ABH Financial Limited

Consolidated Financial Statements and Auditor's Report

31 December 2006

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PRICEWATERHOUSECOOPERS

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ABH Financial Limited:

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

25 April 2007

In thousands of US Dollars	Note	2006	2005
ASSETS			
Cash and cash equivalents	7	1 672 681	878 670
Mandatory cash balances with central banks		256 579	195 849
Trading securities	8	673 199	897 902
Repurchase receivables	8	495 849	241 764
Due from other banks	9	1 667 662	1 212 921
Loans and advances to customers	10	9 480 359	5 727 543
Investments in associates	11	198 806	67 171
Other investments	11	21 918	87 335
Other assets	12	531 747	376 454
Premises, equipment and intangible assets	13	208 403	145 074
Deferred tax asset	25	2 740	5 034
TOTAL ASSETS		**15 209 943**	**9 835 717**
LIABILITIES			
Due to other banks	14	1 430 440	781 867
Customer accounts	15	7 946 381	5 455 171
Promissory notes issued		529 593	377 855
Other borrowed funds	16	3 126 296	1 455 318
Subordinated debt	17	224 837	224 762
Other liabilities	18	625 797	607 404
Deferred tax liability	25	16 415	77 492
TOTAL LIABILITIES		**13 899 759**	**8 979 869**
EQUITY			
Share capital	19	344 800	160 800
Fair value reserve for investments available for sale		70	585
Revaluation reserve for premises		25 929	3 051
Retained earnings and other reserves	19	939 376	689 012
Net assets attributable to the equity holders of the Company		**1 310 175**	**853 448**
Minority interest		**9**	**2 400**
TOTAL EQUITY		**1 310 184**	**855 848**
TOTAL LIABILITIES AND EQUITY		**15 209 943**	**9 835 717**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 25 April 2007 and further changes require approval of the body that gave that authorisation.

In thousands of US Dollars	Note	2006	2005
Interest income	20	1 028 117	706 176
Interest expense	20	(477 843)	(304 494)
Net interest income		**550 274**	**401 682**
Provision for loan impairment	10	(127 223)	(54 385)
Net interest income after provision for loan impairment		**423 051**	**347 297**
Fee and commission income	21	223 326	184 515
Fee and commission expense	21	(54 977)	(49 024)
Gains less losses arising from trading securities	22	68 970	90 513
Gains less losses arising from investments	11	68 989	7 480
(Losses less gains)/gains less losses arising from foreign currencies	22	(53 049)	33 130
Other impairment provisions	12, 28	7 903	8 539
Gain on disposal of subsidiaries	32	11 059	-
Gain on disposal of interest in associated company	11	33 501	-
Other operating income	12, 23	70 419	30 776
Operating expenses	24	(535 342)	(377 160)
Share of results of associates	11	7 830	16 922
Profit before tax		**271 680**	**292 988**
Income tax expense	25	(81 394)	(112 432)
Profit		**190 286**	**180 556**
Attributable to:			
Equity holders of the Company		190 333	180 220
Minority interest		(47)	336
Profit		**190 286**	**180 556**

The notes set out on pages 5 to 64 form an integral part of these consolidated financial statements.

ABH Financial Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2006

In thousands of US Dollars	Note	2006	2005
Cash flows from operating activities			
Interest received		997 454	707 810
Interest paid, other than on other borrowed funds and subordinated debt		(324 999)	(225 286)
Fees and commissions received		224 706	172 468
Fees and commissions paid		(68 563)	(47 909)
Net income received from trading securities		81 492	51 574
Net income received/(losses incurred) from trading in foreign currencies		56 500	(17 570)
Other operating income received		23 207	27 277
Staff compensation paid		(287 191)	(195 139)
Other operating expenses paid		(194 418)	(136 368)
Income tax paid		(134 846)	(59 398)
Cash flows from operating activities before changes in operating assets and liabilities		**373 342**	**277 459**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(55 771)	(64 744)
Net increase in trading securities and repurchase receivables		(17 116)	(342 373)
Net increase in due from other banks		(444 174)	(649 738)
Net increase in loans and advances to customers		(4 520 176)	(1 781 207)
Net (increase)/decrease in other assets		(78 302)	77 522
Net increase in due to other banks		915 180	272 202
Net increase in customer accounts		2 729 337	1 148 711
Net increase in promissory notes issued		176 692	176 721
Net decrease in other liabilities		(29 999)	(65 288)
Net cash used in operating activities		**(950 987)**	**(950 735)**
Cash flows from investing activities			
Acquisition of investments available for sale	11	(12)	(19 662)
Proceeds from disposal of investments available for sale	11	27 751	3 876
Acquisition of investments at fair value through profit and loss	11	(133)	(45 000)
Acquisition of additional interest in associates	11	(11 800)	-
Proceeds from disposal of interests in associates	11	18 250	-
Acquisition of premises, equipment and intangible assets	13	(83 111)	(38 960)
Proceeds from disposal of premises, equipment and intangible assets	13	4 014	20 510
Cash inflow on disposal of subsidiaries	32	12 000	-
Cash outflow on disposal of subsidiaries	32	(21 180)	-
Dividend income received	23	2 640	1 374
Net cash used in investing activities		**(51 581)**	**(77 862)**
Cash flows from financing activities			
Share capital contribution	19	184 000	-
Proceeds from other borrowed funds	16	2 743 453	1 185 070
Repayment of other borrowed funds	16	(1 057 237)	(397 644)
Interest paid on other borrowed funds	16	(105 140)	(64 021)
Proceeds from subordinated debt	17	-	223 610
Interest paid on subordinated debt	17	(19 406)	-
Net cash from financing activities		**1 745 670**	**947 015**
Net increase/(decrease) in cash and cash equivalents		**743 102**	**(81 582)**
Cash and cash equivalents at the beginning of the year	7	878 670	997 278
Effect of exchange rate changes on cash and cash equivalents		50 909	(37 026)
Cash and cash equivalents at the end of the year	**7**	**1 672 681**	**878 670**

Financing and investing transactions that did not require the use of cash and cash equivalents were excluded from the consolidated statement of cash flows. Refer to Note 11 for details of settlement of certain option agreements and payment of dividends in-kind. Refer to Notes 12, 18 and 23 for details of the investment property held by the Group.

ABH Financial Limited
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2006

In thousands of US Dollars	Attributable to the equity holders of the Company					Minority interest	Total equity
	Share capital (Note 19)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves (Note 19)	Total		
Balance as at 1 January 2005	**160 800**	**-**	**4 123**	**542 634**	**707 557**	**2 875**	**710 432**
Net fair value gains arising on investments available for sale	-	585	-	-	585	-	585
Translation movement	-	-	-	(34 914)	(34 914)	-	(34 914)
Net income/(expense) recorded directly in equity	**-**	**585**	**-**	**(34 914)**	**(34 329)**	**-**	**(34 329)**
Profit for the period	-	-	-	180 220	180 220	336	180 556
Total income recorded for 2005	**-**	**585**	**-**	**145 306**	**145 891**	**336**	**146 227**
Other movements	-	-	(1 072)	1 072	-	(811)	(811)
Balance as at 31 December 2005	**160 800**	**585**	**3 051**	**689 012**	**853 448**	**2 400**	**855 848**
Transfer of net fair value gains arising on investments available for sale to net profit	-	(515)	-	-	(515)	-	(515)
Revaluation of premises, net of taxation (Note 13)	-	-	27 123	-	27 123	-	27 123
Translation movement (Note 19)	-	-	-	76 807	76 807	-	76 807
Adjustment on the initial recognition of associate (Note 11)	-	-	-	(1 673)	(1 673)	-	(1 673)
Share of other equity movements of associate (Note 11)	-	-	-	4 791	4 791	-	4 791
Net income/(expense) recorded directly in equity	**-**	**(515)**	**27 123**	**79 925**	**106 533**	**-**	**106 533**
Profit for the period	-	-	-	190 333	190 333	(47)	190 286
Total income/(expense) recorded for 2006	**-**	**(515)**	**27 123**	**270 258**	**296 866**	**(47)**	**296 819**
Share capital contribution (Note 19)	184 000	-	-	-	184 000	-	184 000
Dividends paid (Note 11)	-	-	-	(23 915)	(23 915)	-	(23 915)
Other movements	-	-	(4 245)	4 021	(224)	(2 344)	(2 568)
Balance as at 31 December 2006	**344 800**	**70**	**25 929**	**939 376**	**1 310 175**	**9**	**1 310 184**

1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise three main business segments: corporate banking, retail banking and investment banking (refer to Note 26). The corporate and retail banking activities of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation. Refer to Note 32 for a listing of the principal subsidiaries.

The Company is wholly owned by ABH Holding Corporation ("ABHH"), a British Virgin Islands registered company, owned by six individuals. Mr Fridman, Mr Khan, Mr Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls or owns a 50% or more interest in ABHH. The Controlling Shareholders have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters relating to ABHH.

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

Corporate and retail banking. Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its clients. On 16 December 2004 Alfa-Bank was accepted to the State Deposit Insurance Scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities.

As at 31 December 2006 the Group had 229 offices (including branches, regional branches and outlets), most of which are operated by Alfa-Bank (2005: 121 offices). Alfa-Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank and Alfa-Bank Kazakhstan. In 2006, Alfa-Bank sold one of its major wholly owned subsidiaries, Alfa-Bank Ukraine, to ABH Ukraine Limited. Refer to Notes 32 and 33.

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

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

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

2 Operating Environment of the Group

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

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

3 Summary of 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, investment property, 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).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These 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. Alfa-Bank has Russian Roubles as its functional currency, as its activities are mostly based in Russia and are dependent on the condition of the Russian economy. Alfa Capital Holdings (Cyprus) Limited has US Dollars as its functional currency, as its operations are reliant on the economic conditions in the rest of the world as well as in the Russian Federation. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the "Foreign Currency Translation" section of this note.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these 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, subordinated debt has been disclosed separately from other borrowed funds in the consolidated balance sheet (Note 17).

3 Summary of Significant Accounting Policies (Continued)

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

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

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Associated companies. Associated companies are entities over which the Group has significant influence, but not control, usually represented by between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. The carrying amount of investments in associated companies includes goodwill identified on acquisition less accumulated impairment losses, if any. Impairment losses, when identified, are recorded in the consolidated statement of income in share of results of associates. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

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

Foreign currency translation. The functional currency of the Company is US Dollars. The Group determines the appropriate functional currency for each subsidiary. Refer also to Note 4.

3 Summary of Significant Accounting Policies (Continued)

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

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

(i) assets and liabilities for each balance sheet are translated at the closing rate on balance sheet date;

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

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

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

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

As at 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (2005: USD 1 = RR 28.7825) and the average exchange rate for the year ended 31 December 2006 was USD 1 = RR 27.1852 (year ended 31 December 2005: USD 1 = RR 28.2864).

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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 or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

Investments at fair value through profit or loss. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Board of Directors.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans 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; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. 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.

3 Summary of Significant Accounting Policies (Continued)

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 initially 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.

Investment property. Property that is held for capital appreciation, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment property is measured at its fair value, including related transaction costs. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets. These valuations are reviewed annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Changes in fair values are recorded in the income statement.

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

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

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

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

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

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Computer software	10%- 20% per annum; and
Leasehold improvements	over the term of the underlying lease.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss 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 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.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

If the Group purchases its own other borrowed funds, 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.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the balance sheet date are disclosed as subsequent events.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. 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. These items are analysed in the notes with separate disclosure of gains less losses from financial derivatives.

