liability netted off within entities of the Group	35 014	(7 199)	27 815
Deferred tax liability	**(28 501)**	**(48 991)**	**(77 492)**
Total net deferred tax liability	**(11 914)**	**(60 544)**	**(72 458)**

(expressed in thousands of US dollars - Note 3)

23 Income Taxes (Continued)

	2003	Movement	2004
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	9 822	2 437	12 259
Provision for loan impairment	5 490	23 199	28 689
Accruals	3 910	3 003	6 913
Other	1 361	2 379	3 740
Gross deferred tax asset	**20 583**	**31 018**	**51 601**
Deferred tax asset netted off within entities of the Group	(20 583)	(14 431)	(35 014)
Deferred tax asset	**-**	**16 587**	**16 587**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(17 292)	(1 430)	(18 722)
Trading securities	453	(28 954)	(28 501)
Accruals	(9 926)	747	(9 179)
Other	(7 266)	153	(7 113)
Gross deferred tax liability	**(34 031)**	**(29 484)**	**(63 515)**
Deferred tax liability netted off within entities of the Group	20 583	14 431	35 014
Deferred tax liability	**(13 448)**	**(15 053)**	**(28 501)**
Total net deferred tax liability	**(13 448)**	**1 534**	**(11 914)**

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

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

24 Segment Analysis

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

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

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

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

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

Starting from 2005 the Group has been applying a transfer pricing system. Under this system funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group. The presentation for the comparative information as at 31 December 2004 and for the year 2004 has been changed to conform to the current period presentation. Comparative information is also provided for the retail business segment, which was not separated from the corporate banking segment in 2004.

(expressed in thousands of US dollars - Note 3)

24 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2005 and 31 December 2004 is set out below:

2005	Corporate banking	Investment banking	Retail banking	Eliminations	Total
Segment revenue					
External operating income before provisions	766 387	206 376	87 637	-	**1 060 400**
Revenues from other segments	941 814	139 511	96 361	(1 177 686)	-
Total revenues	**1 708 201**	**345 887**	**183 998**	**(1 177 686)**	**1 060 400**
Total revenues comprise:					
Interest income					706 176
Fee and commission income					184 515
Gains less losses arising from trading securities					90 513
Gains less losses arising from investments					7 480
Foreign exchange translation gains less losses					40 940
Other operating income					30 776
Total revenues					**1 060 400**
Segment results	**252 240**	**171 034**	**(71 692)**	**-**	**351 582**
Unallocated costs					(75 516)
Profit from operations					**276 066**
Share of profit of associated company					16 922
Profit before income tax					**292 988**
Income tax expense					(112 432)
Profit					**180 556**
Profit is attributable to					
Equity holders of the Company					180 220
Minority interest					336
31 December 2005					
Segment assets	**7 883 131**	**2 790 803**	**1 766 755**	**(2 677 177)**	**9 763 512**
Investment in an associated company	-	67 171	-	-	67 171
Unallocated assets					5 034
Total assets					**9 835 717**
Segment liabilities	**7 322 503**	**2 314 990**	**1 838 344**	**(2 677 177)**	**8 798 660**
Unallocated liabilities					181 209
Total liabilities					**8 979 869**
Other segment items					
Capital expenditure	(13 637)	(4 142)	(21 181)	-	(38 960)
Depreciation expense	(8 819)	(2 790)	(13 997)	-	(25 606)
Other non-cash (expense)/income	(45 286)	-	(560)	-	(45 846)

(expressed in thousands of US dollars - Note 3)

Segment Analysis (Continued)

