# ABH Financial Limited

## International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

## 31 December 2007

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and 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") which comprise the consolidated balance sheet as at 31 December 2007 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 Consolidated 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 the consolidated 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 consolidated 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 at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

ZAO PricewaterhouseCoopers Audit
25 April 2008
Moscow, Russian Federation

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| *In thousands of US Dollars* | Note | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 2 634 359 | 1 672 681 |
| Mandatory cash balances with central banks | | 308 092 | 256 579 |
| Trading securities | 8 | 841 457 | 673 199 |
| Repurchase receivables | 8 | 534 426 | 495 849 |
| Due from other banks | 9 | 1 916 685 | 1 667 662 |
| Loans and advances to customers | 10 | 15 037 535 | 9 480 359 |
| Investments in associates | 11 | 58 973 | 198 806 |
| Other investments | 11 | 55 228 | 21 918 |
| Other financial assets | 12 | 778 447 | 417 236 |
| Other assets | 13 | 176 236 | 114 511 |
| Premises, equipment and intangible assets | 14 | 290 818 | 208 403 |
| Deferred tax asset | 27 | 62 304 | 2 740 |
| **TOTAL ASSETS** | | **22 694 560** | **15 209 943** |
| **LIABILITIES** | | | |
| Due to other banks | 15 | 2 849 461 | 1 430 440 |
| Customer accounts | 16 | 12 180 392 | 7 946 381 |
| Promissory notes issued | | 789 192 | 529 593 |
| Other borrowed funds | 17 | 3 743 834 | 3 126 296 |
| Subordinated debt | 18 | 526 006 | 224 837 |
| Other financial liabilities | 19 | 565 594 | 493 186 |
| Other liabilities | 20 | 128 545 | 132 611 |
| Deferred tax liability | 27 | 56 839 | 16 415 |
| **TOTAL LIABILITIES** | | **20 839 863** | **13 899 759** |
| **EQUITY** | | | |
| Share capital | 21 | 694 800 | 344 800 |
| Fair value reserve for investments available for sale | | 39 | 70 |
| Revaluation reserve for premises | | 56 785 | 25 929 |
| Retained earnings and other reserves | 21 | 1 103 073 | 939 376 |
| **Net assets attributable to the equity holders of the Company** | | **1 854 697** | **1 310 175** |
| **Minority interest** | | **-** | **9** |
| **TOTAL EQUITY** | | **1 854 697** | **1 310 184** |
| **TOTAL LIABILITIES AND EQUITY** | | **22 694 560** | **15 209 943** |

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 25 April 2008 and further changes require approval of this body.

The notes set out on pages 5 to 75 form an integral part of these consolidated financial statements.

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Interest income | 22 | 1 706 243 | 1 028 117 |
| Interest expense | 22 | (790 211) | (477 843) |
| **Net interest income** | | **916 032** | **550 274** |
| Provision for loan impairment | 10 | (222 875) | (127 223) |
| **Net interest income after provision for loan impairment** | | **693 157** | **423 051** |
| Fee and commission income | 23 | 318 973 | 223 326 |
| Fee and commission expense | 23 | (60 606) | (54 977) |
| Gains less losses arising from trading securities | 24 | 43 303 | 68 970 |
| Gains less losses arising from foreign currencies | 24 | 18 957 | (53 049) |
| Gains less losses arising from investments | 11 | 34 630 | 102 490 |
| Other impairment provisions | 12, 31 | (8 370) | 7 903 |
| Other operating income | 25 | 18 174 | 81 478 |
| Operating expenses | 26 | (698 980) | (535 342) |
| Share of results and impairment of associates | 11 | (30 304) | 7 830 |
| **Profit before tax** | | **328 934** | **271 680** |
| Income tax expense | 27 | (75 448) | (81 394) |
| **Profit for the year** | | **253 486** | **190 286** |
| **Attributable to:** | | | |
| Equity holders of the Company | | 253 486 | 190 333 |
| Minority interest | | - | (47) |
| **Profit for the year** | | **253 486** | **190 286** |

The notes set out on pages 5 to 75 form an integral part of these consolidated financial statements.

| | Attributable to the equity holders of the Company | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| *In thousands of US Dollars* | **Share capital (Note 21)** | **Fair value reserve for invest-ments available for sale** | **Revalua-tion reserve for premises (Note 14)** | **Retained earnings and other reserves (Note 21)** | **Total** | | |
| **Balance as at 1 January 2006** | **160 800** | **585** | **3 051** | **689 012** | **853 448** | **2 400** | **855 848** |
| Transfer of net fair value gains arising on investments available for sale to profit | - | (515) | - | - | (515) | - | (515) |
| Revaluation of premises, net of taxation (Note 14) | - | - | 27 123 | - | 27 123 | - | 27 123 |
| Translation movement (Note 21) | - | - | - | 76 807 | 76 807 | - | 76 807 |
| Adjustment on the initial recognition of associates (Note 11) | - | - | - | (1 673) | (1 673) | - | (1 673) |
| Share of other equity movements of associates (Note 11) | - | - | - | 4 791 | 4 791 | - | 4 791 |
| **Net income/(expense) recognised directly in equity** | **-** | **(515)** | **27 123** | **79 925** | **106 533** | **-** | **106 533** |
| Profit for the year | - | - | - | 190 333 | 190 333 | (47) | 190 286 |
| **Total income/(expense) recognised** | - | **(515)** | **27 123** | **270 258** | **296 866** | **(47)** | **296 819** |
| Share capital contribution (Note 21) | 184 000 | - | - | - | 184 000 | - | 184 000 |
| Dividends (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** |
| Transfer of net fair value gains arising on investments available for sale to profit (Note 11) | - | (31) | - | - | (31) | - | (31) |
| Revaluation of premises, net of taxation (Note 14) | - | - | 33 108 | - | 33 108 | - | 33 108 |
| Translation movement (Note 21) | - | - | - | 90 867 | 90 867 | - | 90 867 |
| Net change in hedge of net investment in foreign operations (Note 32) | - | - | - | (74 607) | (74 607) | - | (74 607) |
| Share of other equity movements of associates (Note 11) | - | - | - | (17 689) | (17 689) | - | (17 689) |
| **Net income/(expense) recognised directly in equity** | **-** | **(31)** | **33 108** | **(1 429)** | **31 648** | **-** | **31 648** |
| Profit for the year | - | - | - | 253 486 | 253 486 | - | 253 486 |
| **Total income/(expense) recognised** | **-** | **(31)** | **33 108** | **252 057** | **285 134** | **-** | **285 134** |
| Share capital contribution (Note 21) | 350 000 | - | - | - | 350 000 | - | 350 000 |
| Dividends (Note 11) | - | - | - | (92 393) | (92 393) | - | (92 393) |
| Other movements | - | - | (2 252) | 4 033 | 1 781 | (9) | 1 772 |
| **Balance as at 31 December 2007** | **694 800** | **39** | **56 785** | **1 103 073** | **1 854 697** | **-** | **1 854 697** |

| *In thousands of US Dollars* | **Note** | **2007** | **2006** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1 677 579 | 997 454 |
| Interest paid, other than on other borrowed funds and subordinated debt | | (485 728) | (324 999) |
| Fees and commissions received | | 316 113 | 224 706 |
| Fees and commissions paid | | (59 342) | (68 563) |
| Net income received from trading securities | | 36 930 | 81 492 |
| Net income received from trading in foreign currencies | | 63 346 | 56 500 |
| Other operating income received | | 10 912 | 23 207 |
| Staff costs paid | | (374 779) | (287 191) |
| Other operating expenses paid | | (298 559) | (194 418) |
| Income tax paid | | (146 507) | (134 846) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **739 965** | **373 342** |
| **Changes in operating assets and liabilities** | | | |
| Net increase in mandatory cash balances with central banks | | (30 975) | (55 771) |
| Net increase in trading securities and repurchase receivables | | (369 767) | (17 116) |
| Net increase in due from other banks | | (186 599) | (444 174) |
| Net increase in loans and advances to customers | | (5 234 509) | (4 520 176) |
| Net increase in other assets | | (225 210) | (78 302) |
| Net increase in due to other banks | | 1 314 268 | 915 180 |
| Net increase in customer accounts | | 3 676 325 | 2 729 337 |
| Net increase in promissory notes issued | | 209 914 | 176 692 |
| Net increase/(decrease) in other liabilities | | 31 183 | (29 999) |
| **Net cash used in operating activities** | | **(75 405)** | **(950 987)** |
| **Cash flows from investing activities** | | | |
| Acquisition of other investments | 11 | (14 340) | (145) |
| Proceeds from disposal of other investments | 11 | 16 537 | 27 751 |
| 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 | 14 | (90 372) | (83 111) |
| Proceeds from disposal of premises, equipment and intangible assets | 14 | 15 353 | 4 014 |
| Proceeds from disposal of subsidiaries | 35 | 19 792 | 12 000 |
| Cash outflow on disposal of subsidiaries | 35 | (1 557) | (21 180) |
| Dividend income received | 25 | 4 005 | 2 640 |
| **Net cash used in investing activities** | | **(50 582)** | **(51 581)** |
| **Cash flows from financing activities** | | | |
| Share capital contribution | 21 | 350 000 | 184 000 |
| Proceeds from other borrowed funds | 17 | 2 314 647 | 2 743 453 |
| Repayment of other borrowed funds | 17 | (1 696 335) | (1 057 237) |
| Interest paid on other borrowed funds | 17 | (217 958) | (105 140) |
| Proceeds from subordinated debt | 18 | 298 525 | - |
| Interest paid on subordinated debt | 18 | (32 359) | (19 406) |
| **Net cash from financing activities** | | **1 016 520** | **1 745 670** |
| **Net increase in cash and cash equivalents** | | **890 533** | **743 102** |
| Cash and cash equivalents at the beginning of the year | 7 | 1 672 681 | 878 670 |
| Effect of exchange rate changes on cash and cash equivalents | | 71 145 | 50 909 |
| **Cash and cash equivalents at the end of the year** | **7** | **2 634 359** | **1 672 681** |

Refer to Note 11 for details of settlement of certain option agreements and payment of dividends in kind.

## 1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise four main business segments: corporate banking, retail banking, treasury and investment banking (refer to Note 28). The corporate banking, retail banking and treasury 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 35 for a listing of the principal subsidiaries.

The Company is wholly owned by ABH Holdings Corp. ("ABHH"), a British Virgin Islands registered company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/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 in relation to all matters relating to ABHH.

The Company is registered at P.O. Box 146, Trident Chambers, 1 Wickhams Cay, Road Town, Tortola, British Virgin Islands.

As at 31 December 2007 the Group had 303 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2006: 229 offices).

***Corporate banking, retail banking and treasury.*** 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 customers. Alfa-Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. 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 RR 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. Alfa-Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan.

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

***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. 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, 2$^{nd}$ floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.

## 2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

***Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market, including 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 frequent changes. 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 challenges faced 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.

***Recent volatility in global financial markets.*** In 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian banks has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in the impairment assessments. Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and their increased volatility. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

## 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, financial instruments at fair value through profit or loss and all derivative contracts. 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 (Note 5).

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 these accounting records 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. In particular, Alfa-Bank has Russian Roubles as its functional currency, as its activities are mostly based in Russia and are dependent on the condition of the Russian economy. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as their 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.

### 3 Summary of Significant Accounting Policies (Continued)

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. During 2007 the Group reassessed the definition of its main business segments and introduced treasury as a separate segment. Segment analysis for 2006 was adjusted for this change in presentation.

***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 deconsolidated 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 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 the consolidated statement of income. 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 and exchange differences arising from currency instruments designated as hedge of net investment in foreign operations are recorded 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 the consolidated statement of income.

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 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 (2006: USD 1 = RR 26.3311) and the average exchange rate for 2007 was USD 1 = RR 25.5770 (2006: USD 1 = RR 27.1852).

***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)

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*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 statement of income 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 the consolidated statement of income 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.*** The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in the consolidated statement of income 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. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. 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 for collective assessment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which can cause late payment or no payment;
- third party actions: legal and/or tax claims against borrower (pledger, underwriter), arrest or seizure of the borrower's (pledger's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval;
- total loss of pledged property;
- disablement or death of the borrower (pledger, underwriter) or business owner (more than 50% share capital);
- change of the borrower's (pledger's, underwriter's) or business owner's (more than 50% share capital) place of residence and/or place of work without written notice sent to the Group;
- there is trustworthy information that the borrower (pledger, underwriter) or business owner (more than 50% share capital) is missing or went abroad for more than 1 year;

**3 Summary of Significant Accounting Policies (Continued)**

- the borrower (pledger, underwriter) or business owner (more than 50% share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity without written notice sent to the Group.

The estimated period between a loss occurring and its identification is determined by the management for each identified portfolio. In general, the periods used vary between one month and 12 months.

For the purposes of a collective impairment assessment, 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 the consolidated statement of income.

Uncollectible assets including accrued interest 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. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

***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. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the management.

**3 Summary of Significant Accounting Policies (Continued)**

***Investments available for sale.*** This classification includes investments 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.

Investments available for sale are carried at fair value. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income 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 the consolidated statement of income.

Impairment losses are recognised in the consolidated statement of income 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 the consolidated statement of income - is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments are not reversed through the consolidated statement of income - 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 the consolidated statement of income, the impairment loss is reversed through current period's consolidated statement of income.

***Investments designated at fair value through profit or loss at inception.*** 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.

***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.

***Derecognition of financial assets.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

**3 Summary of Significant Accounting Policies (Continued)**

***Investment property.*** Property that is held for capital appreciation, and that is not occupied by the 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 income approach, etc. 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 consolidated statement of income.

***Premises and equipment.*** Equipment is 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. as the asset is used by the Group and 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 consolidated statement of income. 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 the consolidated statement of income.

***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.

**3 Summary of Significant Accounting Policies (Continued)**

***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 statement of income.

***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.

***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.

## 3 Summary of Significant Accounting Policies (Continued)

***Derivative financial instruments and hedge accounting.*** 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 the consolidated statement of income in gains less losses arising from foreign currencies, 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, unless the derivatives qualify as hedging instruments.

The Group designates certain derivatives as hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income.

Amounts accumulated in equity are recycled in the consolidated statement of income in the periods when the hedged item is disposed of.

***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 the consolidated 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.

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 statement of income 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.

## 3 Summary of Significant Accounting Policies (Continued)

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. Commissions received from fiduciary activities are shown in fee and commission income.

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

***Provisions for liabilities 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.

***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 the management'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:

***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 5% of principal amount of the loans differs by +/- one month, the provision would be approximately USD 5 969 thousand (2006: USD 3 787 thousand) higher or USD 5 068 thousand (2006: USD 3 332 thousand) lower.

***Impairment of investment in Amtel-Vredestein N.V.*** As at 31 December 2007 the recoverable amount of the Group's investment in Amtel-Vredestein N.V. was determined on the basis of market price of shares in Amtel-Vredestein N.V. as at that date. Subsequent to 31 December 2007 there was a significant decrease in such market price. The Management believes that (i) decrease in the market price of shares in Amtel-Vredestein N.V. subsequent to 31 December 2007 is attributable to market inefficiencies and events which occurred during 2008, and (ii) the market price of shares in Amtel-Vredestein N.V. as at 31 December 2007 is the fair basis for calculation of the recoverable amount of the Group's investment in Amtel-Vredestein N.V. as at 31 December 2007.