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories in which the Group operates. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income except if it is recognised directly in equity when it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 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.

Revenues from the assignment of film rights for a fixed fee under non-cancellable contracts where the Group has no remaining obligations to perform are recognised at the time of sale and are included in other operating income.

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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

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

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

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from these consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function.

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 and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount which are accrued 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.

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Alfa-Bank's approval and are disclosed within staff costs.

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operated internationally on markets mainly influenced by the US Dollar and their major activities include provision of brokerage services to foreign investors. 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 estimation of a possible delay in the repayment of the loan. To the extent that the assessed delay in repayment of principal on 5% of the loans differs by +/- one month, the provision would be approximately USD 3 787 thousand (2005: USD 2 280 thousand) higher or USD 3 332 thousand (2005: USD 2 148 thousand) lower.

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

Carrying amount of investments in associates. Management of the Group compared the carrying amount of its investment in CTC Media Inc. with the market value of its share in CTC Media Inc. and concluded that no signs of impairment exist as at 31 December 2006. Refer to Note 11.

The carrying amount of the Group's investment in Amtel has been determined using valuation techniques such as discounted cash flows models and peer companies comparison. The discounted cash flows models are based on Amtel's projected EBITDA for 2006 in a range of USD 86-88 million and USD 114-116 million for 2007. Management of the Group believes that the market quotation of Amtel GDRs as at 31 December 2006 does not give a fair portrayal of Amtel mainly due to the negligible trading liquidity of the GDRs. Had the carrying amount of the investment in Amtel as at 31 December 2006 been determined by reference to the last traded price as at that date, its carrying amount would have been USD 14 112 thousand lower and the impairment loss would have been USD 14 112 thousand higher.

Fair value of the investment property. Investment property is represented by land held under a long term operating lease agreement. The market value of the land was assessed using the sales comparison method and amounted to USD 34 800 thousand. The Group has obtained a report from an international valuation company setting out the estimated market value for the land plot in its current state. In addition to this value, Management has considered it appropriate to apply a discount to the market value proposed by the professional valuer in order to reflect the absence of full permits and permissions relating to the development of the site as at 31 December 2006 and therefore representing a restriction on the Group's ability to achieve the appraised value for the sites where they were to be sold to third parties on an arm's length basis. The discount applied represent Management's estimate of the risk premium that would be commanded by an acquirer. The discount that has been applied equals to 40%, and has been applied by reference to the status of obtaining the relevant licences and permits as at 31 December 2006.

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. In addition, Management uses judgement to assess the realisability of deferred tax assets, which is subject to availability of profits and other circumstances, including the ability to claim full deduction of the expenses incurred in relation to the underlying assets and liabilities. In 2006 Management reassessed the realisability of the deferred tax assets and adjusted the deferred tax asset balances accordingly. Refer also to Notes 25 and 28.

5 Adoption of New or Revised Standards and Interpretations

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

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

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('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. The Group amended its policies and management now designates financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's Board of Directors.

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

IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these consolidated financial statements.

IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (e.g. quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies.

IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these consolidated financial statements.

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

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

6 New Accounting Pronouncements

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

IFRS 7 – Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS 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 of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information.

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

- IFRIC 7 – Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8 – Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9 – Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10 – Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11 – IFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

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

7 Cash and Cash Equivalents

In thousands of US Dollars	**2006**	**2005**
Cash on hand	430 011	275 034
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	306 901	170 513
Correspondent accounts with other financial institutions		
- Russian Federation	119 761	73 835
- Other countries	127 993	100 627
Overnight placements with other financial institutions		
- Russian Federation	38 934	20 740
- Other countries	649 081	237 921
Total cash and cash equivalents	**1 672 681**	**878 670**

As at 31 December 2006 the ten largest aggregate balances within correspondent accounts and overnight placements with other financial institutions amounted to USD 861 458 thousand (2005: USD 372 986 thousand) or 92.1% (2005: 86.1%) of the gross correspondent accounts and overnight placements with other financial institutions.

Currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

8 Trading Securities and Repurchase Receivables

In thousands of US Dollars	2006	2005
Trading securities		
Corporate bonds	336 325	236 976
Corporate Eurobonds	104 077	43 036
Bonds of other states	56 071	46 467
ADRs and GDRs	33 885	9 694
Corporate shares	32 082	447 455
Municipal bonds	28 798	53 245
Promissory notes	22 440	34 886
Russian Federation Eurobonds	20 862	2 493
Other	38 659	23 650
Total trading securities	**673 199**	**897 902**
Repurchase receivables		
Corporate shares	337 238	13 370
Corporate Eurobonds	90 841	86 340
Russian Federation Eurobonds	22 861	82 828
Municipal bonds	12 487	-
Corporate bonds	3 682	-
Eurobonds of other states	65	37 655
Other	28 675	21 571
Total repurchase receivables	**495 849**	**241 764**
Total trading securities and repurchase receivables	**1 169 048**	**1 139 666**

Corporate bonds are interest-bearing securities issued by Russian companies, denominated in Russian Roubles, and Ukrainian companies, denominated in Ukrainian Hryvnyas, and are freely tradable in the Russian Federation and the Ukraine respectively. As at 31 December 2006 these bonds have maturity dates ranging from February 2007 to February 2016 (2005: from January 2006 to March 2012), coupon rates from 7.0% to 14.1% (2005: from 4.0% to 16.3%) and yields to maturity from 6.6% to 16.5% (2005: from 6.3% to 13.2%), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued by large Russian companies, and are freely tradable internationally. As at 31 December 2006 these bonds have maturity dates ranging from March 2007 to April 2034 (2005: from March 2006 to April 2034), coupon rates from 6.2% to 10.8% (2005: from 4.1% to 12.8%) and yields to maturity from 6.0% to 17.0% (2005: from 2.8% to 13.3%), depending on the type of bond issue.

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

As at 31 December 2006 and as at 31 December 2005 the long balance sheet position of the Group in trading securities and repurchase receivables was partially offset by short forward, futures and swaps position of the Group in those securities. Refer to Note 29.

Currency, maturity and interest rates analyses of trading securities are disclosed in Note 27. The information on securities issued by related parties and owned by the Group as at 31 December 2006 is disclosed in Note 31.

9 Due from Other Banks

In thousands of US Dollars	2006	2005
Term placements with other banks	1 644 050	1 171 600
Reverse sale and repurchase agreements with other banks	23 612	41 321
Total due from other banks	**1 667 662**	**1 212 921**

As at 31 December 2006 the ten largest aggregate balances of due from other banks amounted to USD 1 178 919 thousand (2005: USD 848 959 thousand) or 70.7% (2005: 70.0%) of total due from other banks.

As at 31 December 2006 included within term placements with other banks are placements with Alfa-Bank Ukraine in the amount of USD 326 259 thousand (2005: not applicable), including loans to a corporate subsidiary of Alfa-Bank Ukraine in the amount of USD 101 497 thousand (2005: not applicable).

As at 31 December 2006 included within term placements with other banks are deposits placed under Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 60 750 thousand. Refer to Note 16.

As at 31 December 2006 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks, which the Group has the right to sell or repledge in absence of default of the counterparty was USD 25 587 thousand (2005: USD 39 687 thousand).

As at 31 December 2006 the estimated fair value of due from other banks was USD 1 667 662 thousand (2005: USD 1 212 921 thousand). Refer to Note 30.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of US Dollars	2006	2005
Current loans	9 371 242	5 760 564
Finance lease receivables	297 566	154 589
Overdue balances	114 844	52 281
Less: Provision for loan impairment	(303 293)	(239 891)
Total loans and advances to customers	**9 480 359**	**5 727 543**

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

Movements in the provision for loan impairment were as follows:

In thousands of US Dollars	2006	2005
Provision for loan impairment as at 1 January	**239 891**	**197 846**
Provision for loan impairment during the period	128 358	54 385
Recovery of loans and advances to customers previously written off as uncollectible	(1 135)	-
Balances written off during the period as uncollectible	(46 285)	(12 340)
Disposal of subsidiary	(17 536)	-
Provision for loan impairment as at 31 December	**303 293**	**239 891**

10 Loans and Advances to Customers (Continued)

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

	2006		2005	
In thousands of US Dollars	Amount	%	Amount	%
Trade and commerce	1 533 474	16	872 768	15
Construction	1 315 625	13	616 966	10
Power generation	913 350	9	231 513	4
Individuals	809 257	8	144 907	2
Ferrous metallurgy	738 869	8	646 989	11
Finance and investment companies	676 017	7	346 050	6
Machinery and metalwork	591 926	6	505 025	9
Armaments production	524 402	5	359 058	6
Railway transport	340 415	4	125 264	2
Natural gas industry	337 189	3	284 310	5
Oil industry	275 169	3	227 255	4
Non-ferrous metallurgy	253 867	3	379 028	6
Aviation transport	192 343	2	57 813	1
Chemistry and petrochemicals	190 261	2	169 622	3
Food industry	155 357	2	135 839	2
Nuclear industry	142 741	2	80 514	1
Coal Industry	135 034	1	195 864	3
Mass media and telecommunications	93 043	1	186 319	3
Water transport	78 612	1	107 088	2
Timber industry	40 903	-	33 362	1
Agribusiness	28 735	-	63 583	1
Other	417 063	4	198 297	3
Total loans and advances to customers (gross of provision for loan impairment)	**9 783 652**	**100**	**5 967 434**	**100**

As at 31 December 2006 aggregate loans and advances to the ten largest borrowers and group of related borrowers of the Group amounted to USD 2 181 589 thousand (2005: USD 1 438 901 thousand) or 22.3% (2005: 24.1%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers of the Group amounted to USD 3 261 138 thousand (2005: USD 2 212 062 thousand) or 33.3% (2005: 37.1%) of the gross loans and advances to customers.

As at 31 December 2006 loans to customers in the amount of USD 75 012 thousand (2005: Nil) were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of USD 128 467 thousand (2005: Nil), which the Group has the right to sell or repledge in the absence of default of the counterparty.

As at 31 December 2005 loans to customers in the amount of USD 16 754 thousand have been pledged as collateral under sale and repurchase agreements with other banks. Refer to Note 28.

As at 31 December 2006 the estimated fair value of loans and advances to customers was USD 9 485 896 thousand (2005: USD 5 736 713 thousand). Refer to Note 30.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

11 Investments in Associates and Other Investments

In thousands of US Dollars	2006	2005
Investments in associates:	**198 806**	**67 171**
Amtel-Vredestein N.V.	98 813	-
CTC Media Inc.	92 393	67 171
PatriotCapital LLC	7 600	-
Equity investments available for sale	**374**	**29 854**
Investments at fair value through profit and loss:	**21 544**	**57 481**
Participating shares in investment funds managed by the Alfa Group Consortium	21 544	-
Amtel-Vredestein N.V.	-	57 481
Total investments	**220 724**	**154 506**

Investments in associates

CTC Media Inc.

As at 31 December 2006 an investment in an associated company in the amount of USD 92 393 thousand (2005: USD 67 171 thousand) represented a 20.05% (2005: 31.51%) interest in CTC Media Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures, operating in Russia.

In April 2006 the Group sold a 3.1% interest in CTC to a company within the Alfa Group Consortium (refer to Note 31) for USD 18 250 thousand, recording a gain of USD 10 697 thousand. In June 2006, during the Initial Public Offering of CTC, the Group's interest further decreased by 2.3% and the gain on deemed disposal amounted to USD 22 804 thousand.