2004	Corporate banking	Investment banking	Retail banking	Eliminations	Total
Segment revenue					
External operating income before provisions	589 418	230 012	23 821	**-**	**843 251**
Revenues from other segments	626 192	82 504	28 372	(737 068)	-
Total revenues	**1 215 610**	**312 516**	**52 193**	**(737 068)**	**843 251**
Total revenues comprise:					
Interest income					548 467
Fee and commission income					145 898
Gains less losses arising from trading securities					63 804
Gains less losses arising from investments					34 009
Foreign exchange translation gains less losses					-
Other operating income					51 073
Total revenues					**843 251**
Segment results	**86 215**	**184 489**	**(28 594)**	**-**	**242 110**
Unallocated costs					(71 019)
Profit from operations					**171 091**
Share of profit of associated company					13 621
Profit before income tax					**184 712**
Income tax expense					(31 522)
Profit					**153 190**
Profit is attributable to					
Equity holders of the Company					152 770
Minority interest					420
31 December 2004					
Segment assets	**5 794 378**	**1 978 892**	**1 455 397**	**(2 270 794)**	**6 957 873**
Investment in an associated company		50 249			50 249
Unallocated assets					16 587
Total assets					**7 024 709**
Segment liabilities	**5 390 248**	**1 603 271**	**1 477 073**	**(2 270 794)**	**6 199 798**
Unallocated liabilities					114 479
Total liabilities					**6 314 277**
Other segment items					
Capital expenditure	(7 192)	(2 919)	(12 392)	-	(22 503)
Depreciation expense	(8 257)	(3 351)	(14 225)	-	(25 833)
Other non-cash (expense)/income	(13 938)	(8 067)	(24 178)	-	(46 183)

(expressed in thousands of US dollars - Note 3)

24 Segment Analysis (Continued)

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

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	486 012	246 847	22 142	123 352	317	878 670
Mandatory cash balances with central banks	147 432	29 835	18 582	-	-	195 849
Trading securities	1 032 983	47 756	27 826	5 402	25 699	1 139 666
Due from other banks	492 022	655 589	60 548	4 762	-	1 212 921
Loans and advances to customers	4 633 578	370 937	694 001	29 027	-	5 727 543
Investments	154 506	-	-	-	-	154 506
Other assets and receivables	226 959	125 035	11 522	628	12 310	376 454
Premises, equipment and intangible assets	131 749	3 339	9 986	-	-	145 074
Deferred tax asset	5 034	-	-	-	-	5 034
Total assets	**7 310 275**	**1 479 338**	**844 607**	**163 171**	**38 326**	**9 835 717**
Liabilities						
Due to other banks	321 496	327 601	96 562	84	36 124	781 867
Customer accounts	4 575 801	542 101	239 131	33 383	64 755	5 455 171
Promissory notes issued	347 734	29 200	921	-	-	377 855
Other borrowed funds	1 925	1 626 544	3 595	15 505	32 511	1 680 080
Other liabilities and payables	197 655	396 388	12 404	957	-	607 404
Deferred tax liability	77 492	-	-	-	-	77 492
Total liabilities	**5 522 103**	**2 921 834**	**352 613**	**49 929**	**133 390**	**8 979 869**
Net balance sheet position as at 31 December 2005	**1 788 172**	**(1 442 496)**	**491 994**	**113 242**	**(95 064)**	**855 848**

(expressed in thousands of US dollars - Note 3)

24 Segment Analysis (Continued)

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

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	760 387	116 145	39 877	80 512	357	997 278
Mandatory cash balances with central banks	107 920	28 756	2 873	-	-	139 549
Trading securities	647 566	20 373	38 027	-	11 084	717 050
Due from other banks	279 379	254 541	33 237	3 485	-	570 642
Loans and advances to customers	3 710 450	116 610	268 001	4 949	79	4 100 089
Investments	60 933	-	-	-	-	60 933
Other assets and receivables	167 706	82 058	18 332	849	6 745	275 690
Premises, equipment and intangible assets	132 685	1 138	13 068	-	-	146 891
Deferred tax asset	16 587	-	-	-	-	16 587
Total assets	**5 883 613**	**619 621**	**413 415**	**89 795**	**18 265**	**7 024 709**
Liabilities						
Due to other banks	272 856	161 637	35 659	4 581	25 225	499 958
Customer accounts	3 873 973	326 178	191 175	83 502	17 244	4 492 072
Promissory notes issued	168 851	36 812	560	-	-	206 223
Other borrowed funds	68 309	638 646	-	-	-	706 955
Other liabilities and payables	206 404	150 259	16 302	7 603	-	380 568
Deferred tax liability	28 501	-	-	-	-	28 501
Total liabilities	**4 618 894**	**1 313 532**	**243 696**	**95 686**	**42 469**	**6 314 277**
Net balance sheet position as at 31 December 2004	**1 264 719**	**(693 911)**	**169 719**	**(5 891)**	**(24 204)**	**710 432**