***Fair value of investments at fair value through profit or loss.*** As at 31 December 2007 the fair value of certain equity investment classified at fair value through profit or loss and carried on the consolidated balance sheet at USD 32 142 thousand was determined using peer companies comparison since the investment was not quoted in an active market due to existing but irregular and low volume transactions. Had the fair value of the investment as at 31 December 2007 been determined by reference to the last quoted price before the balance sheet date, such fair value would have been USD 14 143 thousand higher and the related pre-tax gain in the consolidated statement of income would have been USD 14 143 thousand higher.

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

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

***Functional currencies of different entities of the Group.*** Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar and their major activities include provision of brokerage services to foreign investors. 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.

***Income taxes.*** There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain. 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 taxable profits and other circumstances, including the ability to claim in full a deduction of the expenses incurred in relation to the underlying assets and liabilities. In each reporting period the Management reassesses the realisability of the deferred tax assets and adjusts the deferred tax asset balances accordingly. Refer also to Notes 27 and 31.

## 5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

***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 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures 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 cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced 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 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

***Other new standards or interpretations.*** The Group has adopted the following other new standards or interpretations which became effective from 1 January 2007:

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

The new IFRIC interpretations 7 to 10 did not significantly affect the Group's consolidated financial statements.

## 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 2008 or later periods and which the Group has not early adopted:

***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. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

***IAS 23 "Borrowing Costs" (revised March 2007; effective for annual periods beginning on or after 1 January 2009).*** The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Management is currently assessing the impact of the amended standard on the Group's consolidated financial statements.

***IAS 1 "Presentation of Financial Statements" (revised September 2007; effective for annual periods beginning on or after 1 January 2009).*** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. Management expects the revised IAS 1 to affect the presentation of Group's consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

***IAS 27 "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after 1 July 2009).*** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

***Amendment to IFRS 2 "Share-based Payment" (issued in January 2008; effective for annual periods beginning on or after 1 January 2008).*** The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

***IFRS 3 "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).*** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

## 6 New Accounting Pronouncements (Continued)

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

- 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);
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (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* | **2007** | **2006** |
|---|---|---|
| Cash on hand | 626 094 | 430 011 |
| Cash balances with central banks (other than mandatory cash balances) | 1 359 638 | 306 901 |
| Correspondent accounts with other financial institutions | | |
| - Russian Federation | 126 543 | 119 761 |
| - Other countries | 128 037 | 127 993 |
| Overnight placements with other financial institutions | | |
| - Russian Federation | 6 112 | 38 934 |
| - Other countries | 387 935 | 649 081 |
| **Total cash and cash equivalents** | **2 634 359** | **1 672 681** |

Analysis by credit quality of correspondent accounts and overnight placements was as follows:

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| OECD banks | 479 885 | 752 022 |
| Cash balances with trading systems | 108 337 | 117 167 |
| Top 20 Russian banks | 20 085 | 2 092 |
| Other Russian banks | 4 233 | 39 436 |
| Other banks | 36 087 | 25 052 |
| **Correspondent accounts and overnight placements with other financial institutions** | **648 627** | **935 769** |

The category "Top 20 Russian banks" includes the 20 largest Russian banks in terms of assets.

As at 31 December 2007 the ten largest aggregate balances on correspondent accounts and overnight placements with other financial institutions amounted to USD 508 131 thousand (2006: USD 861 458 thousand) or 78.3% (2006: 92.1%) of the correspondent accounts and overnight placements with other financial institutions.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 8 Trading Securities and Repurchase Receivables

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| **Trading securities** | | |
| Corporate bonds | 419 342 | 336 325 |
| Corporate Eurobonds | 191 125 | 104 077 |
| Eurobonds of other states | 43 930 | 56 071 |
| Municipal bonds | 3 661 | 28 798 |
| Russian Federation domestic bonds | - | 32 061 |
| Russian Federation Eurobonds | - | 20 862 |
| Promissory notes | - | 22 440 |
| Other | 4 738 | 6 598 |
| **Total debt securities** | **662 796** | **607 232** |
| Corporate shares | 152 569 | 32 082 |
| ADRs and GDRs | 26 092 | 33 885 |
| **Total trading securities** | **841 457** | **673 199** |
| **Repurchase receivables** | | |
| Corporate bonds | 228 536 | 3 682 |
| Corporate Eurobonds | 172 812 | 90 841 |
| Russian Federation Eurobonds | 83 567 | 22 861 |
| Eurobonds of other states | 15 960 | 65 |
| Municipal bonds | 1 444 | 12 487 |
| Russian Federation domestic bonds | - | 28 675 |
| **Total repurchase receivables relating to debt securities** | **502 319** | **158 611** |
| Corporate shares | 30 776 | 337 238 |
| ADRs and GDRs | 1 331 | - |
| **Total repurchase receivables** | **534 426** | **495 849** |
| **Total trading securities and repurchase receivables** | **1 375 883** | **1 169 048** |

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and are freely tradable in the Russian Federation. As at 31 December 2007 these bonds have maturity dates ranging from February 2008 to June 2014 (2006: February 2007 to February 2016), coupon rates from 7.6% to 16.0% (2006: from 7.0% to 14.1%) and yields to maturity from 7.5% to 26.0% (2006: from 6.6% to 16.5%), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euros, issued mainly by large Russian and CIS companies, and are freely tradable internationally. As at 31 December 2007 these bonds have maturity dates ranging from January 2008 to July 2035 (2006: from March 2007 to April 2034), coupon rates from 6.3% to 12.0% (2006: from 6.2% to 10.8%) and yields to maturity from 4.7% to 12.7% (2006: from 6.0% to 17.0%), depending on the type of bond issue.

Corporate shares are mainly shares of Russian and Ukrainian companies.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As at 31 December 2007 and 2006 no amounts of the debt securities were past due. As all trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

## 8 Trading Securities and Repurchase Receivables (Continued)

As at 31 December 2007 and as at 31 December 2006 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 32.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading. Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 29. The information on securities issued by related parties and owned by the Group is disclosed in Note 34.

## 9 Due from Other Banks

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| Term placements with other banks | 1 774 200 | 1 644 050 |
| Reverse sale and repurchase agreements with other banks | 142 485 | 23 612 |
| **Total due from other banks** | **1 916 685** | **1 667 662** |

As at 31 December 2007 and 2006 term placement with due from other banks were not collateralised. As at 31 December 2007 reverse sale and repurchase agreements with other banks were effectively collaterised by securities purchased with estimated fair value of USD 159 048 thousand (2006: USD 25 587 thousand), all of which the Group had right to sell or repledge.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2007 was as follows:

| *In thousands of US Dollars* | **Term placements with other banks** | **Reverse sale and repurchase agreements with other banks** | **Total** |
|---|---|---|---|
| *Current and not impaired* | | | |
| - OECD banks | 1 240 157 | 1 580 | 1 241 737 |
| - Other Russian banks | 121 904 | 67 531 | 189 435 |
| - Local central banks | 105 960 | - | 105 960 |
| - Top 20 Russian banks | 33 338 | 73 374 | 106 712 |
| - Other banks | 272 841 | - | 272 841 |
| **Total due from other banks** | **1 774 200** | **142 485** | **1 916 685** |

The category "Top 20 Russian banks" includes the 20 largest Russian banks in terms of assets.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2006 was as follows:

| *In thousands of US Dollars* | **Term placements with other banks** | **Reverse sale and repurchase agreements with other banks** | **Total** |
|---|---|---|---|
| *Current and not impaired* | | | |
| - OECD banks | 1 060 778 | 7 548 | 1 068 326 |
| - Other Russian banks | 224 865 | 12 567 | 237 432 |
| - Top 20 Russian banks | 15 197 | 3 497 | 18 694 |
| - Other banks | 343 210 | - | 343 210 |
| **Total due from other banks** | **1 644 050** | **23 612** | **1 667 662** |

## 9 Due from Other Banks (Continued)

As at 31 December 2007 the ten largest aggregate balances due from other banks amounted to USD 1 538 989 thousand (2006: USD 1 178 919 thousand) or 80.3% (2006: 70.7%) of total due from other banks.

As at 31 December 2007 included within term placements with other banks are deposits placed under Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 80 480 thousand (2006: USD 60 750 thousand). Refer to Note 17.

As at 31 December 2007 and 2006 the fair value of each class of financial assets included in due from other banks approximated their carrying value. As at 31 December 2007 the estimated fair value of due from other banks was USD 1 916 685 thousand (2006: USD 1 667 662 thousand). Refer to Note 33.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 10 Loans and Advances to Customers

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| Corporate loans | 12 495 826 | 8 642 770 |
| Loans to individuals - credit cards and personal instalment loans | 676 554 | 402 684 |
| Finance lease receivables | 617 129 | 303 160 |
| Loans to individuals - car loans | 531 088 | 182 301 |
| Reverse sale and repurchase agreements - corporate and individuals | 353 159 | 75 012 |
| Loans to individuals - consumer loans | 318 965 | 163 269 |
| Loans to individuals - mortgage loans | 225 970 | 14 456 |
| Loans to small and medium-size enterprises | 199 534 | - |
| Less: Provision for loan impairment | (380 690) | (303 293) |
| **Total loans and advances to customers** | **15 037 535** | **9 480 359** |

As at 31 December 2007 reverse sale and repurchase agreements were effectively collaterised by securities purchased with estimated fair value of USD 512 695 thousand (2006: USD 128 467 thousand) all of which the Group had right to sell or repledge. As at 31 December 2007 and 2006 no provision for impairment of reverse sale and repurchase agreements was required.

Movements in the provision for loan impairment during 2007 were as follows:

| *In thousands of US Dollars* | **Corporate loans** | **Loans to small and medium-size enterpri-ses** | **Finance lease receivab-les** | **Loans to indivi-duals - credit cards and personal instal-ment loans** | **Loans to indivi-duals - consumer loans** | **Loans to indivi-duals - car loans** | **Loans to indivi-duals - mortgage loans** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Provision for loan impairment as at 1 January** | **215 646** | **-** | **10 692** | **40 727** | **18 547** | **17 638** | **43** | **303 293** |
| Provisions for loan impairment during the year | 46 066 | 8 258 | 6 435 | 81 614 | 62 870 | 33 926 | 569 | 239 738 |
| Amounts written off during the year as uncollectible | (11 885) | - | (5 395) | (89 564) | (51 571) | (31 967) | - | (190 382) |
| Disposal of subsidiary | (84) | - | - | - | - | - | - | (84) |
| Translation movement | 19 000 | 208 | 1 092 | 3 862 | 2 135 | 1 809 | 19 | 28 125 |
| **Provision for loan impairment as at 31 December** | **268 743** | **8 466** | **12 824** | **36 639** | **31 981** | **21 406** | **631** | **380 690** |

## 10 Loans and Advances to Customers (Continued)

The provision for impairment during 2007 differs from the amount presented in the consolidated statement of income due to USD 16 863 thousand recovery during 2007 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in the consolidated statement of income.

Movements in the provision for loan impairment during 2006 were as follows:

| *In thousands of US Dollars* | Corporate loans | Finance lease receivab-les | Loans to indivi-duals - credit cards and personal instalment loans | Loans to indivi-duals - consumer loans | Loans to indivi-duals - car loans | Loans to indivi-duals - mortgage loans | Total |
|---|---|---|---|---|---|---|---|
| **Provision for loan impairment as at 1 January** | **221 155** | **13 541** | **3 694** | **1 501** | **-** | **-** | **239 891** |
| Provisions for loan impairment during the year | 18 196 | 2 335 | 46 617 | 41 862 | 19 305 | 43 | 128 358 |
| Amounts written off during the year as uncollectible | (6 169) | (5 184) | (9 584) | (24 816) | (1 667) | - | (47 420) |
| Disposal of subsidiary | (17 536) | - | - | - | - | - | (17 536) |
| **Provision for loan impairment as at 31 December** | **215 646** | **10 692** | **40 727** | **18 547** | **17 638** | **43** | **303 293** |

The provision for impairment during 2006 differs from the amount presented in the consolidated statement of income due to USD 1 135 thousand recovery during 2006 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in the consolidated statement of income.

Economic sector risk concentrations within the loans and advances to customers were as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of US Dollars* | Amount | % | Amount | % |
| Trade and commerce | 2 695 676 | 18 | 1 533 474 | 16 |
| Construction | 2 194 725 | 14 | 1 315 625 | 13 |
| Individuals | 1 870 452 | 12 | 809 257 | 8 |
| Finance and investment companies | 994 421 | 6 | 676 017 | 7 |
| Ferrous metallurgy | 825 823 | 5 | 738 869 | 8 |
| Power generation | 718 306 | 5 | 913 350 | 9 |
| Armaments production | 715 207 | 5 | 524 402 | 5 |
| Railway transport | 672 527 | 4 | 340 415 | 4 |
| Machinery and metal working | 661 997 | 4 | 591 926 | 6 |
| Non-ferrous metallurgy | 637 059 | 4 | 253 867 | 3 |
| Nuclear industry | 572 777 | 4 | 142 741 | 2 |
| Natural gas industry | 425 516 | 3 | 337 189 | 3 |
| Diamond extraction and processing | 302 497 | 2 | - | - |
| Food industry | 254 938 | 2 | 155 357 | 2 |
| Aviation transport | 230 491 | 2 | 192 343 | 2 |
| Oil industry | 196 880 | 1 | 275 169 | 3 |
| Mass media and telecommunications | 196 420 | 1 | 93 043 | 1 |
| Chemistry and petrochemicals | 190 326 | 1 | 190 261 | 2 |
| Agribusiness | 154 720 | 1 | 28 735 | - |
| Coal Industry | 147 489 | 1 | 135 034 | 1 |
| Water transport | 77 262 | 1 | 78 612 | 1 |
| Timber industry | 34 062 | - | 40 903 | - |
| Other | 648 654 | 4 | 417 063 | 4 |
| **Total gross loans and advances to customers** | **15 418 225** | **100** | **9 783 652** | **100** |

## 10 Loans and Advances to Customers (Continued)

As at 31 December 2007 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 2 849 552 thousand (2006: USD 2 181 589 thousand) or 18.5% (2006: 22.3%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 4 428 934 thousand (2006: USD 3 261 138 thousand) or 28.7% (2006: 33.3%) of the gross loans and advances to customers.