In October 2006, the Group declared an interim dividend in the amount of USD 23 915 thousand paid in-kind by means of distribution of 6.05% of its interest in CTC, having a book value of USD 23 915 thousand.

The Group's share of CTC's results for 2006 amounted to USD 33 886 thousand (2005: USD 16 922 thousand), of which USD 4 791 thousand (2005: Nil) was recorded in equity.

The fair value of the Group's investment in CTC, which became a listed company in 2006, amounted to USD 729 458 thousand as at 31 December 2006.

Amtel-Vredestein N.V.

As at 31 December 2006 an investment in an associated company in the amount of USD 98 813 thousand (2005: Nil) represented a 27.61% interest in Amtel-Vredestein N.V. ("Amtel"), a tyre manufacturing company. Initially Amtel was accounted as an investment at fair value through profit and loss and in July 2006 it became an associate and has been equity accounted since then.

In June 2005 the Group entered into an option agreement with the majority shareholder of Amtel, which entitled the Group to purchase additional shares in Amtel at their nominal value in case Amtel did not achieve specified financial targets, which was exercised by the Group in June 2006. In July 2006 the Group and the majority shareholder of Amtel signed an agreement in relation to the settlement of the option. As a result the Group acquired additional shares in Amtel at their nominal value and received a right to acquire further shares in Amtel or receive a significant commission payment subject to certain conditions. That right was exercised in December 2006 and the Group purchased an additional interest in Amtel at its nominal value. Realised results from both of these options are equal to the fair value of the respective interests in Amtel at the time of their settlement.

11 Investments in Associates and Other Investments (Continued)

The fair value of the assets and liabilities acquired are based on the provisionally determined values. Adjustments to those provisional values will be recognised in the consolidated financial statements for the year ended 31 December 2007.

The Group's share of Amtel's results for 2006 amounted to a loss of USD 21 265 thousand (2005: Nil), including the excess of the Group's interest in the net fair value of Amtel's identifiable assets, liabilities and contingent liabilities over the purchase cost in the amount of USD 8 940 thousand (2005: Nil) and an impairment loss in the amount of USD 30 142 thousand (2005: Nil).

The market value of the investment in Amtel, which is listed, is USD 84 701 thousand as at 31 December 2006. Refer to Note 4.

PatriotCapital LLC

The investment in PatriotCapital LLC ("PatriotCapital") represents a 50% interest in a company which received its tax identification number in January 2007 and will be involved in certain investment operations.

The table below summarises the movements in the carrying amount of the Group's investment in associates.

In thousands of US Dollars	2006	2005
Carrying amount at 1 January	**67 171**	**50 249**
Amtel-Vredestein N.V.		
Acquisition of additional interest in associate	4 200	-
Transfer from investment at fair value through profit and loss to investment in associates	57 481	-
Effect of adjustment of Amtel's carrying value at the initial recognition as an associate	(1 673)	-
Share of results of Amtel	(63)	-
Excess of the Group's interest in the net fair value of Amtel's identifiable assets, liabilities and contingent liabilities over cost	8 940	
Impairment loss	(30 142)	-
Settlement of option agreement in July 2006	33 670	-
Settlement of option agreement in December 2006	26 400	-
CTC Media Inc.		
Investment in associates disposed	(7 553)	-
Share of results of CTC	29 095	16 922
Share of other equity movements of associate	4 791	-
Distribution of dividends	(23 915)	-
Increase in net assets held as result of IPO of CTC	22 804	-
PatriotCapital LLC		
Fair value of net assets of associate acquired	7 600	-
Carrying amount at 31 December	**198 806**	**67 171**

As at 31 December 2006, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

In thousands of US Dollars	Total assets	Total liabilities	Revenue	Profit/(loss) for 2006	% interest	Country of incorporation
CTC Media Inc.	521 469	60 656	370 834	124 286	20.05%	United States
Amtel-Vredestein N.V.	1 353 888	996 000	833 030	(16 716)	27.61%	Europe

11 Investments in Associates and Other Investments (Continued)

In thousands of US Dollars	2006	2005
Share of results of CTC	29 095	16 922
Excess of the Group's interest in the fair value of Amtel's identifiable assets, liabilities and contingent liabilities over cost	8 940	-
Impairment loss	(30 142)	-
Share of results of Amtel	(63)	-
Share of results of associates	**7 830**	**16 922**

Investments at fair value through profit and loss. The Group designates as investments at fair value through profit and loss only those investments which are managed on a fair value basis in accordance with a documented investment strategy, and which performance is regularly evaluated by Management.

Gains less losses arising from investments. The table below represents an analysis of gains less losses arising from investments for the year ended 31 December 2006.

In thousands of US dollars	2006	2005
Fair value gains on the Amtel related options	60 070	-
Gains less losses from investment in Amtel as an investment at fair value through profit and loss	(29 912)	1 251
Reversal of revaluation of investment in Amtel on recognition as associate	29 912	-
Gains less losses from participating shares in investment funds managed by the Alfa Group Consortium	4 591	-
Gains less losses from disposal of investments available for sale	4 328	6 229
Total gains less losses arising from investments	**68 989**	**7 480**

Currency, maturity and interest rate analyses of investments are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

12 Other Assets

In thousands of US Dollars	Note	2006	2005
Receivables on operations with securities		169 546	143 897
Trade debtors and prepayments		162 741	56 081
Derivative financial instruments		56 928	29 875
Prepayment of taxes, other than on income		44 418	23 089
Investment property	18, 23	34 800	-
Advance payments related to finance leases		26 080	36 452
Conversion operations		9 665	7 347
Receivables from related parties	31	6 554	9 758
Prepayment of current income tax		9 213	15 740
Plastic card debtors and other settlements with clients		736	46 889
Other		16 810	14 843
Less: Provision for impairment of other assets		(5 744)	(7 517)
Total other assets		**531 747**	**376 454**

12 Other Assets (Continued)

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

In thousands of US Dollars	2006	2005
Provision for impairment of other assets as at 1 January	**7 517**	**13 858**
Release of provision for impairment of other assets during the period	(964)	(6 341)
Other asset written-off during the period as uncollectible	(809)	-
Provision for impairment of other assets as at 31 December	**5 744**	**7 517**

Land held by the Group under a long-term lease is accounted for as an investment property under a fair value model at a fair value of USD 34 800 thousand with a related finance lease liability of USD 4 625 thousand (refer to Note 18). Fair value adjustment recorded in the consolidated statement of income amounted to USD 30 175 thousand in 2006 (2005: Nil) (Refer to Note 23).

Currency and maturity analyses of other assets are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

13 Premises, Equipment and Intangible Assets

In thousands of US Dollars	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software	Total
Net book amount as at 31 December 2005	**49 370**	**17 828**	**50 574**	**4 406**	**122 178**	**22 896**	**145 074**
Cost or valuation							
Opening balance	59 929	20 962	126 134	4 406	211 431	46 667	258 098
Revaluation	41 093	-	-	-	41 093	-	41 093
Additions and transfers	4 335	8 750	56 232	1 494	70 811	12 300	83 111
Disposals	(15 412)	(2 143)	(32 122)	-	(49 677)	(7 228)	(56 905)
Translation movement	6 596	1 744	14 896	112	23 348	2 066	25 414
Closing balance	**96 541**	**29 313**	**165 140**	**6 012**	**297 006**	**53 805**	**350 811**
Accumulated depreciation and amortisation							
Opening balance	10 559	3 134	75 560	-	89 253	23 771	113 024
Revaluation	5 405	-	-	-	5 405	-	5 405
Depreciation and amortisation charge (Note 24)	1 781	740	19 571	-	22 092	9 351	31 443
Impairment	1 738	-	-	-	1 738	-	1 738
Disposals	(1 234)	(93)	(20 928)	-	(22 255)	(917)	(23 172)
Translation movement	1 130	325	11 181	-	12 636	1 334	13 970
Closing balance	**19 379**	**4 106**	**85 384**	-	**108 869**	**33 539**	**142 408**
Net book amount as at 31 December 2006	**77 162**	**25 207**	**79 756**	**6 012**	**188 137**	**20 266**	**208 403**

13 Premises, Equipment and Intangible Assets (Continued)

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

As at 31 December 2006 the carrying amount of premises would have been USD 43 047 thousand (2005: USD 46 319 thousand) had the premises been carried at cost less depreciation.

In thousands of US Dollars	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 and amortisation							
Opening balance	10 580	1 658	62 688	-	74 926	21 784	96 710
Depreciation and amortisation charge (Note 24)	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 (as previously reported)	**56 945**	**10 646**	**48 311**	**4 406**	**120 308**	**24 766**	**145 074**
Reclassification	(7 575)	7 182	2 263	-	1 870	(1 870)	-
Net book amount as at 31 December 2005	**49 370**	**17 828**	**50 574**	**4 406**	**122 178**	**22 896**	**145 074**

14 Due to Other Banks

In thousands of US Dollars	2006	2005
Correspondent accounts of other banks		
- Russian Federation	53 984	70 721
- Other countries	50 246	45 978
Term placements of other banks	983 869	455 311
Sale and repurchase agreements with other banks	342 341	209 857
Total due to other banks	**1 430 440**	**781 867**

As at 31 December 2006 the ten largest aggregate balances of due to other banks amounted to USD 730 218 thousand (2005: USD 379 051 thousand) or 51.0% (2005: 48.5%) of total amount of due to other banks.

As at 31 December 2006 trading securities (Note 8) with a fair value of USD 495 849 thousand (2005: USD 241 764 thousand) have been sold to third parties under sale and repurchase agreements with other banks.

As at 31 December 2006 the estimated fair value of due to other banks was USD 1 430 440 thousand (2005: USD 781 867 thousand). Refer to Note 30.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

15 Customer Accounts

In thousands of US Dollars	2006	2005
Commercial organisations		
- Current/settlement accounts	2 008 768	1 348 572
- Term deposits	2 245 248	1 371 918
Individuals		
- Current/demand accounts	1 567 551	782 108
- Term deposits	1 174 849	1 010 116
State and public organisations		
- Current/settlement accounts	517	4 981
- Term deposits	949 448	937 476
Total customer accounts	**7 946 381**	**5 455 171**

15 Customer Accounts (Continued)

Economic sector concentrations within customer accounts were as follows:

In thousands of US Dollars	2006 Amount	2006 %	2005 Amount	2005 %
Individuals	2 742 400	35	1 792 224	33
Energy and oil and gas	1 542 037	19	487 978	9
State and public organisations	949 965	12	942 457	17
Finance and investment companies	667 899	8	811 389	15
Mass media and telecommunications	598 953	8	67 590	1
Trade and commerce	489 462	6	666 000	12
Manufacturing and construction	406 046	5	299 774	6
Science	62 278	1	38 818	1
Other	487 341	6	348 941	6
Total customer accounts	**7 946 381**	**100**	**5 455 171**	**100**

As at 31 December 2006 the ten largest aggregate balances of customers accounts amounted to USD 4 352 399 thousand (2005: USD 2 109 878 thousand) or 54.8% (2005: 38.7%) of the total customer accounts, of which USD 1 730 801 thousand (2005: USD 486 396 thousand) represented balances outstanding to Alfa Group Consortium (Note 31) and its shareholders.

Included in customer accounts are balances in the amount of USD 152 844 thousand (2005: USD 202 163 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28.

