Alfa MTN Issuance Limited

(incorporated with limited liability in Cyprus)

and

Alfa MTN Markets Limited

(incorporated with limited liability in Cyprus)

U.S.$400,000,000
Euro Medium Term Note Programme

Unconditionally and irrevocably guaranteed by

ABH Financial Limited

(incorporated with limited liability in the British Virgin Islands)

and

Open Joint-Stock Company "ALFA-BANK"

(incorporated as an open joint stock company in the Russian Federation)

Joint Arrangers

Merrill Lynch International **UBS Investment Bank**

Dealers

Merrill Lynch International **UBS Investment Bank**

Offering Circular dated 22 June 2004

Important Notice

This Offering Circular contains information provided by Alfa MTN Issuance Limited ("Alfa Issuance") and Alfa MTN Markets Limited ("Alfa Markets") (and, together with Alfa Issuance, the "Issuers" and each an "Issuer") in connection with a euro medium term note programme (the "Programme") under which the Issuers may issue and have outstanding at any time euro medium term notes (the "Notes") up to a maximum aggregate amount of U.S.$400,000,000 or its equivalent in alternative currencies. The Notes will be constituted by, and have the benefit of a trust deed dated 22 June 2004 (the "Trust Deed") between the Issuers, ABH Financial Limited ("ABH Financial"), Open Joint-Stock Company "ALFA-BANK" ("Alfa Bank" and together with ABH Financial, the "Guarantors" and each a "Guarantor") and J.P. Morgan Corporate Trustee Services Ltd. (the "Trustee"). ABH Financial and Alfa Bank will unconditionally and irrevocably guarantee the due and punctual payment of all amounts due and payable in respect of any Notes issued by each Issuer pursuant to, in the case of ABH Financial, Clause 5 of the Trust Deed (the "ABH Financial Guarantee") to be dated 22 June 2004 and, in the case of Alfa Bank, a deed of guarantee (the "Alfa Bank Guarantee" and, together with the ABH Financial Guarantee, the "ABH Financial and Alfa Bank Guarantees") to be dated 22 June 2004. The Issuers and the Guarantors have, pursuant to a programme agreement (the "Programme Agreement") dated 22 June 2004, appointed Merrill Lynch International and UBS Limited (the "Dealers") as dealers for the Notes under the Programme, and have authorised and requested the Dealers to circulate this Offering Circular in connection with the Programme, subject as provided in the Programme Agreement. In this Offering Circular, references to "Alfa Banking Group" mean ABH Financial and its subsidiaries taken as a whole.

Each Issuer and Guarantor accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of each Issuer and Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. A copy of this Offering Circular (including the information contained in pages F–1 to F–84 inclusive), which comprises listing particulars (the "Listing Particulars") approved by the UK Listing Authority as required by the FSMA, in relation to Notes admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities and issued during the period of 12 months from the date of this Offering Circular, has been delivered for registration to the Registrar of Companies in England and Wales as required by section 83 of the FSMA. Copies of each Pricing Supplement will be available (in the case of Notes to be admitted to the Official List) from FT Business Research Centre operated by FT Interactive Data at Fitzroy House, 13-15 Epworth Street, London EC2A 4DL and (in the case of all Notes) from the specified office of the Principal Paying Agent. Any reference in this document to listing particulars means this document excluding all information incorporated by reference. The Issuers and the Guarantors confirm that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the Listing Rules. The Issuers and the Guarantors believe that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

All of the information contained in this Offering Circular concerning the Russian banking market and its competitors, which may include estimates or approximations, has been derived from publicly available information, including press releases and filings made under various securities laws. Each Issuer and Guarantor accepts responsibility for correctly copying such information from its sources and confirms that such information has been correctly copied from its sources. However, each Issuer and Guarantor has relied on the accuracy of such information without carrying out an independent verification. In addition, some of the information contained in this Offering Circular has been derived from official data published by Russian government agencies and the Central Bank of the Russian Federation (the "CBR"). The official data published by Russian federal, regional and local governments and the CBR is substantially less complete or researched than those of Western countries. Any discussion of matters related to the Russian Federation in this Offering Circular must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Guarantors, the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers and/or the Guarantors. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers or the Guarantors or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness at any time of this Offering Circular or any supplement hereto. No person has been authorised by the Issuers, the Guarantors, the Dealers or the Trustee to give any information or to make any representation not contained in this Offering Circular or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

This Offering Circular does not, and is not intended to, constitute or contain an offer or invitation to any person to purchase Notes. The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Notes come are required by the Issuers, the Guarantors, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. In particular, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Offering Circular and other information in relation to the Notes set out under "Selling Restrictions" below. The Notes have not been and will not be registered under the United States Securities Act of 1933. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons as defined in Regulations under the United States Securities Act of 1933.