Analysis by credit quality of loans outstanding as at 31 December 2007 was as follows:

| *In thousands of US Dollars* | **Corporate loans** | **Loans to small and medium-size enterprises** | **Finance lease receivables** | **Reverse sale and repurchase agreements - corporate and individuals** | **Loans to individuals - credit cards and personal instalment loans** | **Loans to individuals - consumer loans** | **Loans to individuals - car loans** | **Loans to individuals - mortgage loans** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| *Current and not impaired* | | | | | | | | | |
| - Rating I | 4 226 715 | 10 310 | 94 000 | 338 846 | - | - | - | - | 4 669 871 |
| - Rating II | 4 588 345 | 51 085 | 342 704 | 14 313 | - | - | - | - | 4 996 447 |
| - Rating III | 3 263 203 | 134 290 | 163 364 | - | - | - | - | - | 3 560 857 |
| - Rating IV | 311 462 | 122 | - | - | - | - | - | - | 311 584 |
| - Unrated | - | - | - | - | 630 089 | 283 932 | 506 171 | 224 654 | 1 644 846 |
| **Total gross current and not impaired loans** | **12 389 725** | **195 807** | **600 068** | **353 159** | **630 089** | **283 932** | **506 171** | **224 654** | **15 183 605** |
| *Past due but not impaired* | | | | | | | | | |
| - less than 30 days overdue | - | - | 17 061 | - | - | - | - | - | 17 061 |
| **Total gross past due but not impaired** | **-** | **-** | **17 061** | **-** | **-** | **-** | **-** | **-** | **17 061** |
| *Individually determined to be impaired* | | | | | | | | | |
| - current | 82 651 | 244 | - | - | - | - | - | - | 82 895 |
| - less than 30 days overdue | - | - | - | - | 16 673 | 10 748 | 9 975 | 492 | 37 888 |
| - 30 to 90 days overdue | - | - | - | - | 13 766 | 11 656 | 8 166 | 824 | 34 412 |
| - 90 to 180 days overdue | 5 232 | 3 076 | - | - | 16 026 | 12 629 | 6 776 | - | 43 739 |
| - 180-360 days overdue | - | - | - | - | - | - | - | - | - |
| - over 360 days overdue | 18 218 | 407 | - | - | - | - | - | - | 18 625 |
| **Total gross individually impaired loans** | **106 101** | **3 727** | **-** | **-** | **46 465** | **35 033** | **24 917** | **1 316** | **217 559** |
| **Total gross loans and advances to customers** | **12 495 826** | **199 534** | **617 129** | **353 159** | **676 554** | **318 965** | **531 088** | **225 970** | **15 418 225** |
| **Provision for loan impairment** | **(268 743)** | **(8 466)** | **(12 824)** | **-** | **(36 639)** | **(31 981)** | **(21 406)** | **(631)** | **(380 690)** |
| **Total loans and advances to customers** | **12 227 083** | **191 068** | **604 305** | **353 159** | **639 915** | **286 984** | **509 682** | **225 339** | **15 037 535** |

Refer to Note 29 for definition of credit quality ratings. Unrated loans to individuals represent loans without signs of impairment and originated on the basis of robust underwriting procedures (Note 29).

## 10 Loans and Advances to Customers (Continued)

The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as "current and not impaired" until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Analysis by credit quality of loans outstanding as at 31 December 2006 was as follows:

| *In thousands of US Dollars* | Corporate loans | Finance lease receivables | Reverse sale and repurchase agree-ments - corporate and individuals | Loans to individuals - credit cards and personal instalment loans | Loans to individuals - consumer loans | Loans to individuals - car loans | Loans to individuals - mortgage loans | Total |
|---|---|---|---|---|---|---|---|---|
| *Current and not impaired* | | | | | | | | |
| - Rating I | 1 490 882 | 70 024 | - | - | - | - | - | 1 560 906 |
| - Rating II | 4 053 106 | 137 902 | - | - | - | - | - | 4 191 008 |
| - Rating III | 2 643 607 | 74 418 | 75 012 | - | - | - | - | 2 793 037 |
| - Rating IV | 205 936 | 15 222 | - | - | - | - | - | 221 158 |
| - Unrated | - | - | - | 356 772 | 143 270 | 165 566 | 14 456 | 680 064 |
| **Total gross current and not impaired loans** | **8 393 531** | **297 566** | **75 012** | **356 772** | **143 270** | **165 566** | **14 456** | **9 446 173** |
| *Past due but not impaired* | | | | | | | | |
| - less than 30 days overdue | - | 5 594 | - | - | - | - | - | 5 594 |
| **Total gross past due but not impaired** | **-** | **5 594** | **-** | **-** | **-** | **-** | **-** | **5 594** |
| *Individually determined to be impaired* | | | | | | | | |
| - current | 222 635 | - | - | - | - | - | - | 222 635 |
| - less than 30 days overdue | 196 | - | - | 16 051 | 6 888 | 6 696 | - | 29 831 |
| - 30 to 90 days overdue | - | - | - | 18 451 | 6 114 | 6 818 | - | 31 383 |
| - 90 to 180 days overdue | 8 276 | - | - | 11 410 | 6 997 | 3 221 | - | 29 904 |
| - 180-360 days overdue | 190 | - | - | - | - | - | - | 190 |
| - over 360 days overdue | 17 942 | - | - | - | - | - | - | 17 942 |
| **Total gross individually impaired loans** | **249 239** | **-** | - | **45 912** | **19 999** | **16 735** | **-** | **331 885** |
| **Total gross loans and advances to customers** | **8 642 770** | **303 160** | **75 012** | **402 684** | **163 269** | **182 301** | **14 456** | **9 783 652** |
| **Provision for loan impairment** | **(215 646)** | **(10 692)** | **-** | **(40 727)** | **(18 547)** | **(17 638)** | **(43)** | **(303 293)** |
| **Total loans and advances to customers** | **8 427 124** | **292 468** | **75 012** | **361 957** | **144 722** | **164 663** | **14 413** | **9 480 359** |

## 10 Loans and Advances to Customers (Continued)

As at 31 December 2006 individually impaired loans to corporate customers included loans to one borrower totalling to USD 192 554 thousand which were repaid during 2007.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

The amount reported as past due is the whole balance of such loans not only the individual instalments that are past due.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2007 was as follows:

| *In thousands of US Dollars* | Corporate loans | Loans to small and medium size enterprises | Finance lease receivables | Loans to individuals - car loans | Loans to individuals - mortgage loans | Total |
|---|---|---|---|---|---|---|
| *Fair value of collateral - loans past due but not impaired* | | | | | | |
| - equipment | - | - | 20 473 | - | - | 20 473 |
| *Fair value of collateral - individually impaired loans* | | | | | | |
| - residential real estate | 4 228 | - | - | - | 658 | 4 886 |
| - other real estate | - | 27 | - | - | - | 27 |
| - cars | - | - | - | 18 826 | - | 18 826 |
| - cash deposits | 5 187 | 118 | - | - | - | 5 305 |
| - other assets | 8 166 | - | - | - | - | 8 166 |
| **Total** | **17 581** | **145** | **20 473** | **18 826** | **658** | **57 683** |

Fair value of the collateral was determined by the Group's credit department using the Group's internal guidelines on the basis of an internal expert evaluation, an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2006 was as follows:

| *In thousands of US Dollars* | Corporate loans | Finance lease receivables | Loans to individuals - car loans | Total |
|---|---|---|---|---|
| *Fair value of collateral - loans past due but not impaired* | | | | |
| - equipment | - | 12 788 | - | 12 788 |
| *Fair value of collateral - individually impaired loans* | | | | |
| - residential real estate | 875 | - | - | 875 |
| - other real estate | 1 632 | - | - | 1 632 |
| - cars | - | - | 12 644 | 12 644 |
| - securities | 70 537 | - | - | 70 537 |
| - cash deposits | 1 659 | - | - | 1 659 |
| - other assets | 8 987 | - | - | 8 987 |
| **Total** | **83 690** | **12 788** | **12 644** | **109 122** |

## 10 Loans and Advances to Customers (Continued)

The Group regularly requires collateral and/or guarantees for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees can be provided by controlling shareholders, government entities, banks and other solvent legal entities. As at 31 December 2007 corporate loans in the amount of USD 3 901 101 thousand (2006: USD 1 952 125 thousand) were not secured and loans in the amount of USD 3 931 275 thousand (2006: USD 2 006 357 thousand) were secured only by third party guarantee. As at 31 December 2007 most of the loans to small and medium size enterprises were secured by collateral or guarantees. Finance lease receivables are secured by the leased equipment.

Reverse sale and repurchase agreements are effectively secured by securities sold under those agreements.

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are respectively collateralised by cars and property acquired.

The Group assesses value of collateral on the basis of an internal expert evaluation performed by the Group's specialists, an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral. Guarantors are evaluated on the same basis as the borrower itself.

Carrying value of each class of loans and advances to customers approximated fair value as at 31 December 2007 and 2006. As at 31 December 2007 the estimated fair value of loans and advances to customers was USD 14 988 825 thousand (2006: USD 9 485 896 thousand). Refer to Note 33.

For the purposes of measurement the Group classified all balances included loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 11 Investments

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| Amtel-Vredestein N.V. | 50 820 | 98 813 |
| Patriot Capital LLC | 8 153 | 7 600 |
| CTC Media Inc. | - | 92 393 |
| **Total investments in associates** | **58 973** | **198 806** |
| Debt investments available for sale | 8 969 | 374 |
| Equity investments at fair value through profit or loss | 46 259 | 21 544 |
| **Total investments** | **114 201** | **220 724** |

## 11 Investments (Continued)

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

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| **Carrying amount as at 1 January** | | **198 806** | **67 171** |
| **Amtel-Vredestein N.V.** | | | |
| Share of results | | (17 714) | (63) |
| Impairment | 4 | (12 590) | (30 142) |
| Share of other equity movements (translation movement) | | (17 689) | - |
| Acquisition of additional interest in associate | | - | 4 200 |
| Transfer from investment at fair value through profit or loss to investment in associates | | - | 57 481 |
| Adjustment on the initial recognition | | - | (1 673) |
| Excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities over cost | | - | 8 940 |
| Settlement of option agreements | | - | 60 070 |
| **CTC Media Inc.** | | | |
| Payment of dividends in-kind by the Group | | (92 393) | (23 915) |
| Partial disposal | | - | (7 553) |
| Share of results | | - | 29 095 |
| Share of other equity movements | | - | 4 791 |
| Increase in net assets held as result of IPO | | - | 22 804 |
| **Patriot Capital LLC** | | | |
| Fair value of net assets acquired | | - | 7 600 |
| Translation movement | | 553 | - |
| **Carrying amount as at 31 December** | | **58 973** | **198 806** |

***Amtel-Vredestein N.V.*** As at 31 December 2007 the Group owned a 27.57% interest (2006: 27.61%) in Amtel-Vredestein N.V., a tyre manufacturing company operating in the Russian Federation and Europe. Initially Amtel-Vredestein N.V. was accounted as an investment at fair value through profit or 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-Vredestein N.V., which entitled the Group to purchase additional shares in Amtel-Vredestein N.V. at their nominal value in case Amtel-Vredestein N.V. 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-Vredestein N.V. signed an agreement in relation to the settlement of the option. As a result the Group acquired additional shares in Amtel-Vredestein N.V. at their nominal value and received a right to acquire further shares in Amtel-Vredestein N.V. That right was exercised in December 2006 and the Group purchased an additional interest in Amtel-Vredestein N.V. at its nominal value. Realised results from both of these options are equal to the fair value of the respective interests in Amtel-Vredestein N.V. at the time of their settlement.

As at 31 December 2007 the market value of the Group's investment in Amtel-Vredestein N.V., which is listed, was USD 50 820 thousand (2006: USD 84 701 thousand).

***CTC Media Inc.*** As at 31 December 2006 the Group owned a 20.1% interest in CTC Media Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures, operating in the Russian Federation.

In April 2006 the Group sold a 3.1% interest in CTC to a company within the Alfa Group (Note 34) 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.

## 11 Investments (Continued)

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 6.1% of its interest in CTC, having a book value of USD 23 915 thousand. In January 2007, the Group declared dividends in the amount of USD 92 393 thousand paid in-kind by means of distribution of 20.1% of its interest in CTC, having a book value of USD 92 393 thousand and reducing the Group's interest in CTC to nil.

As at 31 December 2006 the market value of the Group's investment in CTC, which is listed, was USD 729 458 thousand.

The table below represents summarised financial information of principal associates of the Group.

| *In thousands of US Dollars* | Total assets | Total liabilities | Profit/(loss) for the year |
|---|---|---|---|
| **2007** | | | |
| Amtel-Vredestein N.V. | 1 420 174 | 1 190 526 | (64 570) |
| **2006** | | | |
| Amtel-Vredestein N.V. | 1 353 888 | 996 000 | (16 716) |
| CTC Media Inc. | 521 469 | 60 656 | 124 286 |

***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 2007.

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Revaluation of investments at fair value through profit or loss | 4 | 34 093 | 4 591 |
| Gains less losses from disposal of investments available for sale | | 537 | 4 328 |
| Gains less losses arising from investment in Amtel-Vredestein N.V. as an investment at fair value through profit or loss | | - | (29 912) |
| Reversal of revaluation of investment in Amtel-Vredestein N.V. on recognition as associate | | - | 29 912 |
| Fair value gains on the Amtel-Vredestein N.V. related option agreements | | - | 60 070 |
| Gains from partial disposal of CTC | | - | 33 501 |
| **Total gains less losses arising from investments** | | **34 630** | **102 490** |

The information on related party balances is disclosed in Note 34.

## 12 Other Financial Assets

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Trade debtors | | 359 934 | 163 082 |
| Receivables on operations with securities | | 197 033 | 169 546 |
| Derivative financial instruments | 32 | 163 172 | 56 928 |
| Conversion operations | | 40 794 | 9 665 |
| Other | | 23 746 | 23 759 |
| Less: Provision for impairment | | (6 232) | (5 744) |
| **Total other financial assets** | | **778 447** | **417 236** |

## 12 Other Financial Assets (Continued)

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

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| **Provision for impairment as at 1 January** | **5 744** | **7 517** |
| Provision for / (recovery of) impairment during the year | 258 | (964) |
| Amounts written off during the year as uncollectible | (166) | (809) |
| Effect of translation to presentation currency | 396 | - |
| **Provision for impairment as at 31 December** | **6 232** | **5 744** |

Analysis by credit quality of other financial assets outstanding was as follows:

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Current and not impaired with credit history | 570 619 | 299 670 |
| Current and not impaired without credit history | 207 105 | 116 826 |
| Past due and impaired | 6 955 | 6 484 |
| Less: provision for impairment | (6 232) | (5 744) |
| **Total other financial assets** | **778 447** | **417 236** |

"Entities with credit history" are those entities of which the Group is aware of their credit history.

As at 31 December 2007 the fair value of each class of financial assets included in other financial assets approximated their carrying value. As at 31 December 2007 the estimated fair value of other financial assets was USD 778 447 thousand (2006: USD 417 236 thousand). Refer to Note 33.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments, as loans and receivables. Refer to Note 32 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 13 Other Assets

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Prepayment of taxes, other than on income | | 72 406 | 44 418 |
| Prepayment of current income tax | | 54 388 | 9 213 |
| Investment property | 25 | 37 331 | 34 800 |
| Other | | 12 111 | 26 080 |
| **Total other assets** | | **176 236** | **114 511** |

As at 31 December 2007 land held by the Group under a long-term lease was accounted for as an investment property under a fair value model with a related finance lease liability of USD 4 948 thousand (2006: USD 4 625 thousand) (Note 19). The fair value of the investment property was determined using the income approach based on the highest and best use with application of discount and capitalisation rates of 14.5% and 8.0% respectively. The increase in the carrying value of investment property during 2007 was attributable to foreign currency translation.