As at 31 December 2006 the estimated fair value of customer accounts was USD 7 946 381 thousand (2005: USD 5 455 171 thousand). Refer to Note 30.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

16 Other Borrowed Funds

In thousands of US Dollars	2006	2005
Syndicated loans	1 001 262	578 190
Notes issued under a DPR Programme	854 899	-
Euro Medium Term Notes maturing in 2009	406 273	-
Euro-Commercial Papers	348 017	276 602
Euro Medium Term Notes maturing in 2008	248 889	248 603
Euro Medium Term Notes maturing in 2007	154 424	153 587
Russian Rouble denominated bonds maturing in 2007	112 532	1 925
Euro Medium Term Notes maturing in 2006	-	192 816
Other	-	3 595
Total other borrowed funds	**3 126 296**	**1 455 318**

16 Other Borrowed Funds (Continued)

On 21 December 2006 the Group received a syndicated loan in the amount of USD 340 000 thousand from a consortium of large international banks. The loan matures on 20 December 2007 and bears a floating interest rate of LIBOR plus 0.45% per annum payable semi-annually. As at 31 December 2006 the effective interest rate was 6.4% per annum. The issue proceeds net of transaction costs amounted to USD 338 610 thousand.

On 25 September 2006 the Group received a syndicated loan in the amount of USD 220 000 thousand from a consortium of large international banks. The loan matures on 24 September 2007 and bears a floating interest rate of LIBOR plus 0.45% per annum payable semi-annually. As at 31 December 2006 the effective interest rate was 6.5% per annum. The issue proceeds net of transaction costs amounted to USD 219 100 thousand.

On 6 June 2006 the Group received a syndicated loan in the amount of USD 438 000 thousand from a consortium of large international banks. The loan matures on 5 June 2007 and bears a floating interest rate of LIBOR plus 0.5% per annum payable semi-annually. As at 31 December 2006 the effective interest rate was 6.9% per annum. The issue proceeds net of transaction costs amounted to USD 435 775 thousand.

In 2006 the Group established a Diversified Payment Rights Secured Debt Issuance Programme, whereby notes issued under the program are collateralised by the Group's rights to funds being transferred through the Group's correspondent accounts ("DPR Programme"). On 30 March 2006 the Group issued US Dollar denominated notes with a nominal value of USD 350 000 thousand under the DPR Programme. These notes bear a coupon at a rate of LIBOR plus 1.6% per annum payable quarterly and are repayable by quarterly instalments until maturity on 15 March 2011. As at 31 December 2006 the effective interest rate was 8.3% per annum. The issue proceeds net of transaction costs amounted to USD 344 175 thousand. Also refer to Note 33. In conjunction with the DPR Programme the Company guaranteed to Alfa Diversified Payment Rights Finance Company S.A. fulfilment of payment obligations by Alfa-Bank. For the purposes of these consolidated financial statements the guarantee was eliminated as an intercompany transaction. Refer to Note 32.

On 7 December 2006 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 230 000 thousand and USD 260 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 1.9% per annum respectively payable quarterly. The notes are repayable by quarterly instalments until maturity on 15 December 2011. As at 31 December 2006 the effective interest rate was 6.0% per annum in Euros and 7.9% per annum in US Dollars. The issue proceeds net of transaction costs amounted to EUR 228 468 thousand and USD 258 259 thousand.

The Group is also required to deposit funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme with designated banks carrying a floating interest linked to LIBOR or EURIBOR. As at 31 December 2006, these deposits amounted to EUR 15 009 thousand and USD 40 972 thousand having interest rates of EURIBOR minus 0.5% and LIBOR minus 0.5% respectively.

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 000 thousand which was increased in November 2006 up to USD 2 000 000 thousand. On 9 February 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount USD 150 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 9 February 2007 (Refer to Note 33). The issue proceeds net of transaction costs and discount amounted to USD 148 381 thousand and the effective interest rate at origination was 8.4%. On 28 June 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 250 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 2 July 2008. The issue proceeds net of transaction costs and discount amounted to USD 248 394 thousand and the effective interest rate at origination was 8.1%. On 3 October 2006 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a fixed coupon at a rate of 7.875% per annum payable semi-annually and mature on 10 October 2009. The issue proceeds net of transaction costs and discount amounted to USD 398 586 thousand and the effective interest rate at origination was 8.2%.

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 2006, the maximum allowed principal amount of outstanding notes was increased to USD 1 000 000 thousand. On 20 December 2005, the Group issued its first EUR-denominated notes. As at 31 December 2006 the nominal value of outstanding notes was USD 110 650 thousand and EUR 187 000 thousand (2005: USD 267 000 thousand and EUR 16 000 thousand) and they were issued at a discount to the nominal value ranging from 3.7% to 7.1% depending on the type of issue. As at 31 December 2006 the average effective interest rate at origination on notes outstanding was 7.6% for USD-denominated notes and 5.9% for EUR-denominated notes.

As at 31 December 2006 the estimated fair value of other borrowed funds was USD 3 130 565 thousand (2005: USD 1 462 188 thousand). Refer to Note 30.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 27.

17 Subordinated Debt

On 9 December 2005 the Group issued subordinated notes in the amount of USD 225 000 thousand. The notes bear 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 6.3% per annum payable semi-annually until maturity on 9 December 2015. The Group has an option to repay this subordinated loan on 9 December 2010. As at 31 December 2006 the effective interest rate was equal to 9.0% per annum. The issue proceeds net of transaction costs were equal to USD 223 610 thousand.

As at 31 December 2006 the estimated fair value of subordinated debt was USD 229 752 thousand (2005: USD 224 762 thousand). Refer to Note 30.

In February 2007, the Group issued new subordinated notes in the amount of USD 300 000 thousand. Refer to Note 33.

Currency, maturity and interest rate analyses of subordinated notes are disclosed in Note 27.

18 Other Liabilities

In thousands of US Dollars	Note	2006	2005
Payables on operations with securities		207 649	124 707
Accrued staff costs		110 411	106 948
Derivative financial instruments		95 273	244 814
Plastic card and other settlements with clients		66 050	49 125
Trade creditors		43 314	26 068
Conversion operations		37 937	1 397
Provision for losses on credit related commitments	28	11 986	18 925
Current income tax payable		13 869	6 242
Finance lease liability related to the investment property (Note 12)		4 625	-
Taxation payable, other than on income		3 706	3 128
Payable to related parties		2 733	13 208
Other		28 244	12 842
Total other liabilities		**625 797**	**607 404**

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

18 Other Liabilities (Continued)

Finance lease liability in the amount of USD 4 625 thousand (2005: Nil) relates to a lease contract for land with a 46 years term remaining as at 31 December 2006. Gross payments under that contract for the remaining term amounted to USD 19 574 thousand as at 31 December 2006 and are payable in quarterly instalments.

As at 31 December 2006 the estimated fair value of payables on operations with securities, conversion operations and derivative financial instruments was USD 340 859 thousand (2005: USD 370 918 thousand). Refer to Note 30.

Currency and maturity analyses of other liabilities are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

19 Share Capital, Retained Earnings and Other Reserves

	2006		2005	
	Number of shares, in units	**Total share capital, in thousands of US Dollars**	**Number of shares, in units**	**Total share capital, in thousands of US Dollars**
Total share capital as at 1 January	160 800 000	160 800	160 800 000	160 800
Share capital contribution	184 000 000	184 000	-	-
Total share capital as at 31 December	**344 800 000**	**344 800**	**160 800 000**	**160 800**

On 30 October 2006, the Group received USD 184 000 thousand as a capital contribution from ABHH representing an issuance of 184 000 000 new ordinary shares. As at 31 December 2006 authorised, issued and fully paid share capital of ABH Financial Limited comprised 344 800 000 ordinary shares (2005: 160 800 000 ordinary shares). All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

Retained earnings and other reserves include the cumulative translation reserve arising from the translation of net investments in foreign subsidiaries. The total cumulative translation reserve as at 31 December 2006 represented a cumulative loss of USD 216 461 thousand (2005: cumulative loss of USD 293 268 thousand).

On 16 October 2006, the Company declared and paid dividends in the amount of USD 23 915 thousand paid in-kind with shares of CTC at their carrying value as at that date. Refer to Note 11.

20 Interest Income and Expense

In thousands of US Dollars	2006	2005
Interest income		
Loans and advances to corporate customers	767 572	608 335
Other banks, correspondent accounts and overnight placements	101 158	46 066
Loans and advances to individuals	99 705	16 623
Trading securities	52 909	33 450
Other	6 773	1 702
Total interest income	**1 028 117**	**706 176**
Interest expense		
Other borrowed funds	137 579	88 650
Term deposits of legal entities	119 410	85 239
Other banks	78 907	31 093
Term deposits of individuals	63 779	62 585
Current/settlement accounts	31 677	15 640
Promissory notes issued	24 683	17 352
Subordinated debt	19 596	1 215
Other	2 212	2 720
Total interest expense	**477 843**	**304 494**
Net interest income	**550 274**	**401 682**

Refer to Note 31 for details of related party transactions.

21 Fee and Commission Income and Expense

In thousands of US Dollars	2006	2005
Fee and commission income		
Commission on settlement transactions	115 371	85 280
Commission on cash and foreign currency exchange transactions	46 004	33 846
Commission on transactions with securities	23 715	18 728
Commission for consulting services	22 629	31 547
Commission on guarantees issued	11 851	10 985
Other	3 756	4 129
Total fee and commission income	**223 326**	**184 515**
Fee and commission expense		
Commission on settlement transactions	29 685	19 171
Commission for consulting services	12 703	22 598
Commission on transactions with securities	5 867	2 768
Commission on cash and foreign currency exchange transactions	5 086	3 467
Other	1 636	1 020
Total fee and commission expense	**54 977**	**49 024**
Net fee and commission income	**168 349**	**135 491**

Refer to Note 31 for details of related party transactions.

22 Net Income from Trading Securities and from Foreign Currencies

In thousands of US Dollars	2006	2005
Gains less losses arising from trading securities (spot deals)	23 995	88 102
Gains less losses arising from trading securities (term deals)	44 975	2 411
Total gains less losses arising from trading securities	**68 970**	**90 513**

In thousands of US Dollars	2006	2005
Gains less losses arising from trading in foreign currencies (spot deals)	54 574	(3 182)
Losses less gains arising from trading in foreign currencies (term deals)	(6 990)	(4 628)
Foreign exchange translation losses less gains	(100 633)	40 940
Total (losses less gains)/gains less losses arising from trading in foreign currencies	**(53 049)**	**33 130**

23 Other Operating Income

In thousands of US Dollars	Note	2006	2005
Fair valuation of investment property	12	30 175	-
Revenue from sale of rights to film licences		19 520	12 643
Dividend income		3 410	1 374
Penalties received		2 439	7 136
Other		14 875	9 623
Total other operating income		**70 419**	**30 776**

Revenue from sale of rights to film licenses resulted from certain transactions, which stipulated the receipt of those rights by the Group as part of the transactions. During 2006 and 2005, a large part of revenue from sale of rights to film licenses was earned through sales to a large Russian nation-wide television network.