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

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

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

The majority of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

25 Financial Risk Management

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

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

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

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

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

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

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

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

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

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

Currency risk. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of long and short positions in foreign currency derivative financial instruments. As at 31 December 2005 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	359 172	350 627	121 618	47 253	878 670
Mandatory cash balances with central banks	-	147 432	29 835	18 582	195 849
Trading securities	742 949	346 679	33 687	16 351	1 139 666
Due from other banks	728 441	445 439	11 672	27 369	1 212 921
Loans and advances to customers	3 517 078	1 610 194	462 024	138 247	5 727 543
Investments	154 506	-	-	-	154 506
Other assets and receivables	228 991	116 178	29 375	1 910	376 454
Premises, equipment and intangible assets	16 599	112 037	1 367	15 071	145 074
Deferred tax asset	-	5 034	-	-	5 034
Total assets	**5 747 736**	**3 133 620**	**689 578**	**264 783**	**9 835 717**
Liabilities					
Due to other banks	405 069	172 826	180 360	23 612	781 867
Customer accounts	1 997 201	2 473 283	800 799	183 888	5 455 171
Promissory notes issued	76 110	297 080	4 483	182	377 855
Other borrowed funds	1 655 930	1 925	18 630	3 595	1 680 080
Other liabilities and payables	538 017	44 731	19 263	5 393	607 404
Deferred tax liability	-	77 492	-	-	77 492
Total liabilities	**4 672 327**	**3 067 337**	**1 023 535**	**216 670**	**8 979 869**
Net balance sheet position	**1 075 409**	**66 283**	**(333 957)**	**48 113**	**855 848**
Off-balance sheet net notional position (Note 27)	**(345 038)**	**(274)**	**135 170**	**(4 797)**	**(214 939)**
Credit related commitments (Note 26)	**188 048**	**559 991**	**291 250**	**2 625**	**1 041 914**

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

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

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

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

The table below shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity (other than trading securities, see below), unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	878 670	-	-	-	-	878 670
Mandatory cash balances with central banks	195 849	-	-	-	-	195 849
Trading securities	1 139 666	-	-	-	-	1 139 666
Due from other banks	1 145 039	56 077	11 100	705	-	1 212 921
Loans and advances to customers	275 651	1 402 468	1 271 627	2 777 797		5 727 543
Investments	-	-	-	-	154 506	154 506
Other assets and receivables	185 110	142 130	5 160	25 903	18 151	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**3 819 985**	**1 600 675**	**1 287 887**	**2 804 405**	**322 765**	**9 835 717**
Liabilities						
Due to other banks	284 915	237 436	24 588	234 928	-	781 867
Customer accounts	3 885 679	1 149 433	358 771	61 288	-	5 455 171
Promissory notes issued	68 551	154 851	132 514	21 939	-	377 855
Other borrowed funds	-	646 306	401 303	632 471	-	1 680 080
Other liabilities and payables	314 602	237 016	38 882	16 904	-	607 404
Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 553 747**	**2 425 042**	**956 058**	**967 530**	**77 492**	**8 979 869**
Net liquidity gap	**(733 762)**	**(824 367)**	**331 829**	**1 836 875**	**245 273**	**855 848**
Cumulative liquidity gap	**(733 762)**	**(1 558 129)**	**(1 226 300)**	**610 575**	**855 848**	

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	717 050	-	-	-	-	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises, equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 753 564**	**1 328 408**	**1 247 908**	**1 398 406**	**296 423**	**7 024 709**
Liabilities						
Due to other banks	260 592	141 421	17 185	80 760	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	178 037	241 378	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 777 416**	**2 114 668**	**987 011**	**406 681**	**28 501**	**6 314 277**
Net liquidity gap	**(23 852)**	**(786 260)**	**260 897**	**991 725**	**267 922**	**710 432**
Cumulative liquidity gap	**(23 852)**	**(810 112)**	**(549 215)**	**442 510**	**710 432**	

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

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

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

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

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'Non-interest bearing'.