The information on related party balances is disclosed in Note 34.

## 14 Premises, Equipment and Intangible Assets

| *In thousands of US Dollars* | Premises | Lease-hold improve-ments | Office and computer equip-ment | Const-ruction in progress | Total premises and equip-ment | Compu-ter software | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount as at 31 December 2006** | **77 162** | **25 207** | **79 756** | **6 012** | **188 137** | **20 266** | **208 403** |
| **Cost or valuation** | | | | | | | |
| Opening balance | 96 541 | 29 313 | 165 140 | 6 012 | 297 006 | 53 805 | 350 811 |
| Revaluation | 51 206 | - | - | - | 51 206 | - | 51 206 |
| Additions and transfers | 578 | 13 542 | 62 830 | 3 007 | 79 957 | 10 415 | 90 372 |
| Disposals | (986) | (7 728) | (15 157) | (7 649) | (31 520) | (3 854) | (35 374) |
| Translation movement | 7 762 | 2 378 | 14 577 | 442 | 25 159 | 1 613 | 26 772 |
| **Closing balance** | **155 101** | **37 505** | **227 390** | **1 812** | **421 808** | **61 979** | **483 787** |
| **Accumulated depreciation and amortisation** | | | | | | | |
| Opening balance | 19 379 | 4 106 | 85 384 | - | 108 869 | 33 539 | 142 408 |
| Revaluation | 7 642 | - | - | - | 7 642 | - | 7 642 |
| Depreciation and amortisation (Note 26) | 1 711 | 8 888 | 24 053 | - | 34 652 | 10 868 | 45 520 |
| Disposals | (58) | (334) | (11 447) | - | (11 839) | (454) | (12 293) |
| Translation movement | 731 | 560 | 6 667 | - | 7 958 | 1 734 | 9 692 |
| **Closing balance** | **29 405** | **13 220** | **104 657** | **-** | **147 282** | **45 687** | **192 969** |
| **Net book amount as at 31 December 2007** | **125 696** | **24 285** | **122 733** | **1 812** | **274 526** | **16 292** | **290 818** |

As at 1 January 2006 and 31 December 2007 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 less the related deferred tax liability was recorded as a credit to a revaluation reserve in equity.

As at 31 December 2007 the carrying amount of premises would have been USD 50 979 thousand (2006: USD 43 047 thousand) had the premises been carried at cost less depreciation.

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

| *In thousands of US Dollars* | Premises | Leasehold improve-ments | Office and computer equipment | Construc-tion in progress | Total premises and equipment | Computer software | Total |
|---|---|---|---|---|---|---|---|
| **Net book amount as at 31 December 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 (Note 26) | 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** |

## 15 Due to Other Banks

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Correspondent accounts and overnight placements of other banks | | |
| - Russian Federation | 59 503 | 53 984 |
| - Other countries | 37 242 | 50 246 |
| Term placements of other banks | 2 159 197 | 983 869 |
| Sale and repurchase agreements with other banks | 593 519 | 342 341 |
| **Total due to other banks** | **2 849 461** | **1 430 440** |

As at 31 December 2007 the ten largest aggregate balances due to other banks amounted to USD 1 594 018 thousand (2006: USD 730 218 thousand) or 55.9% (2006: 51.0%) of total due to other banks.

As at 31 December 2007 trading securities (Note 8) with a fair value of USD 534 426 thousand (2006: USD 495 849 thousand) have been sold to third parties under sale and repurchase agreements with other banks.

As at 31 December 2007 trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 324 999 thousand (2006: USD 61 839 thousand) were transferred and therefore effectively pledged under sale and purchase agreements with other banks.

## 15 Due to Other Banks (Continued)

As at 31 December 2007 and 2006 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2007 the estimated fair value of due to other banks was USD 2 849 461 thousand (2006: USD 1 430 440 thousand). Refer to Note 33.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 16 Customer Accounts

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| **Commercial organisations** | | |
| - Current/settlement accounts | 2 524 597 | 2 008 768 |
| - Term deposits | 3 968 881 | 2 245 248 |
| **Individuals** | | |
| - Current/demand accounts | 3 333 292 | 1 567 551 |
| - Term deposits | 1 585 263 | 1 174 849 |
| **State and public organisations** | | |
| - Current/settlement accounts | 32 179 | 517 |
| - Term deposits | 736 180 | 949 448 |
| **Total customer accounts** | **12 180 392** | **7 946 381** |

Economic sector concentrations within customer accounts were as follows:

| | **2007** | | **2006** | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **Amount** | **%** | **Amount** | **%** |
| Individuals | 4 918 555 | 39 | 2 742 400 | 35 |
| Energy and oil and gas | 2 283 247 | 19 | 1 542 037 | 19 |
| Manufacturing and construction | 1 058 087 | 9 | 406 046 | 5 |
| Trade and commerce | 847 555 | 7 | 489 462 | 6 |
| State and public organisations | 768 359 | 6 | 949 965 | 12 |
| Finance and investment companies | 726 913 | 6 | 667 899 | 8 |
| Mass media and telecommunications | 446 561 | 4 | 598 953 | 8 |
| Science | 197 717 | 2 | 62 278 | 1 |
| Other | 933 398 | 8 | 487 341 | 6 |
| **Total customer accounts** | **12 180 392** | **100** | **7 946 381** | **100** |

As at 31 December 2007 the ten largest aggregate balances amounted to USD 4 562 847 thousand (2006: USD 4 352 399 thousand) or 37.5% (2006: 54.8%) of the total customer accounts, of which USD 1 774 914 thousand (2006: USD 1 730 801 thousand) represented balances outstanding to Alfa Group (Note 34) and its shareholders.

Included in customer accounts are balances in the amount of USD 51 554 thousand (2006: USD 152 844 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

As at 31 December 2007 the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. As at 31 December 2007 the estimated fair value of customer accounts was USD 12 180 392 thousand (2006: USD 7 946 381 thousand). Refer to Note 33.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 17 Other Borrowed Funds

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Syndicated loans | 1 354 090 | 1 001 262 |
| Notes issued under a DPR Programme | 1 047 105 | 854 899 |
| Euro Medium Term Notes due in 2012 | 447 414 | - |
| Euro Medium Term Notes due in 2009 | 405 467 | 406 273 |
| Euro Medium Term Notes due in 2008 | 249 539 | 248 889 |
| Euro-Commercial Papers | 157 385 | 348 017 |
| Russian Rouble denominated bonds | 82 834 | 112 532 |
| Euro Medium Term Notes due in 2007 | - | 154 424 |
| **Total other borrowed funds** | **3 743 834** | **3 126 296** |

On 9 November 2007 the Group received a syndicated loan in the amount of USD 307 000 thousand from a consortium of large international banks. The loan matures on 7 November 2008 and bears a floating interest rate of LIBOR plus 0.6% per annum payable semi-annually. As at 31 December 2007 the effective interest rate was 6.1% per annum. The issue proceeds net of transaction costs amounted to USD 305 420 thousand.

On 25 July 2007 the Group received a syndicated loan in the amount of USD 900 000 thousand by two tranches in the amount of USD 447 875 thousand and USD 452 125 thousand. The first tranche matures on 23 January 2009 and bears floating interest rate of LIBOR plus 0.6% per annum payable semi-annually. The second tranche matures on 23 July 2008 and bears floating interest rate of LIBOR plus 0.4% per annum payable semi-annually. As at 31 December 2007 the effective interest rate was 6.6% per annum for the first tranche and 6.4% per annum for the second tranche. The issue proceeds net of transaction costs amounted to USD 445 148 thousand for the first tranche and USD 450 277 thousand for the second tranche.

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. Initially the loan had a maturity date of 20 December 2007 and bore a floating interest rate equal to LIBOR plus 0.45% per annum payable semi-annually. On 20 December 2007 the Group repaid USD 214 000 thousand of this loan and rolled over the balance in the amount of USD 126 000 thousand. The rolled over balance matures on 17 December 2008. As at 31 December 2007 the effective interest rate was 5.9% per annum. The issue proceeds net of transaction costs were equal to USD 338 610 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 2007 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 145 000 thousand and USD 200 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 2.0% per annum respectively payable quarterly. The notes are repayable by quarterly instalments starting from 15 June 2007 for Euro denominated notes and 15 June 2008 for US Dollar denominated notes until maturity on 15 March 2012. As at 31 December 2007 the effective interest rate was 7.2% per annum for EUR-denominated bonds and 8.3% per annum for USD-denominated bonds. The issue proceeds net of transaction costs amounted to EUR 144 087 thousand and USD 198 464 thousand.

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 starting from 15 March 2007 until maturity on 15 December 2011. As at 31 December 2007 the effective interest rate was 7.2% per annum for EUR-denominated bonds and 8.2% per annum for USD-denominated bonds. The issue proceeds net of transaction costs amounted to EUR 228 468 thousand and USD 258 259 thousand.

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 starting from 15 June 2006 until maturity on 15 March 2011. As at 31 December 2007 the effective interest rate was 8.3% per annum. The issue proceeds net of transaction costs amounted to USD 344 175 thousand.

## 17 Other Borrowed Funds (Continued)

The Group is also required to deposit with designated banks funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme (Note 9).

As at 31 December 2007 the Group repurchased on the market notes issued under DPR Programme with a nominal value of USD 32 900 thousand and EUR 5 100 thousand (2006: nil).

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 25 June 2007 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 500 000 thousand. The notes carry a fixed coupon at a rate of 8.2% per annum payable semi-annually and mature on 25 June 2012. The issue proceeds net of transaction costs and discount amounted to USD 497 918 thousand and the effective interest rate at origination was 8.5%.

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%.

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%.

As at 31 December 2007 the Group repurchased on the market notes issued under MTN Programme with a nominal value of USD 52 000 thousand (2006: nil).

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. As at 31 December 2007 the nominal value of outstanding notes was USD 102 950 thousand and EUR 40 000 thousand (2006: USD 110 650 thousand and EUR 187 000 thousand) and they were issued at a discount to the nominal value ranging from 5.0% to 6.7% depending on the type of issue. As at 31 December 2007 the average effective interest rate at origination on notes outstanding was 7.2% for USD-denominated notes and 7.1% for EUR-denominated notes.

As at 31 December 2007 the estimated fair value of other borrowed funds was USD 3 691 031 thousand (2006: USD 3 130 565 thousand). Refer to Note 33.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29.

## 18 Subordinated Debt

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| Subordinated notes maturing in 2017 | 300 909 | - |
| Subordinated notes maturing in 2015 | 225 097 | 224 837 |
| **Total subordinated debt** | **526 006** | **224 837** |

## 18 Subordinated Debt (Continued)

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 a rate per annum representing the aggregate of the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay this subordinated loan on 22 February 2012. As at 31 December 2007 the effective interest rate was equal to 9.0% per annum. The issue proceeds net of transaction costs were equal to USD 298 525 thousand. As at 31 December 2007 the Group repurchased on the market the subordinated notes maturing in 2017 with a nominal value of USD 6 500 thousand (2006: nil).

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 2007 the effective interest rate was equal to 9.0% per annum (2006: 9.0% per annum). The issue proceeds net of transaction costs were equal to USD 223 610 thousand.

As at 31 December 2007 the fair value of subordinated debt was USD 500 050 thousand (2006: USD 229 752 thousand). Refer to Note 33.

## 19 Other Financial Liabilities

| *In thousands of US Dollars* | **Note** | **2007** | **2006** |
|---|---|---|---|
| Payables on operations with securities | | 155 337 | 209 250 |
| Derivative financial instruments | 32 | 150 775 | 95 273 |
| Plastic card and other settlements with clients | | 118 648 | 66 050 |
| Trade creditors | | 93 185 | 43 314 |
| Provision for losses on credit related commitments | 31 | 21 383 | 11 986 |
| Conversion operations | | 2 669 | 37 937 |
| Other | | 23 597 | 29 376 |
| **Total other financial liabilities** | | **565 594** | **493 186** |

As at 31 December 2007 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2007 the estimated fair value of other financial liabilities was USD 565 594 thousand (2006: USD 493 186 thousand). Refer to Note 33.

Currency and maturity analyses of other financial liabilities are disclosed in Note 29. The information on related party balances is disclosed in Note 34.

## 20 Other Liabilities

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| Accrued staff costs | 105 271 | 110 411 |
| Current income tax payable | 17 905 | 13 869 |
| Taxation payable, other than on income | 421 | 3 706 |
| Other | 4 948 | 4 625 |
| **Total other liabilities** | **128 545** | **132 611** |

## 21 Share Capital, Retained Earnings and Other Reserves

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of shares | Total share capital, in thousands of US Dollars | Number of shares | Total share capital, in thousands of US Dollars |
| **Total share capital as at 1 January** | 344 800 000 | 344 800 | 160 800 000 | 160 800 |
| New shares issued | 350 000 000 | 350 000 | 184 000 000 | 184 000 |
| **Total share capital as at 31 December** | **694 800 000** | **694 800** | **344 800 000** | **344 800** |

On 28 June 2007 the Group issued to ABHH 350 000 000 additional new ordinary shares in exchange for cash consideration of USD 350 000 thousand. On 30 October 2006 the Group issued to ABHH 184 000 000 additional new ordinary shares in exchange for cash consideration of USD 184 000 thousand. As at 31 December 2007 authorised, issued and fully paid share capital of ABH Financial Limited comprised 694 800 000 ordinary shares (2006: 344 800 000 ordinary shares). All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

As at 31 December 2007 retained earnings amounted to USD 1 320 963 thousand (2006: USD 1 155 837 thousand). In addition, as at 31 December 2007 other reserves were represented by the cumulative translation reserve arising from the translation of net investments in foreign entities being a cumulative loss of USD 217 890 thousand (2006: cumulative loss of USD 216 461 thousand).

Refer to Note 32 for information on hedge of net investment in foreign operations.

## 22 Interest Income and Expense

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to corporate customers | 1 197 309 | 767 572 |
| Loans and advances to individuals | 269 109 | 99 705 |
| Due from other banks, correspondent accounts and overnight placements | 162 193 | 101 158 |
| Trading securities and repurchase receivables | 77 494 | 52 909 |
| Other | 138 | 6 773 |
| **Total interest income** | **1 706 243** | **1 028 117** |
| **Interest expense** | | |
| Other borrowed funds | 237 515 | 137 579 |
| Term deposits of legal entities | 170 019 | 119 410 |
| Due to other banks | 128 601 | 78 907 |
| Current/settlement accounts | 88 459 | 31 677 |
| Term deposits of individuals | 78 525 | 63 779 |
| Subordinated debt | 41 850 | 19 596 |
| Promissory notes issued | 40 409 | 24 683 |
| Other | 4 833 | 2 212 |
| **Total interest expense** | **790 211** | **477 843** |
| **Net interest income** | **916 032** | **550 274** |

Refer to Note 34 for details of related party transactions.