24 Operating Expenses

In thousands of US Dollars	Note	2006	2005
Staff costs		297 499	216 062
Rent		34 263	24 026
Computer and telecommunications services		31 518	20 157
Depreciation and amortisation	13	31 443	25 606
Taxes other than income tax		22 909	13 069
Consulting and professional services		22 887	15 449
Advertising and marketing		14 785	5 517
Maintenance		13 358	12 328
Other expenses related to premises, equipment and intangible assets		12 270	4 500
Administrative expenses		8 916	9 490
Contributions to the State deposit insurance scheme		8 632	6 709
Travel expenses		6 615	4 547
Heat and utilities		5 949	4 509
Other		24 298	15 191
Total operating expenses		**535 342**	**377 160**

Staff costs include expenses on defined contribution for the state pension plan made by the Group for its employees in the amount of USD 20 041 thousand for 2006 (2005: USD 12 859 thousand). Included within staff costs are long-term bonuses accrued in 2006 in the amount of USD 24 942 thousand (2005: USD 14 886 thousand), which are payable at least one year after balance sheet date.

25 Income Taxes

Income tax expense comprises the following:

In thousands of US Dollars	2006	2005
Current tax	149 000	51 888
Deferred tax	(67 606)	60 544
Income tax expense for the period	**81 394**	**112 432**

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

In thousands of US Dollars	2006	2005
IFRS profit before tax	**271 680**	**292 988**
Theoretical tax charge at the statutory rate of 24%	65 203	70 317
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	51 035	30 958
- Non deductible expenses	9 165	8 637
- Income which is exempt from taxation	(767)	(1 880)
- (Gain)/loss incurred in lower tax jurisdictions	(43 343)	3 838
- Other	101	562
Income tax expense for the period	**81 394**	**112 432**

25 Income Taxes (Continued)

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

In thousands of US Dollars	2005	Credited to income statement	Charged to equity	2006
Tax effect of deductible temporary differences				
Provision for loan impairment	11 137	(11 137)	-	-
Tax loss carried forward	-	2 740	-	2 740
Accruals	3 629	18 936	-	22 565
Other	6 019	37	-	6 056
Gross deferred tax asset	**20 785**	**10 576**	**-**	**31 361**
Deferred tax asset netted off within individual entities of the Group	(15 751)	(12 870)	-	(28 621)
Deferred tax asset	**5 034**	**(2 294)**	**-**	**2 740**
Tax effect of taxable temporary differences				
Premises, equipment and intangible assets	(9 105)	9 252	(8 823)	(8 676)
Provision for loan impairment	-	(25 056)	-	(25 056)
Investment property	-	(7 242)	-	(7 242)
Trading securities	(64 044)	59 982	-	(4 062)
Other	(20 094)	20 094	-	-
Gross deferred tax liability	**(93 243)**	**57 030**	**(8 823)**	**(45 036)**
Deferred tax liability netted off within individual entities of the Group	15 751	12 870	-	28 621
Deferred tax liability	**(77 492)**	**69 900**	**(8 823)**	**(16 415)**
Total net deferred tax liability	**(72 458)**	**67 606**	**(8 823)**	**(13 675)**

25 Income Taxes (Continued)

In thousands of US Dollars	2004	Charged to income statement	2005
Tax effect of deductible temporary differences			
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	**39 342**	**(18 557)**	**20 785**
Deferred tax asset netted off within entities of the Group	(22 755)	7 004	(15 751)
Deferred tax asset	**16 587**	**(11 553)**	**5 034**
Tax effect of taxable temporary differences			
Premises, equipment and intangible assets	(6 463)	(2 642)	(9 105)
Trading securities	(28 501)	(35 543)	(64 044)
Other	(16 292)	(3 802)	(20 094)
Gross deferred tax liability	**(51 256)**	**(41 987)**	**(93 243)**
Deferred tax liability netted off within entities of the Group	22 755	(7 004)	15 751
Deferred tax liability	**(28 501)**	**(48 991)**	**(77 492)**
Total net deferred tax liability	**(11 914)**	**(60 544)**	**(72 458)**

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.

26 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, leasing services and merger and acquisition 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.

- Investment banking – comprises securities trading, debt and equity capital markets services, derivative products and structured financing.

Under the current transfer pricing system used by the Group funds are ordinarily reallocated between segments at internal interest rates set by the Treasury of the Group, which are determined by reference to existing interest rate benchmarks.

The Group changed its accounting policy for segment revenues to exclude gains (net of losses) arising from investments, from trading in trading securities and foreign currencies and foreign exchange translation. The change was applied retrospectively from 1 January 2005. Management believes that the revised definition of segment revenue better reflects objectives of reporting segment information. The effect of the change was to reduce 2005 segment revenues in the investment banking segment by USD 138 933 thousand.

26 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2006 is set out below:

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Elimina-tions	Total
2006					
External revenues	1 033 352	87 603	200 907		1 321 862
Revenues from other segments	201 489	177 924	291 278	(670 691)	-
Total revenues	**1 234 841**	**265 527**	**492 185**	**(670 691)**	**1 321 862**
Total revenues comprise:					
Interest income					1 028 117
Fee and commission income					223 326
Other operating income					70 419
Total revenues					**1 321 862**
Segment result	**309 108**	**164 458**	**(156 837)**	**-**	**316 729**
Unallocated costs					(86 380)
Gain on disposal of interest in associated company					33 501
Share of results of associates					7 830
Profit before tax					**271 680**
Income tax expense					(81 394)
Profit					**190 286**
Other segment items					
Capital expenditure	(18 614)	(7 480)	(57 017)	-	(83 111)
Depreciation and amortisation charge	(15 502)	(1 527)	(14 414)	-	(31 443)
Other non-cash expenses	(43 400)	-	(77 658)	-	(121 058)
31 December 2006					
Segment assets	**12 568 146**	**4 661 776**	**2 595 531**	**(4 817 056)**	**15 008 397**
Investments in associates					198 806
Deferred tax asset					2 740
Total assets					**15 209 943**
Segment liabilities	**11 770 267**	**4 038 806**	**2 788 285**	**(4 817 056)**	**13 780 302**
Unallocated liabilities					103 042
Deferred tax liability					16 415
Total liabilities					**13 899 759**

26 Segment Analysis (Continued)

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

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Elimina-tions	Total
2005					
Segment revenue					
External revenues	766 387	67 443	87 637	-	921 467
Revenues from other segments	941 814	139 511	96 361	(1 177 686)	-
Total revenues	**1 708 201**	**206 954**	**183 998**	**(1 177 686)**	**921 467**
Total revenues comprise:					
Interest income					706 176
Fee and commission income					184 515
Other operating income					30 776
Total revenues					**921 467**
Segment results	**252 240**	**171 034**	**(71 692)**	**-**	**351 582**
Unallocated costs					(75 516)
Share of profit of associated company					16 922
Profit before tax					**292 988**
Income tax expense					(112 432)
Profit					**180 556**
Other segment items					
Capital expenditure	(13 637)	(4 142)	(21 181)	-	(38 960)
Depreciation and amortisation charge	(8 819)	(2 790)	(13 997)	-	(25 606)
Other non-cash expenses	(45 286)	-	(560)	-	(45 846)
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
Deferred tax asset					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					103 717
Deferred tax liability					77 492
Total liabilities					**8 979 869**

26 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 2006.

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	826 782	643 544	43 049	159 067	239	1 672 681
Mandatory cash balances with central banks	218 307	29 791	8 481	-	-	256 579
Trading securities and repurchase receivables	1 066 949	58 703	42 926	470	-	1 169 048
Due from other banks	385 391	880 687	335 613	65 971	-	1 667 662
Loans and advances to customers	8 446 993	129 192	877 209	26 965	-	9 480 359
Investments in associates and other investments	220 724	-	-	-	-	220 724
Other assets	409 054	117 464	2 465	1 880	884	531 747
Premises, equipment and intangible assets	191 894	14 655	1 854	-	-	208 403
Deferred tax asset	2 740	-	-	-	-	2 740
Total assets	**11 768 834**	**1 874 036**	**1 311 597**	**254 353**	**1 123**	**15 209 943**
Liabilities						
Due to other banks	435 521	859 993	55 458	7 392	72 076	1 430 440
Customer accounts	6 596 580	1 109 413	141 508	62 137	36 743	7 946 381
Promissory notes issued	529 593	-	-	-	-	529 593
Other borrowed funds	112 532	2 951 274	-	62 490	-	3 126 296
Subordinated debt	-	224 837	-	-	-	224 837
Other liabilities	183 689	335 224	26 961	73 519	6 404	625 797
Deferred tax liability	16 415	-	-	-	-	16 415
Total liabilities	**7 874 330**	**5 480 741**	**223 927**	**205 538**	**115 223**	**13 899 759**
Net balance sheet position as at 31 December 2006	**3 894 504**	**(3 606 705)**	**1 087 670**	**48 815**	**(114 100)**	**1 310 184**

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

26 Segment Analysis (Continued)

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

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	486 012	246 847	22 142	123 352	317	878 670
Mandatory cash balances with central banks	147 432	29 835	18 582	-	-	195 849
Trading securities and repurchase receivables	842 706	246 281	27 826	5 316	17 537	1 139 666
Due from other banks	492 022	655 589	60 548	4 762	-	1 212 921
Loans and advances to customers	4 633 578	370 937	694 001	29 027	-	5 727 543
Investments in associates and other investments	154 506	-	-	-	-	154 506
Other assets	226 959	125 035	11 522	628	12 310	376 454
Premises, equipment and intangible assets	131 749	3 339	9 986	-	-	145 074
Deferred tax asset	5 034	-	-	-	-	5 034
Total assets	**7 119 998**	**1 677 863**	**844 607**	**163 085**	**30 164**	**9 835 717**
Liabilities						
Due to other banks	321 496	327 601	96 562	84	36 124	781 867
Customer accounts	4 575 801	542 101	239 131	33 383	64 755	5 455 171
Promissory notes issued	347 734	29 200	921	-	-	377 855
Other borrowed funds	1 925	1 401 782	3 595	15 505	32 511	1 455 318
Subordinated debt	-	224 762	-	-	-	224 762
Other liabilities	197 655	396 388	12 404	957	-	607 404
Deferred tax liability	77 492	-	-	-	-	77 492
Total liabilities	**5 522 103**	**2 921 834**	**352 613**	**49 929**	**133 390**	**8 979 869**
Net balance sheet position as at 31 December 2005	**1 597 895**	**(1 243 971)**	**491 994**	**113 156**	**(103 226)**	**855 848**

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

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

Substantially all of the Group's revenues are generated from counterparties domiciled in the Russian Federation.

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

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

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

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

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

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

Geographical risk. Refer to Note 26 for the geographical analysis of the Groups' assets and liabilities.