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

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	878 670	-	-	-	-	878 670
Mandatory cash balances with central banks	195 849	-	-	-	-	195 849
Trading securities	652 195	-	-	-	487 471	1 139 666
Due from other banks	1 145 039	56 077	11 100	705	-	1 212 921
Loans and advances to customers	540 331	1 645 163	1 184 677	2 357 372	-	5 727 543
Investments	-	-	-	-	154 506	154 506
Other assets and receivables	174 219	160 281	5 160	25 903	10 891	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**3 586 303**	**1 861 521**	**1 200 937**	**2 383 980**	**802 976**	**9 835 717**
Liabilities						
Due to other banks	284 915	238 943	24 660	233 349	-	781 867
Customer accounts	3 885 679	1 149 433	358 771	61 288	-	5 455 171
Promissory notes issued	68 551	154 851	132 514	21 939	-	377 855
Other borrowed funds	-	920 743	126 866	632 471	-	1 680 080
Other liabilities and payables	68 391	237 016	38 882	16 904	246 211	607 404
Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 307 536**	**2 700 986**	**681 693**	**965 951**	**323 703**	**8 979 869**
Net sensitivity gap	**(721 233)**	**(839 465)**	**519 244**	**1 418 029**	**479 273**	**855 848**
Cumulative sensitivity gap	**(721 233)**	**(1 560 698)**	**(1 041 454)**	**376 575**	**855 848**	

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	212 830	1 325 683	1 237 619	1 323 957	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 418 140**	**1 387 014**	**1 247 908**	**1 326 566**	**645 081**	**7 024 709**
Liabilities						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955
Other liabilities and payables	149 952	98 991	10 555	24 481	96 589	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 680 827**	**2 213 233**	**925 864**	**369 263**	**125 090**	**6 314 277**
Net sensitivity gap	**(262 687)**	**(826 219)**	**322 044**	**957 303**	**519 991**	**710 432**
Cumulative sensitivity gap	**(262 687)**	**(1 088 906)**	**(766 862)**	**190 441**	**710 432**	

(expressed in thousands of US dollars - Note 3)

25 Financial Risk Management (Continued)

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

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

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

26 Contingencies and Commitments

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

On 18 February 2004, the court dismissed the claim on the grounds of “forum non conveniens”. In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither Alfa Bank nor Alfa Capital Markets (USA) Inc. have been served with any court papers or have been named in the caption to this action. Norex representatives filed a notice of appeal against the court decision and on 21 July 2005 the court of appeal vacated the previous court’s decision and remanded the case for further proceedings. Management believes that the allegations are without merit and intends to vigorously defend this action.

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

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

(expressed in thousands of US dollars - Note 3)

26 Contingencies and Commitments (Continued)

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

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

The Group occasionally conducts intercompany transactions at off-market rates. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of any such challenge can not be estimated; however, it may be significant.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision). The Group estimates that it has potential obligations from exposure to other than remote tax risks of USD 4 715 thousand (2004: USD 5 576 thousand).

Capital commitments. As at 31 December 2005 the Group had capital commitments of USD 118 100 thousand, of which USD 13 400 thousand relates to construction expenditure, modernisation and repair of premises, USD 43 800 thousand relates to construction of the new Alfa Building, USD 48 400 thousand relates to purchase and installation of new computer systems, USD 12 500 thousand relates to other capital expenditure commitments. As at 31 December 2004 the Group had capital commitments of USD 30 499 thousand, of which USD 9 660 thousand related to construction expenditure, modernisation and repair of premises, USD 9 630 thousand relates to purchase and installation of new computer systems, USD 11 209 thousand related to other capital expenditure commitments. The Group's management has already allocated the necessary resources in respect of these commitments. The Group's management believes that future income and funding will be sufficient to cover this and any similar commitments.

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

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

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

(expressed in thousands of US dollars - Note 3)

26 Contingencies and Commitments (Continued)

Outstanding credit related commitments were as follows:

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

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

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

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

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

	2005 Nominal value	2004 Nominal value
Shares in companies held in custody	308 121	132 506
Corporate bonds held in custody	206 267	143 833
Promissory notes of companies held in custody	57 670	69 535
OVGVZ held on account with Vneshtorgbank	27 346	31 595
Client OFZ securities held on an account with NDC	18 739	19 302
Eurobonds	17 700	3 659
Other	137	7 951

Assets pledged and restricted. As at 31 December 2005 the Group had the following assets pledged as collateral:

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

26 Contingencies and Commitments (Continued)

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

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

Mandatory cash balances with central banks in the amount of USD 195 849 thousand (2004: USD 139 549 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

27 Derivative Financial Instruments

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2005.