None of the Issuers have authorised any offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations") of Notes having a maturity of one year or more. Such Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

Furthermore, none of the Issuers, the Guarantors, the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Application has been made to the Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000, as amended (the "FMSA") (in such capacity the "UK Listing Authority") for Notes issued during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Under the Listing Rules of the UK Listing Authority, admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein which are applicable to, each tranche of Notes will be set forth in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be admitted to the Official List and to be admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer, the Guarantors and the relevant Dealer(s) in relation to each issue. The Issuers may also issue unlisted Notes.

In connection with the listing of Notes on the Official List and their admission to trading on the London Stock Exchange's market for listed securities, each of the Issuers and the Guarantors has given an undertaking to the Dealers that, if at any time after preparation of the Listing Particulars and before the commencement of dealings in any Notes following their admission to the Official List:

(a) there is a significant change affecting any matter contained in the Listing Particulars whose inclusion was required by section 80 of the FSMA or by the listing rules made by the UK Listing Authority under the FSMA (the "Listing Rules") or by the London Stock Exchange; or

(b) a significant new matter arises, the inclusion of information in respect of which would have been so required if it had arisen when the Listing Particulars were being prepared,

the Issuers and the Guarantors shall give to the Authorised Adviser (the "Authorised Adviser") and each Dealer full information about such change or matter and shall publish supplementary listing particulars as may be required by the UK Listing Authority (in a form approved by the Authorised Adviser and the UK Listing Authority), and shall otherwise comply with sections 81 and 83 of the FSMA and the Listing Rules in that regard.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Incorporation by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular but not part of the Listing Particulars.

In this Offering Circular references to "U.S. dollars" and "U.S.$" are to the currency of the United States of America, references to "Roubles" and "RUR" are to Russian Roubles, references to "Tenge" are to the currency of Kazakhstan Tenge, references to "Sterling" and "£" are to the currency of the United Kingdom, references to "Japanese Yen", "Yen" and "¥" are to the currency of Japan, references to "CYP" and to "Cyprus Pounds" are to the currency of Cyprus and references to "euro" and "€" are to the single currency of participating member states of the European Union, as contemplated by the Treaty establishing the European Community, as amended.

In this Offering Circular, references to a "branch" shall mean a separate location from which any of the entities within Alfa Banking Group carry out banking activities.

Certain figures included in this Offering Circular have been subject to rounding adjustments, accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Contents

Incorporation by Reference

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited annual financial statements of Alfa Issuance;

(b) the most recently published audited annual financial statements of Alfa Markets;

(c) the most recently published audited consolidated annual financial statements and, if published later, the most recently published audited consolidated interim financial statements (if any) of ABH Financial;

(d) the most recently published audited non-consolidated annual financial statements and, if published later, the most recently published unaudited non-consolidated interim financial statements (if any) of Alfa Bank; and

(e) all supplements or amendments to this Offering Circular circulated by the Issuers and/or the Guarantors from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. (See "General Information" for a description of the financial statements currently published by each of Alfa Issuance, Alfa Markets, ABH Financial and Alfa Bank).

The Issuers and the Guarantors will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to Alfa Bank at its representative office in London at City Tower, Level 12, 40 Basinghall Street, London EC2V 5DE. In addition, such documents will be available from the principal office in England of UBS Limited in its capacity as Authorised Adviser for Notes admitted to the Official List.