27 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 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of long and short positions in foreign currency derivative financial instruments (excluding options). As at 31 December 2006 the Group had the following positions in currencies:

In thousands of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	669 788	708 350	246 094	48 449	-	1 672 681
Mandatory cash balances with central banks	-	218 307	29 791	8 481	-	256 579
Trading securities and repurchase receivables	236 828	465 565	57 663	5 597	403 395	1 169 048
Due from other banks	1 127 826	349 865	185 211	4 760	-	1 667 662
Loans and advances to customers	4 237 019	4 087 298	1 106 582	49 460	-	9 480 359
Investments in associates and other investments	-	-	-	-	220 724	220 724
Other assets	269 219	207 939	17 858	1 931	34 800	531 747
Premises, equipment and intangible assets	-	-	-	-	208 403	208 403
Deferred tax asset	-	-	-	-	2 740	2 740
Total assets	**6 540 680**	**6 037 324**	**1 643 199**	**118 678**	**870 062**	**15 209 943**
Liabilities						
Due to other banks	675 527	390 554	358 868	5 491	-	1 430 440
Customer accounts	2 468 401	4 192 917	1 209 106	75 957	-	7 946 381
Promissory notes issued	50 707	478 886	-	-	-	529 593
Other borrowed funds	2 473 453	111 748	541 095	-	-	3 126 296
Subordinated debt	224 837	-	-	-	-	224 837
Other liabilities	526 071	76 924	20 551	2 251	-	625 797
Deferred tax liability	-	-	-	-	16 415	16 415
Total liabilities	**6 418 996**	**5 251 029**	**2 129 620**	**83 699**	**16 415**	**13 899 759**
Net balance sheet position	**121 684**	**786 295**	**(486 421)**	**34 979**	**853 647**	**1 310 184**
Off-balance sheet net notional position (Note 29)	**(453 172)**	**(28 168)**	**496 987**	**(10 942)**	**-**	**4 705**
Net balance sheet and off-balance sheet position	**(331 488)**	**758 127**	**10 566**	**24 037**	**853 647**	**1 314 889**

27 Financial Risk Management (Continued)

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

In thousands of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	359 172	350 627	121 618	47 253	-	878 670
Mandatory cash balances with central banks	-	147 432	29 835	18 582	-	195 849
Trading securities and repurchase receivables	272 430	346 679	33 687	16 351	470 519	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 in associates and other investments	-	-	-	-	154 506	154 506
Other assets	228 991	116 178	29 375	1 910	-	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**5 106 112**	**3 016 549**	**688 211**	**249 712**	**775 133**	**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	1 431 168	1 925	18 630	3 595	-	1 455 318
Subordinated debt	224 762	-	-	-	-	224 762
Other liabilities	538 017	44 731	19 263	5 393	-	607 404
Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 672 327**	**2 989 845**	**1 023 535**	**216 670**	**77 492**	**8 979 869**
Net balance sheet position	**433 785**	**26 704**	**(335 324)**	**33 042**	**697 641**	**855 848**
Off-balance sheet net notional position (Note 29)	**(111 672)**	**(21 779)**	**184 428**	**(54 067)**	**-**	**(3 090)**
Net balance sheet and off-balance sheet position	**322 113**	**4 925**	**(150 896)**	**(21 025)**	**697 641**	**852 758**

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.

27 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 2006 by their remaining contractual maturity (other than trading securities, see below), unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	1 672 681	-	-	-	-	1 672 681
Mandatory cash balances with central banks	256 579	-	-	-	-	256 579
Trading securities	673 199	-	-	-	-	673 199
Repurchase receivables	103 318	380 315	12 216	-	-	495 849
Due from other banks	1 279 913	231 015	31 071	125 663	-	1 667 662
Loans and advances to customers	419 115	2 379 025	1 810 731	4 871 488	-	9 480 359
Investments in associates and other investments	-	-	-	-	220 724	220 724
Other assets	268 525	170 336	30 301	27 785	34 800	531 747
Premises and equipment and intangible assets	-	-	-	-	208 403	208 403
Deferred tax asset	-	-	-	-	2 740	2 740
Total assets	**4 673 330**	**3 160 691**	**1 884 319**	**5 024 936**	**466 667**	**15 209 943**
Liabilities						
Due to other banks	609 263	443 832	55 363	321 982	-	1 430 440
Customer accounts	5 379 461	1 383 147	1 151 964	31 809	-	7 946 381
Promissory notes issued	51 439	273 879	154 651	49 624	-	529 593
Other borrowed funds	-	903 962	712 273	1 510 061	-	3 126 296
Subordinated debt	-	-	-	224 837	-	224 837
Other liabilities	374 819	190 648	240	60 090	-	625 797
Deferred tax liability	-	-	-	-	16 415	16 415
Total liabilities	**6 414 982**	**3 195 468**	**2 074 491**	**2 198 403**	**16 415**	**13 899 759**
Net liquidity gap	**(1 741 652)**	**(34 777)**	**(190 172)**	**2 826 533**	**450 252**	**1 310 184**
Cumulative liquidity gap	**(1 741 652)**	**(1 776 429)**	**(1 966 601)**	**859 932**	**1 310 184**	

As at 31 December 2006 included in category "More than 1 year" are loans and advances to customers maturing in more than five years in the amount of USD 107 233 thousand (2005: USD 129 092 thousand).

27 Financial Risk Management (Continued)

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

In thousands of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	878 670	-	-	-	-	878 670
Mandatory cash balances with central banks	195 849	-	-	-	-	195 849
Trading securities	897 902	-	-	-	-	897 902
Repurchase receivables	15 870	225 894	-	-	-	241 764
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 in associates and other investments	-	-	-	-	154 506	154 506
Other assets	185 110	142 130	5 160	25 903	18 151	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**3 594 091**	**1 826 569**	**1 287 887**	**2 804 405**	**322 765**	**9 835 717**
Liabilities						
Due to other banks	284 915	237 436	24 588	234 928	-	781 867
Customer accounts	3 885 679	1 149 433	358 771	61 288	-	5 455 171
Promissory notes issued	68 551	154 851	132 514	21 939	-	377 855
Other borrowed funds	-	646 306	401 303	407 709	-	1 455 318
Subordinated debt	-	-	-	224 762	-	224 762
Other liabilities	314 602	237 016	38 882	16 904	-	607 404
Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 553 747**	**2 425 042**	**956 058**	**967 530**	**77 492**	**8 979 869**
Net liquidity gap	**(959 656)**	**(598 473)**	**331 829**	**1 836 875**	**245 273**	**855 848**
Cumulative liquidity gap	**(959 656)**	**(1 558 129)**	**(1 226 300)**	**610 575**	**855 848**	

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

Management believes that in spite of a substantial portion of customer accounts being of a short term nature, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. 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.

27 Financial Risk Management (Continued)

The Alfa Group Consortium and its shareholders have shown their ability and willingness to support the Group during the August 2004 short-term liquidity crisis of the Russian banking system and Management believes that the Group could be supported by the Alfa Group Consortium and its shareholders in the future.

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 (other than debt trading securities, which are always classified as "demand and less than 1 month"). The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'Non-interest bearing' and are not allocated to the interest repricing periods because they do not bear a specific effective interest rate.

The table below summarises the Group's exposure to interest rate risks as at 31 December 2006:

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	1 672 681	-	-	-	-	1 672 681
Mandatory cash balances with central banks	256 579	-	-	-	-	256 579
Trading securities	607 232	-	-	-	65 967	673 199
Repurchase receivables	103 318	380 315	12 216	-	-	495 849
Due from other banks	1 340 327	231 210	31 044	65 081	-	1 667 662
Loans and advances to customers	631 404	2 612 013	1 799 908	4 437 034	-	9 480 359
Investments in associates and other investments	-	-	-	-	220 724	220 724
Other assets	201 932	170 336	30 301	27 785	101 393	531 747
Premises, equipment and intangible assets	-	-	-	-	208 403	208 403
Deferred tax asset	-	-	-	-	2 740	2740
Total assets	**4 813 473**	**3 393 874**	**1 873 469**	**4 529 900**	**599 227**	**15 209 943**
Liabilities						
Due to other banks	609 263	467 887	55 363	297 927	-	1 430 440
Customer accounts	5 379 461	1 383 147	1 151 964	31 809	-	7 946 381
Promissory notes issued	51 439	273 879	154 651	49 624	-	529 593
Other borrowed funds	-	2 320 769	556 638	248 889	-	3 126 296
Subordinated debt	-	-	-	224 837	-	224 837
Other liabilities	229 623	190 648	240	60090	145 196	625 797
Deferred tax liability	-	-	-	-	16 415	16 415
Total liabilities	**6 269 786**	**4 636 330**	**1 918 856**	**913 176**	**161 611**	**13 899 759**
Net sensitivity gap	**(1 456 313)**	**(1 242 456)**	**(45 387)**	**3 616 724**	**437 616**	**1 310 184**
Cumulative sensitivity gap	**(1 456 313)**	**(2 698 769)**	**(2 744 156)**	**872 568**	**1 310 184**	

27 Financial Risk Management (Continued)

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

In thousands of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	878 670	-	-	-	-	878 670
Mandatory cash balances with central banks	195 849	-	-	-	-	195 849
Trading securities	423 801	-	-	-	474 101	897 902
Repurchase receivables	15 870	225 894	-	-	-	241 764
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 in associates and other investments	-	-	-	-	154 506	154 506
Other assets	156 959	151 210	5 160	25 903	37 222	376 454
Premises, equipment and intangible assets	-	-	-	-	145 074	145 074
Deferred tax asset	-	-	-	-	5 034	5 034
Total assets	**3 356 519**	**2 078 344**	**1 200 937**	**2 383 980**	**815 937**	**9 835 717**
Liabilities						
Due to other banks	284 915	238 943	24 660	233 349	-	781 867
Customer accounts	3 885 679	1 149 433	358 771	61 288	-	5 455 171
Promissory notes issued	68 551	154 851	132 514	21 939	-	377 855
Other borrowed funds	-	920 743	126 866	407 709	-	1 455 318
Subordinated debt	-	-	-	224 762	-	224 762
Other liabilities	68 391	218 091	38 882	16 904	265 136	607 404
Deferred tax liability	-	-	-	-	77 492	77 492
Total liabilities	**4 307 536**	**2 682 061**	**681 693**	**965 951**	**342 628**	**8 979 869**
Net sensitivity gap	**(951 017)**	**(603 717)**	**519 244**	**1 418 029**	**473 309**	**855 848**
Cumulative sensitivity gap	**(951 017)**	**(1 554 734)**	**(1 035 490)**	**382 539**	**855 848**	

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

27 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 rates.

	2006				2005			
In % p.a.	USD	RR	EUR	Other currencies	USD	RR	EUR	Other currencies
Assets								
Cash balances with the CBRF and other local central banks (other than mandatory cash balances)	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Mandatory cash balances with central banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Correspondent accounts and overnight placements with other banks	1.4%	2.8%	0.3%	0.6%	0.5%	4.1%	1.1%	0.3%
Debt trading securities	9.7%	7.9%	3.8%	4.7%	7.7%	8.2%	3.4%	11.5%
Repurchase receivables	6.0%	6.0%	-	-	5.0%	6.0%	-	-
Due from other banks	5.5%	5.4%	2.7%	4.5%	4.0%	6.4%	3.9%	3.0%
Loans and advances to customers	10.3%	13.8%	7.4%	10.4%	10.6%	12.9%	7.3%	12.8%
Liabilities								
Due to other banks	6.0%	6.0%	2.5%	0.0%	3.1%	5.3%	3.3%	0.0%
Customer accounts								
- current settlement/demand accounts	0.1%	0.7%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
- term deposits	4.7%	5.7%	3.4%	6.5%	5.2%	5.4%	4.5%	10.9%
Promissory notes issued	5.6%	7.8%	-	-	4.3%	6.9%	1.0%	0.0%
Other borrowed funds	7.5%	7.3%	6.0%	-	6.7%	4.3%	9.0%	12.0%
Subordinated debt	9.0%	-	-	-	8.9%	-	-	-

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

28 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. The total amount of the claim, made under the RICO Act of the United States of America, is USD 1 500 000 thousand.

On 18 February 2004, the court dismissed the claim on the grounds of "forum non conveniens". In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither Alfa Bank nor Alfa Capital Markets (USA) Inc. have been served with any court papers or have been named in the caption to this action. Norex representatives filed a notice of appeal against the court decision and on 21 July 2005 the court of appeal vacated the previous court's decision and remanded the case for further proceedings. The defendants then filed motion to dismiss the complaint on grounds not previously considered by the court. There have been no material developments in the case since December 2005, when the plaintiff added additional defendants to the case.