(expressed in thousands of US dollars - Note 3)

27 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2005.

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	**Liabilities Negative fair value**	**Assets Positive fair value**	**Principal or agreed amount at fair value**	**Liabilities Negative fair value**	**Assets Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	283 412	(323)	2 508	433 981	(939)	1
- purchase of foreign currency	272 499	(1 688)	2 246	426 517	(4 520)	1 405
Securities						
- sale of securities	405 456	(1 252)	1 854	48 168	(274)	931
- purchase of securities	73 262	(454)	1 143	18 947	-	1 905
Non-deliverable forwards						
Foreign currency						
- sale of foreign currency	-	-	-	197 439	(1 419)	305
- purchase of foreign currency	-	-	-	112 376	(147)	797
Securities						
- sale of securities	-	-	-	404 781	(214 159)	-
- purchase of securities	75 053	-	232	-	-	-
Futures						
Securities						
- sale of securities	-	-	-	78 335	(230)	-
Spot						
Foreign currency						
- sale of foreign currency	740 366	(231)	-	1 697 697	(39)	40
- purchase of foreign currency	770 496	(1 853)	1 413	1 687 108	(3 352)	2 706
Call options						
Foreign currency						
- written call options	-	-	-	18 901	(143)	-
- purchased call options	-	-	-	18 901	-	143
Securities						
- written call options	-	-	-	77 508	(10 308)	-
- purchased call options	22 950	-	505	41 091	-	8 161
Put options						
Foreign currency						
- written put options	-	-	-	18 621	(84)	-
- purchased put options	-	-	-	18 621	-	84
Securities						
- written put options	-	-	-	85 278	(1 760)	-
- purchased put options	-	-	-	96 813	-	1 852
Interest rate swaps						
Paying fixed interest, receiving floating interest	-	-	-	311 380	(1 639)	1 621
Total return swaps						
Paying floating interest, receiving total return on securities	-	-	-	7 815	-	23
Total		**(5 801)**	**9 901**		**(239 013)**	**19 974**

(expressed in thousands of US dollars - Note 3)

27 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004.

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	**Negative fair value**	**Positive fair value**	**Principal or agreed amount at fair value**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	20 542	-	542	131 566	-	-
- purchase of foreign currency	36 403	(1 148)	259	306 322	(5 471)	3 031
Securities						
- sale of securities	108 818	(140)	1 024	333 570	(79 017)	153
- purchase of securities	29 685	-	2 065	-	-	-
Non-deliverable forwards						
Foreign currency						
- sale of foreign currency	-	-	-	6 063	(358)	-
- purchase of foreign currency	9 617	-	604	68 468	-	1 846
Securities						
- sale of securities	1 120	-	1	-	-	-
- purchase of securities	34 719	(19)	173	-	-	-
Precious metals						
- sale of precious metals	-	-	-	23 857	(27)	595
- purchase of precious metals	-	-	-	4 712	(54)	12
Commodities						
- sale of precious metals	5 290	(59)	87	-	-	-
- purchase of precious metals	5 838	(119)	40	-	-	-
Futures						
Foreign currency						
- sale of foreign currency	-	-	-	81 312	(1 839)	59
- purchase of foreign currency	-	-	-	365 451	(4 876)	1 123
Securities						
- sale of securities	-	-	-	39 178	(206)	20
- purchase of securities	-	-	-	5 597	(1)	36
Precious metals						
- sale of precious metals	-	-	-	25 569	(19)	230
- purchase of precious metals	-	-	-	13 016	(427)	43
Commodities						
- sale of commodities	-	-	-	5 356	(52)	76
- purchase of commodities	-	-	-	4 950	(53)	75
Spots						
Foreign currency						
- sale of foreign currency	9 478	(13)	12	48 309	-	168
- purchase of foreign currency	9 478	(321)	61	44 712	(89)	1 463
Call options						
Securities						
- written call options	19 190	(643)	-	19 179	(1 160)	
- purchased call options	51 190	-	1 389	5 805	-	643
Put options						
Securities						
- purchased put options	10 225	-	149	14 530	-	948
Total		**(2 462)**	**6 406**		**(93 649)**	**10 521**