The Issuers and the Guarantors have undertaken to the Dealers in the Programme Agreement to comply with sections 81 and 83 of the FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

The financial statements of Alfa Bank referred to in (d) above which are incorporated by reference herein should not be read in conjunction with, and cannot be compared to, much of the other information presented elsewhere in this document which, unless otherwise stated, has been calculated in accordance with International Financial Reporting Standards ("IFRS") and which relates to Alfa Banking Group as a whole. The figures in such documents have been presented with respect to Alfa Bank only and not for the consolidated Alfa Banking Group. Such figures have been calculated in accordance with the Russian Accounting Rules ("RAR") and translated into U.S. dollars at the official CBR closing rate at the respective reporting dates. IFRS differ in certain significant respects from RAR. For a description of significant differences between IFRS and RAR, see "Summary of Significant Differences between IFRS and RAR".

Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Offering Circular.

ALFA ISSUANCE

Alfa Issuance is a wholly-owned subsidiary of ABH Financial which was incorporated on 14 January 2004 under the laws of Cyprus as a private company with limited liability and unlimited duration. Alfa Issuance's corporate domicile is in Nicosia, Cyprus.

Alfa Issuance is a finance vehicle through which ABH Financial and its subsidiaries raise funds in international bank and capital markets.

ALFA MARKETS

Alfa Markets is a wholly-owned subsidiary of ABH Financial, which was incorporated on 13 January 2004 under the laws of Cyprus as a private company with limited liability and unlimited duration. Alfa Markets' corporate domicile is in Nicosia, Cyprus.

Alfa Markets is a finance vehicle through which ABH Financial and its subsidiaries raise funds in international bank and capital markets.

ALFA BANKING GROUP

ABH Financial is the parent company of Alfa Banking Group. Alfa Bank is a wholly-owned subsidiary of ABH Financial.

Alfa Banking Group is comprised of two main divisions: (i) commercial banking which is operated principally through Alfa Bank and its subsidiaries in Ukraine, Kazakhstan and The Netherlands and (ii) investment banking which is conducted principally by Alfa Bank and through its subsidiaries in the United Kingdom (London), the United States of America (New York) as well as through Alfa Capital Holdings (Cyprus) Limited ("Alfa Capital") in Cyprus (Nicosia).

Alfa Banking Group is one of Russia's largest banking groups in terms of equity, assets, branches, retail deposits and funds under management among private Banks. Alfa Banking Group is also the largest VISA branded debit card issuer in Russia.

Alfa Banking Group offers a full range of products and operates in all sectors of the financial markets including lending, interbank and retail deposits, foreign exchange operations, debt, bond and equity trading, project finance, leasing and asset management. Alfa Banking Group is seeking to develop its branch network throughout Russia and the CIS.

ALFA BANK

Alfa Bank is registered in Russia to carry out banking and foreign exchange activities, has operated under a general banking licence issued by the CBR since January 1991 and obtained a licence to deal in precious metals in 1994. Alfa Bank has over 100 offices (including subsidiary branches, regional branches and outlets) throughout Moscow, St. Petersburg and other key cities in Russia (including subsidiary banks in Ufa and Kazan, regional branches and outlets).

Alfa Bank and its subsidiaries operate Alfa Banking Group's commercial banking business. This business generated total revenues of U.S.$554.1 million for the year ended 31 December 2003. Alfa Bank has a total corporate customer base of over 54,000 clients and a retail customer base of around 900,000 clients. Alfa Bank's project finance department incorporates project finance, export-import finance and guarantees, and leasing operations. Alfa-Leasing was established in 1999 and is a wholly-owned subsidiary of Alfa Bank. Through Alfa-Leasing, Alfa Bank acquires capital assets and leases them to Russian enterprises involved in a variety of different industries. Alfa Bank also has precious metal trading and correspondent banking operations.

CREDIT RATINGS OF ALFA BANK AND THE PROGRAMME

Alfa Bank is rated by two rating agencies: Moody's Investor Service ("Moody's") and Standard and Poor's Rating Services, a division of the McGraw Hill Companies ("Standard & Poor's"). These ratings have been prepared by the rating agencies based on ABH Financial's audited consolidated IFRS financial statements and not on financial statements for Alfa Bank prepared on a stand-alone basis.