## 23 Fee and Commission Income and Expense

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| **Fee and commission income** | | |
| Commission on settlement transactions | 169 637 | 115 371 |
| Investment banking fees and commissions | 56 463 | 22 629 |
| Commission on cash and foreign currency exchange transactions | 55 133 | 46 004 |
| Commission on guarantees issued | 16 536 | 11 851 |
| Commission on transactions with securities | 8 621 | 21 918 |
| Commission from fiduciary activities | 1 589 | 1 797 |
| Other | 10 994 | 3 756 |
| **Total fee and commission income** | **318 973** | **223 326** |
| **Fee and commission expense** | | |
| Commission on settlement transactions | 38 819 | 29 685 |
| Commission on cash and foreign currency exchange transactions | 7 646 | 5 086 |
| Commission for consulting services | 7 072 | 12 703 |
| Commission on transactions with securities | 4 853 | 5 427 |
| Commission for fiduciary activities | 484 | 440 |
| Other | 1 732 | 1 636 |
| **Total fee and commission expense** | **60 606** | **54 977** |
| **Net fee and commission income** | **258 367** | **168 349** |

Refer to Note 34 for details of related party transactions.

## 24 Trading Gains

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Spot deals | 35 587 | 23 995 |
| Term deals | 7 716 | 44 975 |
| **Total gains less losses arising from trading securities** | **43 303** | **68 970** |

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Term deals | 95 246 | (6 990) |
| Spot deals | 31 257 | 54 574 |
| Net foreign exchange translation losses | (107 546) | (100 633) |
| **Total gains less losses arising from foreign currencies** | **18 957** | **(53 049)** |

## 25 Other Operating Income

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Dividend income | | 4 005 | 3 410 |
| Gain on disposal of subsidiaries | 35 | 3 878 | 11 059 |
| Revenue from sale of rights to film licenses | | 1 232 | 19 520 |
| Penalties received | | 351 | 2 439 |
| Fair valuation of investment property | 13 | - | 30 175 |
| Other | | 8 708 | 14 875 |
| **Total other operating income** | | **18 174** | **81 478** |

Refer to Note 34 for details of related party transactions.

## 26 Operating Expenses

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Staff costs | | 369 639 | 297 499 |
| Computer and telecommunications services | | 61 560 | 31 518 |
| Rent | | 58 372 | 34 263 |
| Depreciation and amortisation | 14 | 45 520 | 31 443 |
| Other expenses related to premises, equipment and intangible assets | | 25 736 | 12 270 |
| Consulting and professional services | | 20 063 | 22 887 |
| Advertising and marketing | | 19 003 | 14 785 |
| Maintenance | | 18 637 | 13 358 |
| Taxes other than income tax | | 12 639 | 22 909 |
| Administrative expenses | | 11 351 | 8 916 |
| Contributions to the State deposit insurance scheme | | 11 409 | 8 632 |
| Travel expenses | | 9 072 | 6 615 |
| Heat and utilities | | 8 582 | 5 949 |
| Other | | 27 397 | 24 298 |
| **Total operating expenses** | | **698 980** | **535 342** |

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 27 451 thousand (2006: USD 20 041 thousand). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff cost are long-term bonuses in the amount of USD 8 613 thousand (2006: USD 24 942 thousand), which are payable at least one year after balance sheet date.

Refer to Note 34 for details of related party transactions.

## 27 Income Taxes

Income tax expense comprises the following:

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| Current tax | 105 368 | 149 000 |
| Deferred tax | (29 920) | (67 606) |
| **Income tax expense for the year** | **75 448** | **81 394** |

## 27 Income Taxes (Continued)

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 24% (2006: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2006: from 0% to 15%).

Differences between IFRS and 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* | 2007 | 2006 |
|---|---|---|
| **IFRS profit before tax** | **328 934** | **271 680** |
| Theoretical tax charge at the statutory rate of 24% | 78 944 | 65 203 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Differences in treatment of loan impairment provisions between IFRS and statutory tax rules | - | 51 035 |
| - Non deductible expenses | 8 326 | 9 165 |
| - Income which is exempt from taxation | (97) | (767) |
| - Profits taxable in lower tax jurisdictions | (9 587) | (43 343) |
| - Other | (2 138) | 101 |
| **Income tax expense for the period** | **75 448** | **81 394** |

| *In thousands of US Dollars* | 2006 | Translation movement charged to equity | Credited to profit or loss | Charged to equity for revaluation of premises | 2007 |
|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | |
| Tax loss carried forward | 2 740 | 76 | (2 816) | - | - |
| Provision for loan impairment | - | 1 378 | 31 472 | - | 32 850 |
| Trading securities | - | 64 | 1 461 | - | 1 525 |
| Accruals | 22 565 | 1 502 | (3 184) | - | 20 883 |
| Other | 6 056 | 464 | 526 | - | 7 046 |
| **Gross deferred tax asset** | **31 361** | **3 484** | **27 459** | - | **62 304** |
| Deferred tax netted off within individual entities | (28 621) | - | 28 621 | - | - |
| **Deferred tax asset** | **2 740** | **3 484** | **56 080** | - | **62 304** |
| **Tax effect of taxable temporary differences** | | | | | |
| Premises, equipment and intangible assets | (8 676) | (2 428) | (27 507) | (10 456) | (49 067) |
| Provision for loan impairment | (25 056) | (735) | 25 791 | - | - |
| Investment property | (7 242) | (526) | (4) | - | (7 772) |
| Trading securities | (4 062) | (119) | 4 181 | - | - |
| **Gross deferred tax liability** | **(45 036)** | **(3 808)** | **2 461** | **(10 456)** | **(56 839)** |
| Deferred tax netted off within individual entities | 28 621 | - | (28 621) | - | - |
| **Deferred tax liability** | **(16 415)** | **(3 808)** | **(26 160)** | **(10 456)** | **(56 839)** |
| **Total net deferred tax (liability)/asset** | **(13 675)** | **(324)** | **29 920** | **(10 456)** | **5 465** |

## 27 Income Taxes (Continued)

| *In thousands of US Dollars* | 2005 | Credited to profit or loss | Charged to equity on revaluation of premises | 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 netted off within individual entities | (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 netted off within individual entities | 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)** |

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.

## 28 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 four main business segments:

- Corporate banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal instalment loans, car loans and mortgages, money transfers and private banking services.
- Investment banking - comprises securities trading, debt and equity capital markets services, derivative products, structured financing, corporate finance advisory services and merger and acquisition advice.
- Treasury - comprises the Group's funding activities and investing in liquid assets.

## 28 Segment Analysis (Continued)

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

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

| *In thousands of US Dollars* | Corporate banking | Investment banking | Retail banking | Treasury | Eliminations | Total |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| **Segment revenues** | | | | | | |
| External revenues | 1 289 752 | 219 718 | 409 412 | 120 630 | - | 2 039 512 |
| Revenues from other segments | 329 671 | 31 812 | 211 817 | 896 263 | (1 469 563) | - |
| **Total revenues** | **1 619 423** | **251 530** | **621 229** | **1 016 893** | **(1 469 563)** | **2 039 512** |
| **Total revenues comprise:** | | | | | | |
| Interest income | | | | | | 1 706 243 |
| Fee and commission income | | | | | | 318 973 |
| Other operating income | | | | | | 14 296 |
| **Total revenues** | | | | | | **2 039 512** |
| **Segment result** | **419 832** | **159 747** | **(222 983)** | **77 323** | **-** | **433 919** |
| Unallocated costs | | | | | | (74 681) |
| Share of results of associates | | | | | | (30 304) |
| **Profit before tax** | | | | | | **328 934** |
| Income tax expense | | | | | | (75 448) |
| **Profit for the year** | | | | | | **253 486** |
| **Other segment items** | | | | | | |
| Capital expenditure | (58 048) | (7 034) | (24 547) | (743) | - | (90 372) |
| Depreciation and amortisation | (29 239) | (3 543) | (12 364) | (374) | - | (45 520) |
| Other non-cash expenses | (69 129) | - | (178 979) | - | - | (248 108) |
| **31 December 2007** | | | | | | |
| **Segment assets** | **15 181 225** | **3 002 711** | **4 717 898** | **6 247 765** | **(6 630 704)** | **22 518 895** |
| Investments in associates | | | | | | 58 973 |
| Current and deferred tax asset | | | | | | 116 692 |
| **Total assets** | | | | | | **22 694 560** |
| **Segment liabilities** | **13 889 288** | **2 529 548** | **5 172 612** | **5 728 314** | **(6 630 704)** | **20 689 058** |
| Unallocated liabilities | | | | | | 76 061 |
| Current and deferred tax liability | | | | | | 74 744 |
| **Total liabilities** | | | | | | **20 839 863** |

## 28 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 | Treasury | Eliminations | Total |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| **Segment revenues** | | | | | | |
| External revenues | 905 066 | 175 360 | 183 580 | 57 856 | - | 1 321 862 |
| Revenues from other segments | 204 893 | 28 852 | 122 337 | 521 706 | (877 788) | - |
| **Total revenues** | **1 109 959** | **204 212** | **305 917** | **579 562** | **(877 788)** | **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** | **230 527** | **239 002** | **(155 630)** | **2 830** | **-** | **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 for the year** | | | | | | **190 286** |
| **Other segment items** | | | | | | |
| Capital expenditure | (18 376) | (7 480) | (57 017) | (238) | - | (83 111) |
| Depreciation and amortisation | (15 502) | (1 437) | (14 414) | (90) | - | (31 443) |
| Other non-cash expenses | (12 628) | - | (107 827) | | - | (120 455) |
| **31 December 2006** | | | | | | |
| **Segment assets** | **9 786 853** | **1 925 022** | **2 369 712** | **4 628 267** | **(3 710 670)** | **14 999 184** |
| Investments in associates | | | | | | 198 806 |
| Current and deferred tax asset | | | | | | 11 953 |
| **Total assets** | | | | | | **15 209 943** |
| **Segment liabilities** | **8 873 609** | **1 611 606** | **2 601 442** | **4 390 446** | **(3 710 670)** | **13 766 433** |
| Unallocated liabilities | | | | | | 103 042 |
| Current and deferred tax liability | | | | | | 30 284 |
| **Total liabilities** | | | | | | **13 899 759** |

***Geographical segments.*** Refer to Note 29.

## 29 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group's Risk Management Department applies across all product lines unified risk management practice comprised of credit risk, market risk, currency risk, interest rate risk, operational risk and liquidity risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return of its operations.

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), and operational risks. The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

***Risk governance.*** The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing the Group's risk management policies and procedures as well as approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, Risk Management Department and Asset and Liability Management Committee ("ALCO"). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

***Risk identification.*** Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

***Risk assessment, management and control.*** The Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Group's Risk Management Department. Compliance with the Group's standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate and presented to the Audit Committee and senior management of the Group.

There were not any significant changes to the system of risk management in the year 2007 compared to the year 2006.

**29 Financial Risk Management (Continued)**

***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, etc. 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 defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for taking exposure to credit risk, including portfolio concentration limits and definition of responsibilities.

The Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on the special instructions approved by the Board of Directors.

- Depending on the materiality of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The level of risk materiality is indicated by the Executive Board. The committees convene weekly. Their members are representatives of the Credit Department, the Risk Management Department, the Legal Department and other departments as relevant. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 000 thousand have to be approved by the Executive Board. In certain circumstances (for example, based on tenor or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.
- The Retail Credit committee monitors the performance of the retail portfolio, approves new retail credit products, controls the provisioning level for the retail portfolio and makes other decisions regarding retail lending. The committee meets once a month. Its members are representatives of all key departments of the Group.

*Credit Process.* In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower's creditworthiness, quality of proposed collateral and transaction's structure compliance with Group's policies and limits.

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, long-term viability, credit history, competitive position and quality of collateral. Based on the assessment of the transaction's and borrower's risks, an internal rating is assigned to the borrower, collateral provided and the transaction as a whole. The rating assignment is governed by an internal rating methodology. In accordance with the internal rating methodology the transaction is assigned a rating category from I to V.

- rating I - high quality credit transaction; the given rating is characterized with minimum credit risk of the transaction due to great safety cushion of cash flows of the borrower and analyzed transaction combined with the high quality collateral;
- rating II - standard quality credit transaction; assignment of such rating usually means low probability of default on such transactions due to an optimal combination of quality of cash flows of the borrower and analyzed transaction and proper collateral;
- rating III - stable quality credit transaction; assignment of such rating usually means acceptable quality of cash flows of the borrower and analyzed transaction and/or collateral;

**29 Financial Risk Management (Continued)**

- rating IV - low quality credit transaction; such transactions have rather high probability of default because of their poor quality and the lack or poor quality of collateral; and
- rating V - non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lay beyond the usual parity of risk and revenues. The Group does not enter into transactions with initial rating V.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draw a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

*Monitoring.* The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department 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 Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status.

Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

Monitoring of retail portfolios is conducted by the Retail Risk Management Department every month or more often if needed. Such monitoring includes tracking the following indicators: approval/rejection rates across products/customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sectoral caps identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability; and performance across products where such cards are used; and efficiency/effectiveness of the verification segmentation.

Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. Therefore the scores can be developed only based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated technology environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with Group’s risk appetite and portfolio limit structure.

*Control.* There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group’s policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committee, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

## 29 Financial Risk Management (Continued)

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

At a transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Also the Group obtains security, such as a mortgage, pledge of assets, or floating charge over inventories. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques.

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

Incorporated in risk assessment and lending decision is a credit risk premium. The risk premium seeks to provide a fair compensation for the amount of each credit risk assumed by the Group.

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) largest exposures limit, (iii) industry concentration limit, (iv) loan maturity concentration limit, (v) unsecured lending limit and (vi) internal rating limit. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Group's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated balance sheet. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Analysis of maximum amount exposed to credit risk as at 31 December 2007 was as follows:

| *In thousands of US Dollars* | Note | 2007 | 2006 |
|---|---|---|---|
| Cash and cash equivalents | 7 | 2 634 359 | 1 672 681 |
| Mandatory cash balances with central banks | | 308 092 | 256 579 |
| Debt trading securities | 8 | 662 796 | 607 232 |
| Repurchase receivables relating to debt securities | 8 | 502 319 | 158 611 |
| Due from other banks | 9 | 1 916 685 | 1 667 662 |
| Loans and advances to customers | 10 | 15 037 535 | 9 480 359 |
| Other financial assets | 12 | 778 447 | 417 236 |
| Guarantees issued | 31 | 985 817 | 770 049 |
| Import letters of credit | 31 | 328 696 | 301 517 |
| **Total maximum amount exposed to credit risk** | | **23 154 746** | **15 331 926** |

***Market risk.*** The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions and (ii) Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. Separate limits are established for the entities whose trading operations are performed through non-Moscow located trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities are approved by ALCO based on analyses performed by the Risk Management Department. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group's proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group's derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

**29 Financial Risk Management (Continued)**

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, derivatives) trading desks. The fixed income and overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

***Equity price risk***. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking position only, the Group uses a VaR model.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day bases and does not necessarily reflect exposures that may arise on positions during the trading day;
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

According to the assessments made by the Group as at 31 December 2007 and 2006, VaR estimates in respect of equity price risk do not exceed USD 10 000 thousand. The VaR measure of the exposure of the net equity position to market price fluctuations is not material as the long balance sheet position in equity instruments disclosed within trading securities and repurchase receivables is to considerable extent covered by the opposite position in equity derivatives (Notes 8 and 32). The year end exposures to equity price risk reflect exposures during the financial years 2007 and 2006.