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

28 Contingencies and Commitments (Continued)

The Group has been sued by Alfa Corporation of Montgomery, Alabama for alleged US federal trademark infringement and unfair competition arising from the use of "Alfa" in commerce in association of financial services. The suit was filed in the United States District Court for the Eastern District of Virginia on 18 August 2004. It has been transferred to and is currently pending in the United States District Court for the Southern District of New York. As relief, Alfa Corporation has requested an injunction preventing subsidiaries of the Group, Alfa-Bank and Alfa Capital Markets (USA) Incorporated (Alfa Capital), from using the word "Alfa" in connection with their services, unspecified profits which could be attributed to Alfa-Bank's or Alfa Capital's use of the mark "Alfa", and attorney's fees associated with the action. The discovery phase of the case has been completed. Both the plaintiff and the defendants filed motions for summary judgement at the close of the discovery. No trial date has been set as at the date of the issuance of these consolidated financial statements. Management believes that the allegations are without merit and intends to vigorously defend this action and it is unable to estimate the range of possible financial outcomes.

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 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 authorities.

The Russian 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. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

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.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory. In 2006 the Group disposed its majority stake in Alfa-Bank Ukraine to ABH Ukraine Limited, a subsidiary of ABHH. The sale price for the stake disposed was determined with a reference to a valuation performed by an independent appraisal company. An unquantifiable risk remains that the tax authorities could seek to challenge this position by taking a different view on the results of the valuation and levy additional tax on the Group. In respect of this matter, at 31 December 2006, no provision for potential additional tax liabilities has been recognised.

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

28 Contingencies and Commitments (Continued)

Certain entities of the Group are involved in the provision of services primarily related to the capital markets of the Russian Federation. A number of the Group's entities, which contribute a significant proportion of the Group's operating results, are registered and operate in jurisdictions outside of the Russian Federation which are not subject to Russian taxes. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge can not be reliably estimated; however it may be significant to the financial condition and/or the overall operations of the Group. The management of the Group is of the opinion that the operations of the Group are conducted in a manner that does not give rise to any material tax liabilities other than those provided for in these consolidated financial statements. As stated in Note 2 the tax legislation in the Russian Federation is subject to varying interpretations which can change frequently and, as such, an unquantifiable risk remains that the tax authorities could seek to challenge this position in the future and levy additional tax on the Group. Accordingly, in respect of this matter, at 31 December 2006 no provision for potential additional tax liabilities has been recognised (2005: no provision).

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities can not be reliably estimated; however it could be significant to the financial condition and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that it has other possible obligations from exposure to other than remote tax risks of up to approximately USD 9 220 thousand (2005: USD 4 715 thousand; 2004: USD 5 576 thousand).

Capital commitments. As at 31 December 2006 the Group had capital commitments of USD 82 307 thousand, of which USD 43 202 thousand relates to construction expenditure, modernisation and repair of premises, USD 34 523 thousand relates to purchase and installation of new computer systems, USD 4 582 thousand relates to other capital expenditure commitments. As at 31 December 2005 the Group had capital commitments of USD 74 300 thousand, of which USD 13 400 thousand related to construction expenditure, modernisation and repair of premises, USD 48 400 thousand related to purchase and installation of new computer systems, USD 12 500 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 operating leases were as follows:

In thousands of US Dollars	**2006**	**2005**
Not later than 1 year	27 251	12 346
Later than 1 year and not later than 5 years	53 008	32 319
Later than 5 years	9 272	6 704
Total operating lease commitments	**89 531**	**51 369**

28 Contingencies and Commitments (Continued)

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

Outstanding credit related commitments were as follows:

In thousands of US Dollars	Note	2006	2005
Guarantees issued		770 049	547 336
Export letters of credit		234 130	217 005
Import letters of credit	15	301 517	296 498
Total credit related commitments		**1 305 696**	**1 060 839**

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

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

In thousands of US Dollars	2006	2005
Provision for losses on credit related commitments as at 1 January	**18 925**	**21 123**
Release of provision for losses on credit related commitments during the period	(6 939)	(2 198)
Provision for losses on credit related commitments as at 31 December	**11 986**	**18 925**

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

In thousands of US Dollars	2006 Nominal value	2005 Nominal value
Shares in companies held in custody	233 545	308 121
Corporate bonds held in custody	231 126	206 267
Promissory notes of companies held in custody	107 156	57 670
OVGVZ held on account with Vneshtorgbank	26 931	27 346
Eurobonds	19 885	18 739
Client OFZ securities held on an account with NDC	23 821	17 700
Other	8 150	137

28 Contingencies and Commitments (Continued)

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBR for Alfa-Bank;
- to maintain a ratio of capital to risk-weighted assets as defined by the Basle Committee;
- to maintain a minimum level of net assets less intangible assets (Consolidated Tangible Net Worth);
- to ensure that all Related Party transactions are on an arm's length basis;
- to maintain a maximum level of long-term other borrowed funds (Aggregate Financial Indebtedness).

The Group's Management believes that the Group is in compliance with these covenants as at 31 December 2006.

Assets pledged and restricted. As at 31 December 2006 the Group had the following assets pledged as collateral:

In thousands of US Dollars	Notes	2006	2005
Trading securities	8, 14	495 849	241 764
Loans and advances to customers	10	-	16 754
Total		**495 849**	**258 518**

As at 31 December 2006 the Group held securities pledged by other banks under reverse sale and repurchase agreements with a fair value of USD 25 587 thousand (2005: USD 39 687 thousand) (Note 9).

Mandatory cash balances with central banks in the amount of USD 256 579 thousand (2005: USD 195 849 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

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

29 Derivative Financial Instruments (Continued)

	2006			2005		
In thousands of US Dollars	Principal or agreed amount	Liabilities Negative fair value	Assets Positive fair value	Principal or agreed amount	Liabilities Negative fair value	Assets Positive fair value
Deliverable forwards						
Securities						
- sale of securities	352 375	(1 514)	1 230	453 624	(1 526)	2 785
- purchase of securities	4 680	(4)	150	92 209	(454)	3 048
Non-deliverable forwards						
Securities						
- sale of securities	32 558	(5 787)	197	404 781	(214 159)	-
- purchase of securities	-	-	-	75 053	-	232
Precious metals						
-sale of precious metals	1 595	(5)	-	-	-	-
Futures						
Securities						
- sale of securities	26 893	-	-	78 335	(230)	-
- purchase of securities	21 103	(195)	-	-	-	-
Other base assets						
-sale of other base assets	181 198	(157)	78	-	-	-
-purchase of other base assets	144 687	(228)	6	-	-	-
Call options						
Foreign currency						
- written call options	-	-	-	18 901	(143)	-
- purchased call options	-	-	-	18 901	-	143
Securities						
- written call options	71 040	(4 853)	2 190	77 508	(10 308)	-
- purchased call options	68 845	(2 061)	4 647	64 041	-	8 666
Put options						
Foreign currency						
- written put options	-	-	-	18 621	(84)	-
- purchased put options	-	-	-	18 621	-	84
Securities						
- written put options	2 000	-	22	85 278	(1 760)	-
- purchased put options	63 665	(1 023)	-	96 813	-	1 852
Swaps						
Interest rate swaps – pay fixed interest, receive floating interest	428 577	(1 341)	994	311 380	(1 639)	1 621
Total return swaps on securities – pay total return on securities, receive floating interest	437 104	(61 959)	732	-	-	-
Total return swaps on securities – pay floating interest, receive total return on securities	266 592	(258)	26 089	7 815	-	23
Total		**(79 385)**	**36 335**		**(230 303)**	**18 454**

29 Derivative Financial Instruments (Continued)

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

In thousands of US Dollars	2006 Contracts with positive fair value	2006 Contracts with negative fair value	2005 Contracts with positive fair value	2005 Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	476 868	2 279 793	395 500	1 248 332
- USD payable on settlement	(2 544 648)	(369 211)	(1 065 640)	(661 571)
- EUR receivable on settlement	1 665 986	132 244	666 400	329 041
- EUR payable on settlement	(322 467)	(1 071 554)	(150 346)	(660 667)
- RR receivable on settlement	225 024	39 156	132 649	307 678
- RR payable on settlement	(7 081)	(493 053)	(210 256)	(279 679)
- Other currencies receivable on settlement	1 059 892	544 987	398 049	182 541
- Other currencies payable on settlement	(538 938)	(1 073 793)	(156 037)	(478 620)
Non-deliverable forwards				
- USD receivable on settlement	66 300	185 000	96 000	43 707
- USD payable on settlement	(324 815)	(66 300)	(89 000)	(79 000)
- EUR receivable on settlement	7 925	-	-	1 185
- EUR payable on settlement	(71 306)	-	(1 185)	-
- RR receivable on settlement	318 944	66 187	90 490	77 581
- RR payable on settlement	(72 635)	(104 710)	(95 203)	(45 039)
- Other currencies receivable on settlement	81 544	-	-	-
- Other currencies payable on settlement	-	(84 634)	-	-
Non-deliverable swaps				
- USD payable on settlement	-	(156 159)	-	-
- EUR receivable on settlement	-	156 159	-	-
Net fair value of foreign exchange derivatives	**20 593**	**(15 888)**	**11 421**	**(14 511)**

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

In thousands of US Dollars	2006 Principal or agreed amount Sale	2006 Principal or agreed amount Purchase	2005 Principal or agreed amount Sale	2005 Principal or agreed amount Purchase
Corporate shares of Russian entities	495 360	274 322	404 781	-
Corporate bonds	221 147	-	154 934	-
Corporate Eurobonds	78 537	1 286	120 941	36 000
Russian Federation Eurobonds	28 286	3 394	118 563	36 601
Eurobonds of other states	16 367	13 373	102 721	93 872
Municipal bonds	8 846	-	34 800	-
ADRs and GDRs	387	-	-	8 604
Total	**848 930**	**292 375**	**936 740**	**175 077**

30 Fair Value of Financial Instruments

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

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

Trading securities. The 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. In practice contractual interest rates on loans and advances to customers are usually renegotiated to reflect current market conditions. Therefore fair value of loans and advances to customers approximates their carrying value.

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

Investment property. The estimated fair value of the investment property has been determined by an independent professional appraiser.

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

Promissory notes issued. The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. As at 31 December 2006 the fair value of promissory notes issued was USD 528 483 thousand (2005: USD 375 323 thousand).

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

Subordinated debt. The fair value of subordinated debt has been determined by reference to published price quotations.

Credit related commitments. The fair value of credit related commitments has been determined as the higher of provision for losses on credit related commitments and the balance of unamortised fees received. As at December 2006 the fair value of credit related commitments was USD 12 056 thousand (2005: USD 18 925 thousand).

30 Fair Value of Financial Instruments (Continued)

Financial derivatives. 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 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. The fair value of derivative financial instruments is disclosed in Note 29.

Change in fair value of derivatives estimated using a valuation technique that was recognised in consolidated statement of income in 2006 resulted in a net gain of USD 2 576 thousand (2005: net gain of USD 746 thousand).

31 Related Party Transactions

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

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

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

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

Refer to Note 32 for information on the sale by the Group of one of its subsidiaries, Alfa-Bank Ukraine to ABH Ukraine Limited, a member of the Alfa Group Consortium.