(expressed in thousands of US dollars - Note 3)

27 Derivative Financial Instruments (Continued)

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

	2005		2004	
	Principal or agreed amount		Principal or agreed amount	
	Sale	Purchase	Sale	Purchase
Corporate shares of Russian entities	404 781	-	306 713	-
Corporate bonds	154 934	-	-	-
Corporate Eurobonds	120 941	36 000	34 017	-
Russian Federation Eurobonds	118 563	36 601	90 958	23 748
US Treasury Notes	78 335	75 053	40 298	40 316
Municipal bonds	34 800	-	-	-
Eurobonds of other states	24 386	11 004	10 700	5 937
ADRs and GDRs	-	8 604	-	-
Total	**936 740**	**167 262**	**482 686**	**70 001**

(expressed in thousands of US dollars - Note 3)

28 Fair Value of Financial Instruments

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

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

	2005		2004	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents (Note 7)	878 670	878 670	997 278	997 278
Mandatory cash balances with central banks	195 849	195 849	139 549	139 549
Trading securities (Note 8)	1 139 666	1 139 666	717 050	717 050
Due from other banks (Note 9)	1 212 921	1 212 921	570 642	570 642
Loans and advances to customers (Note 10)	5 727 543	5 736 713	4 100 089	4 103 116
Investment at fair value through profit and loss (Note 11)	57 481	57 481	-	-
Investments available for sale (Note 11)	29 854	29 854	10 684	10 684
Financial liabilities				
Due to other banks (Note 14)	781 867	781 867	499 958	499 958
Customer accounts (Note 15)	5 455 171	5 455 171	4 492 072	4 492 072
Promissory notes issued	377 855	379 690	206 223	204 513
Other borrowed funds (Note 16)	1 680 080	1 686 950	706 955	710 672
Payables on operations with securities and derivative financial instruments (Note 17)	370 918	370 918	152 692	152 692

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

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

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

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

Loans and advances to customers. The carrying value of loans and advances is net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

28 Fair Value of Financial Instruments (Continued)

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

Investments available for sale. The estimated fair value of investments available for sale represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

Promissory notes issued. The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

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

29 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in the Alfa Group Consortium and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

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

(expressed in thousands of US dollars - Note 3)

29 Related Party Transactions (Continued)

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

	2005			2004		
	TNK-BP	**Alfa Group Consor-tium and its share-holders (Note 1)**	**Other**	**TNK-BP**	**Alfa Group Consor-tium and its share-holders (Note 1)**	**Other**
Trading securities as at the year end	**1 049**	**-**	**7 632**	**58**	**-**	**12 545**
Loans and advances to customers as at the year end (gross of provision for impairment)	**20 867**	**82 051**	**43 096**	**12 785**	**47 042**	**30 591**
USD, effective contractual rate of 1.0%-4.0%	-	157	-	-	-	-
USD, effective contractual rate of 8.8% - 10.3%	20 867	55 129	2 031	-	-	-
USD, effective contractual rate of 10.8% - 12.5%	-	-	4 005	-	3 250	-
USD, effective contractual rate of 12.6-14.0%	-	24 259	37 060	131	41 612	28 688
USD, effective contractual rate of 14.1%-18.0%	-	609	-	-	-	-
RUR, effective contractual rate of 8.5%-10,5%	-	152	-	-	-	-
RUR, effective contractual rate of 10.7% - 19.0%	-	1 745	-	12 654	2 180	-
USD, effective contractual rate of 0%	-	-	-	-	-	1 903
Provision for loan impairment as at 1 January	**(326)**	**(2 244)**	**-**	**-**	**-**	**(38)**
Provision for loan impairment during the year	(293)	142	(71)	(326)	(2 244)	38
Provision for loan impairment as at 31 December	**(619)**	**(2 102)**	**(71)**	**(326)**	**(2 244)**	**-**
Interest income for the year (based on effective contractual interest rates)	**183**	**7 860**	**5 262**	**2 775**	**3 915**	**1 248**
Receivables as at the year end	**-**	**7 296**	**2 462**	**9**	**16 074**	**-**
Customer accounts Current/settlement accounts as at the year end	**133 497**	**29 381**	**-**	**110 330**	**13 981**	**28 612**
RUR, effective contractual rate of 0.0-2.0%	129 628	17 606	-	105 007	10 196	24 671
USD, effective contractual rate of 0.0-2.0%	1 455	10 063	-	4 392	3 647	3 941
EUR, effective contractual rate of 0.0-2.0%	7	1 238	-	308	138	-
UAH, effective contractual rate of 0.0-2.0%	2 407	474	-	623	-	-