## 29 Financial Risk Management (Continued)

***Currency risk.*** In respect of currency risk, the Management 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 summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2007:

| *In thousands of US Dollars* | USD | RR | EUR | Other currencies | Non-monetary | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 446 998 | 1 788 603 | 358 779 | 39 979 | - | 2 634 359 |
| Mandatory cash balances with central banks | - | 239 626 | 59 347 | 9 119 | - | 308 092 |
| Trading securities | 164 378 | 442 891 | 50 809 | 4 718 | 178 661 | 841 457 |
| Repurchase receivables | 216 199 | 279 365 | 6 755 | - | 32 107 | 534 426 |
| Due from other banks | 949 184 | 386 657 | 564 830 | 16 014 | - | 1 916 685 |
| Loans and advances to customers | 7 213 933 | 6 387 498 | 1 332 340 | 103 764 | - | 15 037 535 |
| Investments | 8 969 | - | - | - | 105 232 | 114 201 |
| Other financial assets | 352 658 | 368 145 | 55 466 | 2 178 | - | 778 447 |
| Other assets | 4 794 | 132 609 | 1 481 | 21 | 37 331 | 176 236 |
| Premises, equipment and intangible assets | - | - | - | - | 290 818 | 290 818 |
| Deferred tax asset | - | - | - | - | 62 304 | 62 304 |
| **Total assets** | **9 357 113** | **10 025 394** | **2 429 807** | **175 793** | **706 453** | **22 694 560** |
| **Liabilities** | | | | | | |
| Due to other banks | 1 112 834 | 1 300 070 | 392 057 | 44 500 | - | 2 849 461 |
| Customer accounts | 1 973 373 | 7 234 065 | 2 874 785 | 98 169 | - | 12 180 392 |
| Promissory notes issued | 33 900 | 755 292 | - | - | - | 789 192 |
| Other borrowed funds | 3 162 778 | 82 834 | 498 222 | - | - | 3 743 834 |
| Subordinated debt | 526 006 | - | - | - | - | 526 006 |
| Other financial liabilities | 276 097 | 262 807 | 22 238 | 4 452 | - | 565 594 |
| Other liabilities | 1 527 | 112 834 | 12 537 | 1 647 | - | 128 545 |
| Deferred tax liability | - | - | - | - | 56 839 | 56 839 |
| **Total liabilities** | **7 086 515** | **9 747 902** | **3 799 839** | **148 768** | **56 839** | **20 839 863** |
| **Net balance sheet position** | **2 270 598** | **277 492** | **(1 370 032)** | **27 025** | **649 614** | **1 854 697** |
| **Derivatives (Note 32)** | **(759 761)** | **(548 302)** | **1 325 679** | **(9 289)** | **-** | **8 327** |
| **Net balance sheet and derivatives position as at 31 December 2007** | **1 510 837** | **(270 810)** | **(44 353)** | **17 736** | **649 614** | **1 863 024** |

## 29 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2006:

| *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 | 123 061 | 420 911 | 57 663 | 5 597 | 65 967 | 673 199 |
| Repurchase receivable | 113 767 | 44 654 | - | - | 337 428 | 495 849 |
| 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 | - | - | - | - | 220 724 | 220 724 |
| Other financial assets | 244 925 | 154 308 | 16 246 | 1 757 | - | 417 236 |
| Other assets | 24 294 | 53 631 | 1 612 | 174 | 34 800 | 114 511 |
| 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 financial liabilities | 414 593 | 60 623 | 16 196 | 1 774 | - | 493 186 |
| Other liabilities | 111 478 | 16 301 | 4 355 | 477 | - | 132 611 |
| 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** |
| **Derivatives (Note 32)** | **(453 172)** | **(28 168)** | **496 987** | **(10 942)** | **-** | **4 705** |
| **Net balance sheet and derivatives position as at 31 December 2006** | **(331 488)** | **758 127** | **10 566** | **24 037** | **853 647** | **1 314 889** |

Derivatives in each column represents the fair value, as at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 32. The net total represents fair value of the currency derivatives.

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

**29 Financial Risk Management (Continued)**

- Russian Rouble zone (includes all Russian Federation and CIS subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the consolidated statement of income. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group's exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 29), in performing sensitivity analysis the Groups includes its net position in other currencies into the net position in US Dollars. As at 31 December 2007 the Group's net currency position including foreign currency derivatives was as follows:

| *In thousands of US Dollars* | **USD/RUR** | **USD/EUR** | **EUR/RUR** |
|---|---|---|---|
| Russian Rouble zone | 1 167 181 | - | (151 930) |
| Euro zone | - | 1 207 211 | 31 987 |
| US Dollar zone | (226 340) | 61 | - |
| **Total exposure** | **940 841** | **1 207 272** | **(119 943)** |

As at 31 December 2007 if USD/RUR rate changed by +/-1000 basis points, USD/EUR rate changed by +/-1000 basis points and EUR/RUR rate changed by +/-1000 basis points, this would effect the consolidated statement of income of the Group in the following way:

| *In thousands of US Dollars* | **USD/RUR** | **USD/EUR** | **EUR/RUR** |
|---|---|---|---|
| +1000 basis points change in all foreign exchange rates | 94 084 | 120 728 | (11 994) |
| -1000 basis points change in all foreign exchange rates | (94 084) | (120 728) | 11 994 |

As at 31 December 2006 the Group's net currency position including foreign currency derivatives was as follows:

| *In thousands of US Dollars* | **USD/RUR** | **USD/EUR** | **EUR/RUR** |
|---|---|---|---|
| Russian Rouble zone | 1 273 786 | - | 28 714 |
| Euro zone | - | (422 034) | (40) |
| US Dollar zone | (40 309) | 311 319 | - |
| **Total exposure** | **1 233 477** | **(110 715)** | **28 674** |

At 31 December 2006 if USD/RUR rate changed by +/-1000 basis points, USD/EUR rate changed by +/-1000 basis points and EUR/RUR rate changed by +/-1000 basis points, this would effect the consolidated statement of income of the Group in the following way:

| *In thousands of US Dollars* | **USD/RUR** | **USD/EUR** | **EUR/RUR** |
|---|---|---|---|
| +1000 basis points change in all foreign exchange rates | 123 348 | (11 072) | 2 868 |
| -1000 basis points change in all foreign exchange rates | (123 348) | 11 072 | (2 868) |

## 29 Financial Risk Management (Continued)

***Interest rate risk.*** The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and other borrowed funds at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *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-monetary** | **Total** |
|---|---|---|---|---|---|---|
| **31 December 2007** | | | | | | |
| Total financial assets | 8 105 271 | 3 905 179 | 2 131 739 | 7 706 986 | 316 027 | 22 165 202 |
| Total financial liabilities | 12 588 635 | 4 443 207 | 1 399 296 | 2 223 341 | - | 20 654 479 |
| **Net interest sensitivity gap as at 31 December 2007** | **(4 483 364)** | **(538 028)** | **732 443** | **5 483 645** | **316 027** | **1 510 723** |
| **31 December 2006** | | | | | | |
| Total financial assets | 4 847 681 | 3 358 583 | 1 867 191 | 4 524 143 | 286 691 | 14 884 289 |
| Total financial liabilities | 6 335 556 | 4 595 930 | 1 918 805 | 900 442 | - | 13 750 733 |
| **Net interest sensitivity gap as at 31 December 2006** | **(1 487 875)** | **(1 237 347)** | **(51 614)** | **3 623 701** | **286 691** | **1 133 556** |

Refer to Note 32 for the information on interest rate derivatives used for hedging of the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies, but does not frequently use other interest rate derivatives such as Eurodollar futures and interest swaps.

As at 31 December 2007, if interest rates at that date had been 100 basis points lower, with all other variables held constant, profit for the year would have been USD 44 945 thousand (2006: USD 23 152 thousand) higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. If interest rates had been 100 basis points higher, with all other variables held constant, profit for the year would have been USD 44 945 thousand (2006: USD 23 152 thousand) lower, mainly as a result of higher interest expense on short-term and variable rate liabilities.

## 29 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| *In % per annum* | **USD** | **RR** | **Euro** | **Other** | **USD** | **RR** | **Euro** | **Other** |
| **Assets** | | | | | | | | |
| Cash | - | 0.0% | 0.0% | 0.0% | - | 0.0% | 0.0% | 0.0% |
| Corresponding accounts and overnight placements with other banks | 2.4% | 3.1% | 2.6% | 0.7% | 1.4% | 2.8% | 0.3% | 0.6% |
| Mandatory cash balances with central banks | - | 0.0% | 0.0% | 0.0% | - | 0.0% | 0.0% | 0.0% |
| Debt trading securities | 9.9% | 11.1% | 4.4% | 6.2% | 9.7% | 7.9% | 3.8% | 4.7% |
| Repurchase receivables relating to debt securities | 8.2% | 9.0% | 9.3% | - | 6.0% | 6.0% | - | - |
| Due from other banks | 5.4% | 5.5% | 4.5% | 5.9% | 5.5% | 5.4% | 2.7% | 4.5% |
| Loans and advances to customers | 10.7% | 14.6% | 8.8% | 10.7% | 10.3% | 13.8% | 7.4% | 10.4% |
| **Liabilities** | | | | | | | | |
| Due to other banks | 5.5% | 6.8% | 4.9% | 2.6% | 6.0% | 6.0% | 2.5% | 0.0% |
| Customer accounts | | | | | | | | |
| - current and settlement accounts | 4.1% | 0.1% | 4.9% | 0.8% | 0.1% | 0.7% | 0.0% | 0.1% |
| - term deposits | 7.5% | 6.7% | 4.8% | 6.4% | 5.7% | 4.7% | 3.4% | 6.5% |
| Promissory notes issued | 4.0% | 8.0% | - | - | 5.6% | 7.8% | - | - |
| Other borrowed funds | 7.3% | 7.0% | 7.2% | - | 7.5% | 7.3% | 6.0% | - |
| Subordinated debt | 9.0% | - | - | - | 9.0% | - | - | - |

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

## 29 Financial Risk Management (Continued)

***Geographical risk concentrations.*** The geographical concentration of the Group's assets and liabilities at 31 December 2007 is disclosed in table below:

| *In thousands of US Dollars* | Russia | Europe | CIS | USA | Other | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 1 894 802 | 577 344 | 34 447 | 124 988 | 2 778 | 2 634 359 |
| Mandatory cash balances with central banks | 239 626 | 59 347 | 9 119 | - | - | 308 092 |
| Trading securities | 700 467 | 50 862 | 90 128 | - | - | 841 457 |
| Repurchase receivables | 492 312 | - | 26 154 | - | 15 960 | 534 426 |
| Due from other banks | 402 107 | 1 123 869 | 272 841 | 117 868 | - | 1 916 685 |
| Loans and advances to customers | 13 513 580 | 484 230 | 1 020 187 | 19 538 | - | 15 037 535 |
| Investments | 105 232 | - | - | 8 969 | - | 114 201 |
| Other financial assets | 756 195 | 20 010 | 1 292 | 950 | - | 778 447 |
| Other assets | 176 236 | - | - | - | - | 176 236 |
| Premises, equipment and intangible assets | 279 555 | 4 681 | 6 582 | - | - | 290 818 |
| Deferred tax asset | 62 304 | - | - | - | - | 62 304 |
| **Total assets** | **18 622 416** | **2 320 343** | **1 460 750** | **272 313** | **18 738** | **22 694 560** |
| **Liabilities** | | | | | | |
| Due to other banks | 1 591 714 | 1 135 454 | 64 031 | 10 374 | 47 888 | 2 849 461 |
| Customer accounts | 9 654 802 | 2 201 423 | 174 538 | 17 522 | 132 107 | 12 180 392 |
| Promissory notes issued | 692 802 | 85 235 | - | 133 | 11 022 | 789 192 |
| Other borrowed funds | 108 230 | 3 569 576 | - | 66 028 | - | 3 743 834 |
| Subordinated debt | - | 526 006 | - | - | - | 526 006 |
| Other financial liabilities | 466 243 | 86 628 | 911 | 817 | 10 995 | 565 594 |
| Other liabilities | 112 624 | 15 921 | - | - | - | 128 545 |
| Deferred tax liability | 56 839 | - | - | - | - | 56 839 |
| **Total liabilities** | **12 683 254** | **7 620 243** | **239 480** | **94 874** | **202 012** | **20 839 863** |
| **Net balance sheet position as at 31 December 2007** | **5 939 162** | **(5 299 900)** | **1 221 270** | **177 439** | **(183 274)** | **1 854 697** |

## 29 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2006 is disclosed in table below:

| *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 | 588 557 | 41 246 | 42 926 | 470 | - | 673 199 |
| Repurchase receivables | 478 392 | 17 457 | - | - | - | 495 849 |
| 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 | 220 724 | | - | - | - | 220 724 |
| Other financial assets | 320 623 | 92 498 | 1 941 | 1 480 | 694 | 417 236 |
| Other assets | 88 431 | 24 966 | 524 | 400 | 190 | 114 511 |
| 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 financial liabilities | 144 763 | 264 188 | 21 248 | 57 940 | 5 047 | 493 186 |
| Other liabilities | 38 926 | 71 036 | 5 713 | 15 579 | 1 357 | 132 611 |
| 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.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2007 and 2006.

Assets and liabilities have generally been allocated 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.