31 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2006 and income and expense items as well as other transactions for the year ended 31 December 2006 with related parties are as follows:

In thousands of US Dollars	2006 TNK-BP	Alfa Group Consortium and its share-holders	Key manage-ment	Associates	ABH Ukraine Group
Trading securities as at the year end	**2 868**	**2 843**	-	**22 618**	**18 246**
Correspondent accounts with other banks as at the year end	-	-	-	-	**8 499**
Term placements with other banks as at the year end	-	-	-	-	**324 147**
USD, effective rate of 7.0% - 10.0%	-	-	-	-	283 848
EUR, effective rate of 7.9% - 8.3%	-	-	-	-	40 299
Loans and advances to customers as at the year end (gross of provision for impairment)	-	**398 986**	**4 611**	**87 574**	-
RUR, effective rate of 8.5% - 10.5%	-	-	-	21 585	-
RUR, effective rate of 10.7% - 19.0%	-	17 053	235	-	-
USD, effective rate of 4.5% - 7.0%	-	78 460	3 785	-	-
USD, effective rate of 7.1% - 10.5%	-	274 456	591	-	-
EUR, effective rate of 6.0% - 9.5%	-	29 017	-	65 989	-
Provision for loan impairment as at 1 January	**(619)**	**(2 102)**	**(71)**	-	-
Provision for loan impairment during the year	619	(454)	1	(11 366)	-
Provision for loan impairment as at 31 December	-	**(2 556)**	**(70)**	**(11 366)**	-
Receivables as at the year end	**270**	**6 260**	**24**	-	-
Correspondent accounts of other banks	-	-	-	-	**30 619**
RUR, effective rate of 0.0%	-	-	-	-	3 407
USD, effective rate of 0.0%	-	-	-	-	27 209
EUR, effective rate of 0.0%	-	-	-	-	3
Term placements of other banks					**6 771**
RUR, effective rate of 5.2% - 6.0%	-	-	-	-	6 771
Customer accounts					
Current/settlement accounts as at the year end	**299 095**	**287 023**	**1 843**	**7 456**	-
RUR, effective rate of 0.0% - 2.0%	98 252	125 942	-	7 023	-
USD, effective rate of 0.0% - 5.2%	200 842	159 920	1 823	433	-
EUR, effective rate of 0.0% - 3.1%	1	1 106	20	-	-
GBP, effective rate of 0.0% - 2.0%	-	55	-	-	-
Term deposits as at the year end	**78 967**	**1 443 778**	**1 966**	-	-
RUR, effective rate of 2.0% - 12.5%	72 528	81 377	1 966	-	-
USD, effective rate of 1.8% - 8.6%	6 439	1 140 197	-	-	-
EUR, effective rate of 2.7% - 7.0%	-	222 204	-	-	-
Promissory notes issued as at the year end	**19**	**666**	-	-	-
RUR, effective rate of 5.0% - 11.5%	19	666	-	-	-
Payables as at the year end	**1**	**2 631**	**24 297**	-	**7 500**

31 Related Party Transactions (Continued)

In thousands of US Dollars	2006 TNK-BP	Alfa Group Consortium and its share-holders	Key manage-ment	Associates	ABH Ukraine Group
Interest income for the year (based on effective contractual interest rates)	**352**	**14 471**	**169**	**4 479**	**5 581**
Interest expense for the year (based on effective contractual interest rates)	**9 127**	**56 659**	**3 258**	**5**	**42**
Fee and commission income	**3 979**	**9 525**	**867**	**697**	**3**
Fee and commission expense	**2**	**-**	**-**	**-**	**8**
Gains less losses from trading securities transactions with related parties	**-**	**2 803**	**1 487**	**-**	**-**
Other income for the year	**-**	**661**	**5**	**-**	**-**
Other expenses for the year	**20**	**9 066**	**27 352**	**-**	**888**
Guarantees issued by the Group	**35 522**	**6 320**	**-**	**-**	**-**
Provision for losses on guarantees issued as at 1 January	**(2 502)**	**(9)**	**-**	**-**	**-**
Provision for losses on guarantees issued during the year	2 009	(250)	-	-	-
Provision for losses on guarantees issued as at 31 December	**(493)**	**(259)**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**9 218**	**-**	**-**	**40 550**

31 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2005 and income and expense items as well as other transactions for the year ended 31 December 2005 with related parties are as follows:

	2005			
In thousands of US Dollars	**TNK-BP**	**Alfa Group Consortium and its share-holders**	**Key management**	**Associates**
Trading securities as at the year end	**1 049**	-	**7 632**	-
Loans and advances to customers as at the year end (gross of provision for impairment)	**20 867**	**82 051**	**2 096**	**41 000**
RUR, effective rate of 8.5% - 10.5%	-	152	-	-
RUR, effective rate of 10.7% - 19.0%	-	1 745	-	-
USD, effective rate of 1.0% - 4.0%	-	157	-	-
USD, effective rate of 7.1% - 10.5%	20 867	55 129	2 031	-
USD, effective rate of 10.8% - 12.5%	-	-	5	4 000
USD, effective rate of 12.6% - 14.0%	-	24 259	60	37 000
USD, effective rate of 14.1% - 18.0%	-	609	-	-
Provision for loan impairment as at 1 January	**(326)**	**(2 244)**	-	-
Provision for loan impairment during the year	(293)	142	(71)	-
Provision for loan impairment as at 31 December	**(619)**	**(2 102)**	**(71)**	-
Receivables as at the year end	-	**7 296**	**2 462**	-
Customer accounts				
Current/settlement accounts as at the year end	**133 497**	**28 189**	-	**1 192**
RUR, effective rate of 0.0% - 2.0%	129 628	16 434	-	1 172
USD, effective rate of 0.0% - 5.2%	1 455	10 043	-	20
EUR, effective rate of 0.0% - 3.1%	7	1 238	-	-
UAH, effective rate of 0.0% - 2.0%	2 407	474	-	-
Term deposits as at the year end	**27 430**	**458 207**	-	-
RUR, effective rate of 2.0% - 12.5%	8 801	4 608	-	-
USD, effective rate of 1.8% - 8.6%	18 629	425 109	-	-
UAH, effective rate of 9.0% - 12.0%	-	28 490	-	-
Promissory notes issued as at the year end	**3 543**	**1 505**	-	-
RUR, effective contractual interest rate of 0.0%	3 543	-	-	-
RUR, effective contractual interest rate of 5.0% - 11.5%	-	1 505	-	-

31 Related Party Transactions (Continued)

	2005			
In thousands of US Dollars	TNK-BP	Alfa Group Consortium and its share-holders	Key management	Associates
Payables as at the year end	1	5 590	39 149	-
Interest income for the year (based on effective contractual	183	7 860	2 768	2 494
Interest expense for the year (based on effective contractual interest rates)	2 966	31 473	-	-
Fee and commission income	3 152	5 351	424	350
Fee and commission expense	-	-	-	-
Income from securities transactions with related parties	-	2 459	270	-
Other income for the year	10	430	-	-
Other expenses for the year	-	247	27 497	-
Guarantees issued by the Group	107 956	420	-	-
Provision for losses on guarantees issued as at 1 January	(2 756)	-	-	-
Provision for losses on guarantees issued during the year	254	(9)	-	-
Provision for losses on guarantees issued as at 31 December	(2 502)	(9)	-	-
Import letters of credit as at the year end	-	-	7 074	-

Key management of the Group are defined as top managerial personnel serving as members of the Board of Directors and Management Board of the Group and Alfa-Bank.

Key management compensation is presented below:

In thousands of US Dollars	2006	2005
Accrued key management compensation	**24 196**	**31 532**
Bonuses	**24 196**	**31 532**
- short-term bonuses	14 380	24 683
- long-term bonuses	9 816	6 849

31 Related Party Transactions (Continued)

In thousands of US Dollars	2006	2005
Key management compensation expense	**25 406**	**27 497**
Salaries	8 675	6 377
Bonuses	**16 731**	**21 120**
- short-term bonuses	13 941	14 859
- long-term bonuses	2 790	6 261

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.

32 Principal Subsidiaries

Russian Federation and CIS	Rest of the World
Alfa-Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa-Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Leasing	Alfa Debt Market Limited (Cyprus)
	Alfa FI Limited (Cyprus)
	Alfa MTN Invest Limited (Cyprus)
	Alfa MTN Issuance Limited (Cyprus)
	Alfa MTN Markets Limited (Cyprus)
	Alfa Bond Issuance PLC
	Amsterdam Trade Bank (Netherlands)
	Alfa MTN Projects Limited
	Alfa ECP Issuance Limited
	Alfa Diversified Payment Rights Finance Company S.A.

As at 31 December 2006 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa Diversified Payment Rights Finance Company S.A., which operates exclusively for the benefit of the Group as promulgated by its articles of association, and is therefore controlled by the Group, despite not being owned by it. As at 31 December 2005 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa-Bank Ukraine, which was 96.9% owned and controlled.

In August 2006 the Group disposed of a 51.0% interest in Alfa-Bank Ukraine to ABH Ukraine Limited, a subsidiary of ABHH. The remaining holding of the Group was further diluted to 16.2% after Alfa-Bank Ukraine closed an offering of shares on 3 November 2006. On the 28 November 2006 the Group disposed of a 15.08% interest in Alfa-Bank Ukraine to ABH Ukraine Limited, with the remaining holding of the Group at 1.12% as at 31 December 2006. This remaining holding of 1.12% has been disposed to ABH Ukraine Limited by 31 January 2007. Refer to Note 33.

32 Principal Subsidiaries (Continued)

The details of the assets and liabilities of Alfa-Bank Ukraine disposed and disposal consideration are as follows:

In thousands of US Dollars	**August 2006**
Cash and cash equivalents	52 180
Due from other banks	34 596
Loans and advances to customers	475 022
Other assets	33 501
Due to other banks	(214 266)
Customer accounts	(338 553)
Other liabilities	(15 176)
Net assets of subsidiary	**27 304**
Less: minority interest	(1 132)
Total carrying amount of net assets disposed	**26 172**
Total disposal consideration	**31 000**
Less: cash and cash equivalents in subsidiary disposed	(52 180)
Cash outflow on disposal	**(21 180)**

The Group has recorded gain from disposal of Alfa-Bank Ukraine in the amount of USD 4 828 thousand.

During 2006 the Group sold a subsidiary involved in the real estate business for USD 12 000 thousand. Total assets of the disposed subsidiary amounted to USD 6 585 thousand. The Group realised a gain on disposal of the subsidiary in the amount of USD 6 231 thousand.

33 Subsequent Events

During January 2007, the Group sold its 1.12% interest in Alfa-Bank Ukraine to ABH Ukraine Limited for USD 200 thousand.

In January 2007, the Group declared dividends for the year ended 31 December 2006 in the amount of USD 92 393 thousand payable in-kind by means of distribution of 20.05% of its interest in CTC having a book value of USD 92 393 thousand and reducing the Group's interest in CTC to zero.

On 9 February 2007 the Group repaid USD 150 000 thousand of its notes issued under the MTN Programme in accordance with their contractual terms.

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 000 thousand. The notes bear a fixed interest rate of 8.635% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay these notes on 22 February 2012.

On 30 March 2007 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 145 000 thousand and USD 200 000 thousand under its DPR Programme. These notes bear coupon at a rate of three-month EURIBOR plus 1.9% and three-month LIBOR plus 2.0% payable quarterly. The notes are repayable by quarterly instalments until maturity on 15 March 2012.