(expressed in thousands of US dollars - Note 3)

29 Related Party Transactions (Continued)

	2005			2004		
	TNK-BP	**Alfa Group Consortium and its shareholders (Note 1)**	**Other**	**TNK-BP**	**Alfa Group Consortium and its shareholders (Note 1)**	**Other**
Term deposits as at the year end	**27 430**	**458 207**	**-**	**55 268**	**969 191**	**21 664**
RUR, effective contractual rate of 2.0% - 12.5%	8 801	4 608	-	19 332	5 767	21 664
USD, effective contractual rate of 1.8% - 7.3%	18 629	425 109	-	35 936	963 424	-
UAH, effective contractual rate of 9.0%	-	28 490	-	-	-	-
Interest expense for the year (based on effective contractual interest rates)	**2 966**	**31 473**	**-**	**1 914**	**25 596**	**1 174**
Promissory notes issued as at the year end	**3 543**	**1 505**	**-**	**1 296**	**2 552**	**-**
RUR, effective contractual interest rate of 0.0%	3 543	-	-	1 259	209	-
RUR, effective contractual interest rate of 5.0% - 11.1%	-	1 505	-	22	2 343	-
USD, effective contractual interest rate of 4.1%-7.7%	-	-	-	15	-	-
Payables as at the year end	**1**	**5 590**	**7 617**	**-**	**298**	**11 821**
Guarantees issued by the Group	**107 956**	**420**	**-**	**96 883**	**18**	**-**
Provision for losses on guarantees issued as at 1 January	**(2 756)**	**-**	**-**	**-**	**-**	**(18)**
Provision for losses on guarantees issued during the year	254	(9)	-	(2 756)	-	18
Provision for losses on guarantees issued as at 31 December	**(2 502)**	**(9)**	**-**	**(2 756)**	**-**	**-**
Import letters of credit as at the year end	**-**	**-**	**7 074**	**-**	**-**	**6 101**
Fee and commission income	**3 152**	**5 351**	**774**	**3 191**	**2 340**	**452**
Fee and commission expense	**-**	**-**	**-**	**-**	**-**	**-**
Income from securities transactions with related parties	**-**	**2 459**	**270**	**-**	**58**	**-**
Other income for the year	**10**	**430**	**-**	**1 444**	**3 919**	**1 797**
Other expenses for the year	**-**	**247**	**-**	**117**	**1 190**	**-**

Included in the “other” category above are balances and income and expenses from transactions with the Group’s associate company and some members of its management.

During 2004 the Group disposed an asset management business to a company within the Alfa Group Consortium for USD 4 832 thousand realising a gain of USD 3 971 thousand.

(expressed in thousands of US dollars - Note 3)

29 Related Party Transactions (Continued)

Key management compensation is presented below:

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

	2005	2004
Key management compensation expense	**27 497**	**22 160**
Salaries	6 377	6 673
Bonuses	**21 120**	**15 487**
- short-term bonuses	14 859	13 890
- long-term bonuses	6 261	1 597

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

30 Principal Consolidated Subsidiaries

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

As at 31 December 2005 and 31 December 2004 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa Bank Ukraine, which is 96.9% owned and controlled as at 31 December 2005 (2004: 94.7% owned and controlled). The Group intends to dispose of a part or its entire share in Alfa Bank Ukraine in 2006.

31 Subsequent Events

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