**29 Financial Risk Management (Continued)**

***Liquidity risk.*** Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on 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 Treasury Department and ALCO of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, other borrowed funds and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

## 29 Financial Risk Management (Continued)

The table below shows liabilities as at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed below is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

| *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** | **Total** |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Due to other banks | 1 817 983 | 356 858 | 173 818 | 567 206 | 2 915 865 |
| Customer accounts - individuals | 4 260 397 | 337 053 | 329 666 | 59 989 | 4 987 105 |
| Customer accounts - other | 5 098 964 | 1 715 417 | 436 259 | 29 791 | 7 280 431 |
| Promissory notes issued | 149 190 | 319 110 | 243 732 | 113 342 | 825 374 |
| Other borrowed funds | 27 001 | 469 874 | 1 393 363 | 2 447 031 | 4 337 269 |
| Subordinated debt | - | 22 656 | 22 656 | 654 480 | 699 792 |
| Other financial liabilities | 250 526 | 1 949 | - | 140 830 | 393 305 |
| Derivative financial instruments | | | | | |
| - net settled | 70 629 | 38 965 | 12 170 | 24 666 | 146 430 |
| - inflow | (1 641 144) | (959 813) | (86 598) | (86 332) | (2 773 887) |
| - outflow | 1 646 031 | 941 937 | 91 351 | 86 637 | 2 765 956 |
| Import letters of credit | 59 906 | 111 884 | 44 601 | 112 305 | 328 696 |
| **Total potential future payments for financial obligations as at 31 December 2007** | **11 739 483** | **3 355 890** | **2 661 018** | **4 149 945** | **21 906 336** |
| **2006** | | | | | |
| Due to other banks | 610 085 | 444 617 | 56 787 | 364 675 | 1 476 164 |
| Customer accounts - individuals | 2 099 398 | 408 795 | 230 414 | 23 501 | 2 762 108 |
| Customer accounts - other | 3 352 720 | 980 346 | 927 924 | 15 025 | 5 276 015 |
| Promissory notes issued | 51 477 | 279 531 | 162 835 | 54 706 | 548 549 |
| Other borrowed funds | - | 1 000 059 | 884 109 | 1 570 201 | 3 454 369 |
| Subordinated debt | - | 9 703 | 9 703 | 283 219 | 302 625 |
| Other financial liabilities | 188 133 | 150 248 | 189 | 47 357 | 385 927 |
| Derivative financial instruments | | | | | |
| -net settled | 64 773 | 3 953 | 2 933 | 1 487 | 73 146 |
| -inflow | (6 073 152) | (324 187) | - | (54 925) | (6 452 264) |
| -outflow | 6 076 417 | 324 429 | - | 59 838 | 6 460 684 |
| Import letters of credit | 79 573 | 109 517 | 83 204 | 29 223 | 301 517 |
| **Total potential future payments for financial obligations as at 31 December 2006** | **6 449 424** | **3 387 011** | **2 358 098** | **2 394 307** | **14 588 840** |

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

## 29 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

The following table represents analysis of assets and liabilities as at 31 December 2007 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for classification of (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to categories with the later maturities. On the basis of past experience the Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

| *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 | 2 634 359 | - | - | - | - | 2 634 359 |
| Mandatory cash balances with central banks | 308 092 | - | - | - | - | 308 092 |
| Trading securities | 841 457 | - | - | - | - | 841 457 |
| Repurchase receivables | 503 550 | 8 899 | 21 977 | - | - | 534 426 |
| Due from other banks | 1 742 978 | 86 654 | 6 573 | 80 480 | - | 1 916 685 |
| Loans and advances to customers | 1 081 267 | 3 431 476 | 2 284 635 | 8 240 157 | - | 15 037 535 |
| Investments | - | - | - | - | 114 201 | 114 201 |
| Other financial assets | 633 540 | 139 640 | 718 | 4 522 | 27 | 778 447 |
| Other assets | 23 171 | 103 623 | - | 12 111 | 37 331 | 176 236 |
| Premises, equipment and intangible assets | - | - | - | - | 290 818 | 290 818 |
| Deferred tax asset | - | - | - | - | 62 304 | 62 304 |
| **Total assets** | **7 768 414** | **3 770 292** | **2 313 903** | **8 337 270** | **504 681** | **22 694 560** |
| **Liabilities** | | | | | | |
| Due to other banks | 1 813 547 | 355 729 | 171 673 | 508 512 | - | 2 849 461 |
| Customer accounts | 4 901 090 | 2 865 195 | 1 328 165 | 3 085 942 | - | 12 180 392 |
| Promissory notes issued | 148 709 | 308 958 | 231 016 | 100 509 | - | 789 192 |
| Other borrowed funds | 27 001 | 464 312 | 1 317 285 | 1 935 236 | - | 3 743 834 |
| Subordinated debt | - | 22 656 | 22 656 | 480 694 | - | 526 006 |
| Other financial liabilities | 345 440 | 40 610 | 14 594 | 164 950 | - | 565 594 |
| Other liabilities | 106 933 | 21 509 | 103 | - | - | 128 545 |
| Deferred tax liability | - | - | - | - | 56 839 | 56 839 |
| **Total liabilities** | **7 342 720** | **4 078 969** | **3 085 492** | **6 275 843** | **56 839** | **20 839 863** |
| **Net expected liquidity gap as at 31 December 2007** | **425 694** | **(308 677)** | **(771 589)** | **2 061 427** | **447 842** | **1 854 697** |
| **Cumulative expected liquidity gap as at 31 December 2007** | **425 694** | **117 017** | **(654 572)** | **1 406 855** | **1 854 697** | |

**29 Financial Risk Management (Continued)**

The following table represents analysis of assets and liabilities as at 31 December 2006 by their expected maturities as determined by the Group.

| *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 | - | - | - | - | 220 724 | 220 724 |
| Other financial assets | 236 140 | 135 045 | 24 023 | 22 028 | - | 417 236 |
| Other assets | 32 385 | 35 291 | 6 278 | 5 757 | 34 800 | 114 511 |
| Premises, 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 | 3 363 200 | 2 284 947 | 1 753 414 | 544 820 | - | 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 financial liabilities | 295 393 | 150 248 | 189 | 47 356 | - | 493 186 |
| Other liabilities | 79 426 | 40 400 | 51 | 12 734 | - | 132 611 |
| Deferred tax liability | - | - | - | - | 16 415 | 16 415 |
| **Total liabilities** | **4 398 721** | **4 097 268** | **2 675 941** | **2 711 414** | **16 415** | **13 899 759** |
| **Net expected liquidity gap at 31 December 2006** | **274 609** | **(936 577)** | **(791 622)** | **2 313 522** | **450 252** | **1 310 184** |
| **Cumulative expected liquidity gap at 31 December 2006** | **274 609** | **(661 968)** | **(1 453 590)** | **859 932** | **1 310 184** | |

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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.

## 30 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank. Capital adequacy limits for Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan are established and monitored by the central banks of Netherlands and Kazakhstan, respectively. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the central banks' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to minimum capital requirements established by covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

| *In thousands of US Dollars* | **2007** | **2006** |
|---|---|---|
| **Tier 1 capital** | | |
| Paid up share capital | 694 800 | 344 800 |
| Retained earnings and other reserves | 1 103 073 | 939 376 |
| **Total tier 1 capital** | **1 797 873** | **1 284 176** |
| **Tier 2 capital** | | |
| Asset revaluation reserves | 56 803 | 25 960 |
| Subordinated debt | 381 852 | 177 247 |
| **Total tier 2 capital** | **438 655** | **203 207** |
| **Total capital** | **2 236 528** | **1 487 383** |

The Management believes that the Group and Alfa-Bank were in compliance with all externally imposed capital requirements as at 31 December 2007 and 2006.

## 31 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 24 September 2007 the District Court dismissed Norex's complaint in its entirety. Norex filed a Notice of Appeal with the Second Circuit Court of Appeals on 17 October 2007, and as of 10 March 2008 that appeal is fully briefed. The Court of Appeals has not yet set a date for the oral arguments.

In 2004, Alfa Corporation of Montgomery, Alabama sued Alfa-Bank and a subsidiary, Alfa Capital Markets (USA) Inc., for US federal trademark infringement and unfair competition arising from the use of "Alfa" in commerce in association of financial services. In January 2008, the parties settled this lawsuit without payment of damages, costs or attorney's fees. Pursuant to this settlement, the Group will be allowed to continue to use the Alfa mark in the United States only for a specified range of purposes together with a disclaimer of relationship with Alfa Corporation. Also, Alfa Capital Markets will be required to change its name to remove the word "Alfa".

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. In October 2006, 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, 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 of its majority stake in Alfa-Bank Ukraine to ABH Ukraine Limited, a subsidiary of ABHH. The sale price of the stake disposed was determined by 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 valuation of Alfa-Bank Ukraine and levy additional tax on the Group. In respect of this matter, as at 31 December 2007 and 2006, no provision for potential additional tax liabilities has been recognised.

## 31 Contingencies and Commitments (Continued)

The Group conducts some transactions which might be considered to be as 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. 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.

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 and are not subjected 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. 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. 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. Accordingly, in respect of this matter, at 31 December 2007 and 2006 no provision for potential additional tax liabilities has been recognised.

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 cannot be reliably estimated; however, it may 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 as at 31 December 2007 it had other possible obligations from exposure to other than remote tax risks of up to approximately USD 4 724 thousand (2006: USD 9 220 thousand).

***Capital commitments.*** As at 31 December 2007 the Group had capital commitments of USD 102 467 thousand (2006: USD 82 307 thousand), of which USD 47 160 thousand (2006: USD 43 202 thousand) related to construction expenditure and modernisation of premises and USD 49 511 thousand (2006: USD 34 523 thousand) related to purchase and installation of new computer systems, USD 5 796 thousand (2006: USD 4 582 thousand) related to other capital expenditure commitments. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these 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* | **2007** | **2006** |
|---|---|---|
| Not later than 1 year | 43 001 | 27 251 |
| Later than 1 year and not later than 5 years | 92 862 | 53 008 |
| Later than 5 years | 8 389 | 9 272 |
| **Total operating lease commitments** | **144 252** | **89 531** |

## 31 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 | 2007 | 2006 |
|---|---|---|---|
| Guarantees issued | | 985 817 | 770 049 |
| Export letters of credit | | 224 573 | 234 130 |
| Import letters of credit | 16 | 328 696 | 301 517 |
| **Total credit related commitments** | | **1 539 086** | **1 305 696** |

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* | Note | 2007 | 2006 |
|---|---|---|---|
| **Provision for losses on credit related commitments as at 1 January** | | **11 986** | **18 925** |
| Provision for / (recovery of provision for) losses on credit related commitments during the year | | 8 112 | (6 939) |
| Effect of translation to presentation currency | | 1 285 | - |
| **Provision for losses on credit related commitments as at 31 December** | **19** | **21 383** | **11 986** |

***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 CBRF (for Alfa-Bank);
- to maintain a ratio of capital to risk-weighted assets as defined by Basle I;
- to maintain a minimum level of net assets;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term other borrowed funds.

Management believes that the Group was in compliance with these covenants as at 31 December 2007 and 2006.

***Assets pledged and restricted.*** As at 31 December 2007 the Group had the following assets pledged as collateral:

| *In thousands of US Dollars* | Notes | 2007 | 2006 |
|---|---|---|---|
| Trading securities classified as repurchase receivables | 8, 15 | 534 426 | 495 849 |
| **Total** | | **534 426** | **495 849** |

## 31 Contingencies and Commitments (Continued)

As at 31 December 2007 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or repledge in the absence of default of the counterparty was USD 671 743 thousand (2006: USD 154 054 thousand).

Mandatory cash balances with central banks in the amount of USD 308 092 thousand (2006: USD 256 579 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

## 32 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 or agreed 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.

## 32 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap 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.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| *In thousands of US Dollars* | Principal or agreed amount | Assets Positive fair value | Liabilities Negative fair value | Principal or agreed amount | Assets Positive fair value | Liabilities Negative fair value |
| **Deliverable forwards** | | | | | | |
| Securities | | | | | | |
| -sale of securities | 936 911 | 27 129 | (2 030) | 352 375 | 1 230 | (1 514) |
| -purchase of securities | 1 119 | 213 | - | 4 680 | 150 | (4) |
| **Non-deliverable forwards** | | | | | | |
| Securities | | | | | | |
| -sale of securities | 23 413 | - | (17 867) | 32 558 | 197 | (5 787) |
| Precious metals | | | | | | |
| -sale of precious metals | - | - | - | 1 595 | - | (5) |
| **Futures** | | | | | | |
| Securities | | | | | | |
| -sale of securities | 72 373 | 330 | (25) | 26 893 | - | - |
| -purchase of securities | 55 437 | 164 | (32) | 21 103 | - | (195) |
| Other base assets | | | | | | |
| -sale of other base assets | - | - | - | 181 198 | 78 | (157) |
| -purchase of other base assets | - | - | - | 144 687 | 6 | (228) |
| Interest rate | | | | | | |
| -sale of interest rate futures | 50 436 | - | (481) | - | - | - |
| -purchase of interest rate futures | 75 556 | - | (444) | - | - | - |
| **Call options** | | | | | | |
| Securities | | | | | | |
| -written call options | 7 920 | - | (638) | 71 040 | 2 190 | (4 853) |
| -purchased call options | 1 300 | 155 | - | 68 845 | 4 647 | (2 061) |
| Foreign currency | | | | | | |
| -written call options | 162 000 | - | (15 815) | - | - | - |
| -purchased call options | 162 000 | 15 869 | - | - | - | - |
| **Put options** | | | | | | |
| Securities | | | | | | |
| -written put options | 2 567 | - | (124) | 2 000 | 22 | - |
| -purchased put options | 3 408 | 384 | - | 63 665 | - | (1 023) |
| **Swaps** | | | | | | |
| Interest rate swaps - pay fixed interest, receive floating interest | 1 055 009 | 1 067 | (6 155) | 428 577 | 994 | (1 341) |
| Total return swaps on securities - pay total return on securities, receive floating interest | - | - | - | 437 104 | 732 | (61 959) |
| Total return swaps on securities - pay floating interest, receive total return on securities | 74 771 | 3 801 | (1 431) | 266 592 | 26 089 | (258) |
| **Total** | | **49 112** | **(45 042)** | | **36 335** | **(79 385)** |

## 32 Derivative Financial Instruments (Continued)

The table below sets out fair values, as 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.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of US Dollars* | Contracts with positive fair value | Contracts with negative fair value | Contracts with positive fair value | Contracts with negative fair value |
| **Deliverable forwards** | | | | |
| - USD receivable on settlement | 43 984 | 49 266 | 476 868 | 2 279 793 |
| - USD payable on settlement | (1 401 194) | (269 645) | (2 544 648) | (369 211) |
| - EUR receivable on settlement | 1 176 579 | 153 856 | 1 665 986 | 132 244 |
| - EUR payable on settlement | (468) | (82 916) | (322 467) | (1 071 554) |
| - RR receivable on settlement | 293 031 | 195 843 | 225 024 | 39 156 |
| - RR payable on settlement | (71 177) | (52 002) | (7 081) | (493 053) |
| - Other currencies receivable on settlement | 393 | - | 1 059 892 | 544 987 |
| - Other currencies payable on settlement | - | (339) | (538 938) | (1 073 793) |
| **Non-deliverable forwards** | | | | |
| - USD receivable on settlement | 882 302 | 5 375 681 | 66 300 | 185 000 |
| - USD payable on settlement | (4 310 375) | (986 172) | (324 815) | (66 300) |
| - EUR receivable on settlement | 2 147 197 | 483 439 | 7 925 | - |
| - EUR payable on settlement | (313 611) | (2 394 522) | (71 306) | - |
| - RR receivable on settlement | 1 219 940 | 452 229 | 318 944 | 66 187 |
| - RR payable on settlement | (241 752) | (2 344 414) | (72 635) | (104 710) |
| - Other currencies receivable on settlement | 1 155 811 | 974 342 | 81 544 | - |
| - Other currencies payable on settlement | (479 117) | (1 660 379) | - | (84 634) |
| **Deliverable swaps** | | | | |
| - USD receivable on settlement | 320 216 | - | - | - |
| - USD payable on settlement | (320 216) | - | - | - |
| - EUR receivable on settlement | 325 399 | - | - | - |
| - EUR payable on settlement | (325 399) | - | - | - |
| **Non-deliverable swaps** | | | | |
| - USD payable on settlement | (143 608) | - | - | (156 159) |
| - EUR receivable on settlement | 156 125 | - | - | 156 159 |
| **Net fair value of foreign exchange derivatives** | **114 060** | **(105 733)** | **20 593** | **(15 888)** |

As at 31 December 2007 derivative financial instruments included currency forwards with the contractual amount of USD 1 240 000 thousand (2006: nil) which were designated and qualified as a hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of effective portion of the foreign currency exchange losses recorded during 2007 on these hedging instruments amounted to USD 74 607 thousand (2006: nil). No ineffectiveness was recorded in the consolidated statement of income in respect of the hedge. As at 31 December 2007 the negative fair value of these hedging instruments amounted to USD 43 927 thousand (2006: nil). No amounts were withdrawn from equity during the year, as there were no disposals of foreign operations.

Forward, futures and swaps positions in securities as at 31 December 2007 are summarised below. As at 31 December 2007 and 2006 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.

## 32 Derivative Financial Instruments (Continued)

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Principal or agreed amount | | Principal or agreed amount | |
| *In thousands of US Dollars* | Sale | Purchase | Sale | Purchase |
| Corporate bonds | 564 419 | 19 150 | 221 147 | - |
| Corporate Eurobonds | 157 325 | - | 78 537 | 1 286 |
| Eurobonds of other states | 15 409 | - | 16 367 | 13 373 |
| Russian Federation Eurobonds | 66 003 | 1 119 | 28 286 | 3 394 |
| Corporate shares | 153 102 | 55 621 | 495 360 | 274 322 |
| Municipal bonds | 2 970 | - | 8 846 | - |
| ADRs and GDRs | 1 096 | - | 387 | - |
| US Treasury Bills | 72 373 | 55 437 | - | - |
| **Total** | **1 032 697** | **131 327** | **848 930** | **292 375** |

The information on transactions with related parties is disclosed in Note 34.

## 33 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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. 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. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Financial instruments carried at fair value.*** Trading securities, repurchase receivables, investments at fair value through profit or loss and investments available for sale are carried on the consolidated balance sheet at their fair value. During 2007 total net fair value gains estimated using valuation techniques and related to investments at fair value through profit or loss amounted to USD 29 169 thousand (2006: nil).

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

***Loans and receivables carried at amortised cost.*** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

| | 2007 | 2006 |
|---|---|---|
| *Due from other banks* | | |
| -Short-term placements with other banks with original maturities of more than three months | 4.5% - 5.9% | 2.7% - 5.5% |
| -Reverse sale and repurchase agreements with other banks with original maturities of more than three months | 8.2% - 9.3% | 6.0% |
| *Loans and advances to customers* | | |
| -Corporate loans | 8.1% - 12.5% | 7.6% - 10.8% |
| -Loans to small and medium size enterprises | 11.5% - 14.2% | - |
| -Finance lease receivables | 19.0% - 23.8% | 19.0% - 20.0% |
| -Reverse sale and repurchase agreements | 6.8% - 10.0% | 7.6% |
| -Loans to individuals - credit cards and personal instalment loans | 15.7% - 34.2% | 29.6% - 32.7% |
| -Loans to individuals - consumer loans | 20.9% - 43.9% | 28.6% - 46.8% |
| -Loans to individuals - car loans | 12.6% - 13.7% | 14.1% - 15.6% |
| -Loans to individuals - mortgage loans | 10.9% - 12.3% | 10.6% - 12.4% |

Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

## 33 Fair Value of Financial Instruments (Continued)

***Liabilities carried at amortised cost.*** The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. As at 31 December 2007 estimated fair value of promissory notes issued was USD 786 261 thousand (2006: USD 528 483 thousand). Discount rates used were consistent with the credit risk of the individual entities comprising the Group and ranged from 6.3% per annum to 10.5% per annum (2006: from 7.0% per annum to 8.1% per annum) depending on currency and maturity of the instrument.

***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 ranging from 6.1% per annum to 8.6% per annum (2006: from 5.9% per annum to 8.6% per annum).

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

***Derivative financial instruments.*** 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. Their fair values are based on observable market prices. 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 certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities. The fair value of derivative financial instruments is disclosed in Note 32.

Change in fair value of derivatives estimated using a valuation technique that was recognised in the consolidated statement of income resulted in a net gain for 2007 of USD 5 158 thousand (2006: net gain of USD 2 576 thousand).

## 34 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 constitute the Alfa Group. 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 Alfa Group 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 tables below.

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

Refer to Note 11 for (i) information on the disposal of the interest in CTC to a company within Alfa Group as CTC was a non-core investment of the Group and (ii) information on the Group’s investments in associates.

Refer to Note 35 for information on the sale by the Group of one of its subsidiaries, CJSC Alfa-Bank (Ukraine) to ABH Ukraine Limited, a subsidiary of ABHH.

## 34 Related Party Transactions (Continued)

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

| *In thousands of US Dollars* | 2007 | | | | |
|---|---|---|---|---|---|
| | **TNK-BP** | **Alfa Group and its sharehol-ders except for ABH Ukraine Group** | **Key manage-ment** | **Associates** | **ABH Ukraine Group** |
| **Trading securities as at the year end** | **37** | **355** | **-** | **700** | **64 199** |
| **Correspondent accounts with other banks as at the year end** | **-** | **-** | **-** | **-** | **19 003** |
| **Term placements with other banks as at the year end** | **-** | **-** | **-** | **-** | **248 789** |
| USD, effective contractual rate of 5.4% - 10.6% | - | - | - | - | 98 318 |
| EUR, effective contractual rate of 4.5% - 7.2% | - | - | - | - | 146 902 |
| Other currencies, effective contractual rate of 5.7% - 17.2% | - | - | - | - | 3 569 |
| **Loans and advances to customers as at the year end (gross of provision for impairment)** | **-** | **450 945** | **2 168** | **73 276** | **5 692** |
| RUR, effective contractual rate of 9.9% - 15.3% | - | 69 233 | - | - | - |
| USD, effective contractual rate of 5.2% - 14.5% | - | 378 969 | 2 168 | - | 5 692 |
| EUR, effective contractual rate of 10.1%-11.9% | - | 2 743 | - | 73 276 | - |
| **Provision for loan impairment as at 1 January** | **-** | **(2 556)** | **(70)** | **(11 366)** | **-** |
| Recovery of provision for loan impairment during the year | - | 2 556 | 70 | 405 | - |
| **Provision for loan impairment as at 31 December** | **-** | **-** | **-** | **(10 961)** | **-** |
| **Receivables as at the year end** | **9** | **18 554** | **4** | **-** | **15 197** |
| **Correspondent accounts of other banks** | **-** | **-** | **-** | **-** | **21 885** |
| **Customer accounts** | | | | | |
| **Current/settlement accounts as at the year end** | **59 866** | **186 382** | **1 899** | **-** | **2 015** |
| RUR, effective contractual rate of 0.0% | 58 971 | 90 146 | 897 | - | - |
| USD, effective contractual rate of 0.0% - 4.0% | 894 | 93 312 | 903 | - | 2 008 |
| EUR, effective contractual rate of 0.0% - 3.4% | 1 | 2 924 | 99 | - | 7 |

## 34 Related Party Transactions (Continued)

| *In thousands of US Dollars* | 2007 | | | | |
|---|---|---|---|---|---|
| | **TNK-BP** | **Alfa Group and its sharehol-ders except for ABH Ukraine Group** | **Key manage-ment** | **Associates** | **ABH Ukraine Group** |
| **Term deposits as at the year end** | **43 726** | **1 586 517** | **2 759** | **-** | **-** |
| RUR, effective contractual rate of 2.8% - 9.6% | 43 726 | 165 536 | 1 246 | - | - |
| USD, effective contractual rate of 3.6% - 6.8% | - | 863 034 | 1 513 | - | - |
| EUR, effective contractual rate of 3.8% - 6.8% | - | 557 947 | - | - | - |
| **Payables as at the year end** | **2** | **10 461** | **12 710** | **-** | **1 234** |
| **Interest income for the year (based on effective contractual interest rates)** | **1 223** | **52 451** | **68** | **6 531** | **18 926** |
| **Interest expense for the year (based on effective contractual interest rates)** | **6 661** | **70 293** | **159** | **-** | **1 489** |
| **Fee and commission income** | **1 973** | **20 231** | **1** | **-** | **118** |
| **Gains less losses arising from trading securities** | **-** | **(288)** | **-** | **-** | **3 426** |
| **Gains less losses arising from trading in foreign currencies** | **-** | **(12 667)** | **-** | **-** | **4 483** |
| **Other income for the year** | **1 468** | **1 459** | **18** | **-** | **-** |
| **Other expenses for the year** | **-** | **15 319** | **19 920** | **-** | **-** |
| **Guarantees issued by the Group** | **116 247** | **2 779** | **-** | **-** | **-** |
| **Provision for losses on credit related commitments as at 1 January** | **(493)** | **(259)** | **-** | **-** | **-** |
| Recovery of provision for losses on credit related commitments during the year | 493 | 163 | - | - | - |
| **Provision for losses on credit related commitments as at 31 December** | **-** | **(96)** | **-** | **-** | **-** |
| **Import letters of credit as at the year end** | **-** | **25 360** | **-** | **-** | **24 817** |

In addition, during 2007 a company outside of the Group controlled and owned by the shareholders of ABHH incurred expenses in the amount of USD 4 383 thousand relating to operations of the Group. This company has no right to require and will not require the reimbursement of these expenses by the Group.

## 34 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 were as follows:

| | 2006 | | | | |
|---|---|---|---|---|---|
| *In thousands of US Dollars* | **TNK-BP** | **Alfa Group and its sharehol-ders except for ABH Ukraine Group** | **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 contractual rate of 7.0% - 10.0% | - | - | - | - | 283 848 |
| EUR, effective contractual 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 contractual rate of 8.5% - 10.5% | - | - | - | 21 585 | - |
| RUR, effective contractual rate of 10.7% - 19.0% | - | 17 053 | 235 | - | - |
| USD, effective contractual rate of 4.5% - 7% | - | 78 460 | 3 785 | - | - |
| USD, effective contractual rate of 7.1% - 10.5% | - | 274 456 | 591 | - | - |
| EUR, effective contractual rate of 6.0- 9.5% | - | 29 017 | - | 65 989 | - |
| **Provision for loan impairment as at 1 January** | **(619)** | **(2 102)** | **(71)** | **-** | **-** |
| Recovery of / (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 year end** | **270** | **6 260** | **24** | **-** | **-** |
| **Correspondent accounts of other banks** | - | - | - | - | **30 619** |
| **Term placements of other banks** | **-** | **-** | **-** | **-** | **6 771** |
| RUR, effective contractual 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 contractual rate of 0.0 - 2.0% | 98 252 | 125 942 | - | 7 023 | - |
| USD, effective contractual rate of 0.0 - 5.2% | 200 842 | 159 920 | 1 823 | 433 | - |
| Other currencies, effective contractual rate of 0.0 - 3.1% | 1 | 1 161 | 20 | - | - |

## 34 Related Party Transactions (Continued)

| | 2006 | | | | |
|---|---|---|---|---|---|
| *In thousands of US Dollars* | **TNK-BP** | **Alfa Group and its sharehol-ders except for ABH Ukraine Group** | **Key manage-ment** | **Associates** | **ABH Ukraine Group** |
| **Term deposits as at the year end** | **78 967** | **1 443 778** | **1 966** | **-** | **-** |
| RUR, effective contractual rate of 2.0% - 12.5% | 72 528 | 81 377 | 1 966 | - | - |
| USD, effective contractual rate of 1.8% - 8.6% | 6 439 | 1 140 197 | - | - | - |
| EUR, effective contractual rate of 2.7% - 7.0% | - | 222 204 | - | - | - |
| **Promissory notes issued as at the year end** | **19** | **666** | **-** | **-** | **-** |
| **Payables as at the year end** | **1** | **2 631** | **24 297** | **-** | **7 500** |
| **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 for the year** | **3 979** | **9 525** | **867** | **697** | **3** |
| **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** | **-** | **-** | **-** |
| **Import letters of credit as at year end** | **-** | **9 218** | **-** | **-** | **40 550** |
| **Provision for losses on credit related commitments as at 1 January** | **(2 502)** | **(9)** | **-** | **-** | **-** |
| Recovery of provision / (provision for) losses on credit related commitments during the year | 2 009 | (250) | - | - | - |
| **Provision for losses on credit related commitments as at 31 December** | **(493)** | **(259)** | **-** | **-** | **-** |

## 34 Related Party Transactions (Continued)

Key management of the Group represents 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* | 2007 | 2006 |
|---|---|---|
| **Key management compensation accrued as at the balance sheet date** | **12 610** | **24 196** |
| Salaries | - | - |
| **Bonuses** | **12 610** | **24 196** |
| - short-term bonuses | 7 230 | 14 380 |
| - long-term bonuses | 5 380 | 9 816 |

| *In thousands of US Dollars* | 2007 | 2006 |
|---|---|---|
| **Key management compensation expense for the year** | **24 303** | **25 406** |
| Salaries | 7 087 | 8 675 |
| **Bonuses** | **17 216** | **16 731** |
| - short-term bonuses | 11 896 | 13 941 |
| - long-term bonuses | 5 320 | 2 790 |

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable more than 12 months after the end of the year in which the employee rendered service.

## 35 Principal Subsidiaries

| Russian Federation and CIS | Rest of the World |
|---|---|
| OJSC Alfa-Bank | Alfa Capital Holdings (Cyprus) Limited (Cyprus) |
| JSB SB Alfa-Bank Kazakhstan | Alfa Capital Markets (USA) |
| LLC 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 (Ireland) |
| | Amsterdam Trade Bank N.V. (Netherlands) |
| | Alfa MTN Projects Limited (Cyprus) |
| | Alfa ECP Issuance Limited (Cyprus) |
| | Alfa Diversified Payment Rights Finance Company S.A. (Luxembourg) |

As at 31 December 2007 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.

**35 Principal Subsidiaries (Continued)**

During 2007 the Group sold for USD 16 880 thousand a 100% interest in Alfa-Bank Bashkortostan. As at the date of sale total assets of the disposed subsidiary amounted to USD 18 690 thousand and total liabilities amounted to USD 2 777 thousand. The Group has recorded a gain from disposal of Alfa-Bank Bashkortostan in the amount of USD 967 thousand. In addition, during 2007 the Group liquidated a trading subsidiary and recorded a gain on liquidation in the amount of USD 2 911 thousand.

In August 2006 the Group sold a 51.0% interest in CJSC Alfa-Bank (Ukraine) to ABH Ukraine Limited, a subsidiary of ABHH. The remaining holding of the Group was further diluted to 16.2% after CJSC Alfa-Bank closed an offering of shares on 3 November 2006. On the 28 November 2006 the Group sold a 15.08% interest in CJSC Alfa-Bank to ABH Ukraine Limited, with the remaining holding of the Group being 1.12% as at 31 December 2006. This remaining holding of 1.12% was sold to ABH Ukraine Limited in January 2007. During 2006 the Group recorded a gain on disposal of CJSC Alfa-Bank 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. During 2006 the Group recorded a gain on disposal of the subsidiary in the amount of USD 6 231 thousand.