Alfa Bank has received a long-term credit rating of Ba2 from Moody's and B (with a positive outlook) from Standard and Poor's. The Programme is rated Ba2 (with a stable outlook) by Moody's and B by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Summary of the Programme

Issuers:	Alfa MTN Issuance Limited Alfa MTN Markets Limited
Guarantors:	ABH Financial Limited Open Joint-Stock Company "ALFA-BANK"
Joint Arrangers:	Merrill Lynch International UBS Limited
Dealers:	Merrill Lynch International UBS Limited
Trustee:	J. P. Morgan Corporate Trustee Services Ltd.
Issue and Principal Paying Agent:	JPMorgan Chase Bank
Programme Amount:	The aggregate principal amount of Notes outstanding at any time will not exceed U.S.$400,000,000 or its equivalent in alternative currencies (the "Programme Amount"). The Programme Amount may be increased from time to time in accordance with the Programme Agreement.
Distribution:	Notes may be distributed by way of private or, subject to applicable selling restrictions, public placement and in each case on a syndicated or non syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer, the Guarantors and the relevant Dealer including but not limited to Euro, U.S. Dollars, Yen and Sterling. Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. Issues of Notes denominated in Swiss Francs or carrying a Swiss Franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2 December 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the Lead Manager must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) (the "Swiss Dealer") or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the relevant Issue Date.

Denominations:	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the relevant Issuer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. If so, the wording of the redenomination clause will be set out in full in the applicable Pricing Supplement.
Issuance:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations. Each Tranche will be the subject of a Pricing Supplement which, for the purposes of that Tranche only, supplements the Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.
Notes which have a maturity of less than one year:	Notes which have a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in any other currency or another applicable exemption from section 19 of the FSMA is available. See "Selling Restrictions".
Maturity of the Notes:	Such maturities as may be agreed between the relevant Issuer, the Guarantors and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer, the Guarantors or the relevant specified currency.
Issue Price:	Notes may be issued at par or at a discount to, or premium over, par and may be issued on a fully paid or a partly paid basis.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer, the Guarantors and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption.

Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined either: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the relevant Issuer, the Guarantors and the relevant Dealer, as indicated in the applicable Pricing Supplement. The Margin (if any) relating to such Floating Rate Notes will be agreed between the relevant Issuer, the Guarantors and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both (as indicated in the applicable Pricing Supplement). Interest on Floating Rate Notes in respect of each Interest Period, as selected prior to issue by the relevant Issuer, the Guarantors and the relevant Dealer(s), will be payable on the first day of the next Interest Period and will be calculated in accordance with the relevant Day Count Fraction or as otherwise indicated in the applicable Pricing Supplement.
Interest Periods for Floating Rate Notes:	Such period(s) as the relevant Issuer, the Guarantors and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
Indexed Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Notes will be calculated by reference to such index and/or formula as the relevant Issuer, the Guarantors and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer, the Guarantors and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will at all times rank *pari passu* among themselves and equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding, other than obligations preferred by mandatory provisions of law.

Status of the Guarantees:	The payment obligations of the Guarantors under the Trust Deed and the ABH Financial and Alfa Bank Guarantees will constitute direct, unconditional and unsecured obligations of each Guarantor and will rank *pari passu* and equally with all other unsecured obligations (other than subordinated obligations, if any) of either Guarantor from time to time outstanding, other than obligations preferred by mandatory provisions of law.
Cross Default	The Notes will contain a cross default in respect of Indebtedness of the relevant Issuer, the Guarantors or any of their respective Subsidiaries (as set out in Condition 13.3).
Negative Pledge:	So long as any Note remains outstanding neither of the Issuers shall and each Issuer shall not permit any of its Subsidiaries to, and shall procure that neither Guarantor nor any of its Subsidiaries shall, directly or indirectly, create, incur or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, securing any Indebtedness unless (i) the Notes are secured equally and rateably with such other Indebtedness or (ii) such other security for the Notes as may be approved by the Trustee or an Extraordinary Resolution of the Noteholders, is provided.
Taxation:	All payments under any Notes will be made without deduction or withholding for or on account of any present or future taxes imposed by Cyprus, the British Virgin Islands or the Russian Federation, except as stated in the Notes.
Form of the Notes:	Unless otherwise specified in the Pricing Supplement, each Tranche of Notes will initially be represented by a temporary global Note ("Temporary Global Note") which will be deposited on the relevant Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg. Interests in each Temporary Global Note will be exchanged either for interests in a permanent global Note ("Permanent Global Note") or definitive Notes (as indicated in the applicable Pricing Supplement) in either case not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. Each Permanent Global Note will be exchangeable, unless otherwise specified in the applicable Pricing Supplement, in whole but not in part for definitive Notes in accordance with its terms. Any interest in a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and for any other agreed clearance system as appropriate.
Delivery:	Global Notes will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), Clearstream Banking, société anonyme ("Clearstream, Luxembourg") or any other recognised clearing system. Definitive Notes, if issued, will be available in London at the specified office of the Principal Paying Agent for collection or for delivery to Euroclear, Clearstream, Luxembourg or any other recognised clearing system.
Rating:	The Programme is rated Ba2 (with a stable outlook) by Moody's and B by Standard & Poor's. Notes issued under the Programme may be rated or

	unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the London Stock Exchange's market for listed securities. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer(s) in relation to each series of Notes. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). This Offering Circular and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the London Stock Exchange's market for listed securities during a period of 12 months from the date of this Offering Circular.
Use of Proceeds:	The net proceeds from each issue of Notes will be on-lent by the relevant Issuer to one or both of the Guarantors for their general corporate purposes.
Purchases:	The relevant Issuer, either Guarantor or any of its respective subsidiaries may at any time purchase Notes in any manner and at any price.
Selling Restrictions:	The offering and sale of Notes is subject to all applicable selling restrictions including, without limitation, those of Cyprus, the British Virgin Islands, the Russian Federation, Italy, Japan, the Netherlands, the United Kingdom and the United States of America (see "Selling Restrictions" below).
Governing Law:	The Notes will be governed by, and shall be construed in accordance with, English law.
Certain Risk Factors:	For a discussion of certain investment considerations relating to the Issuers, the Guarantors and the Notes that prospective investors should carefully consider prior to an investment in the Notes (see "Certain Risk Factors").

Form of Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[*Date*]

[ALFA MTN ISSUANCE LIMITED/ALFA MTN MARKETS LIMITED][1]

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$400,000,000
Euro Medium Term Note Programme
unconditionally and irrevocably guaranteed by ABH Financial Limited
and Open Joint-Stock Company "ALFA-BANK"**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 22 June 2004. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[*The following alternative language applies if the first Tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs.*]

[*If the Notes have a maturity of less than one year from their date of issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	(i) Series Number:	[ ]
	(ii) Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
2.	Specified Currency or Currencies:	[ ]
3.	Aggregate Nominal Amount:	
	— Tranche:	[ ]
	— Series:	[ ]
4.	(i) Issue price of Tranche:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
	(ii) Net proceeds:	[ ] (*Required only for listed issues*)
5.	Specified Denominations:	[ ] (*The Specified Denomination must be in a minimum denomination of €50,000 (or its equivalent in other currencies)*)
6.	[(i)] Issue Date [and Interest Commencement Date]	[ ]

1 *Delete as appropriate*

	[(ii) Interest Commencement Date (if different from the Issue Date):	[ ]]
7.	Maturity Date:	[*Fixed rate — specify date/Floating Rate* — Interest Payment Date falling in or nearest to [*specify month*]]
8.	Interest Basis:	[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/– [ ] per cent. Floating Rate] [Zero Coupon] [Index Limited Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
9.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
10.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
11.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
12.	Status of the Notes:	Unsubordinated
13.	Listing:	[London/Luxembourg/*specify other*/None]
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear] (*If payable other than annually, consider amending Condition 6*)
	(ii) Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[*specify other*] (*NB: This will need to be amended in the case of long or short coupons*)
	(iii) Fixed Coupon Amount(s):	[ ] per [ ] in nominal amount
	(iv) Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Interest Amount*]
	(v) Day Count Fraction:	[30/360 or Actual/Actual (ISMA) or *specify other*]
	(vi) Interest Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon*] (*NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration*) (*NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA)*)

	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
16.	**Floating Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/No Adjustment/[*specify other*]]
	(iii) Additional Business Centre(s):	[ ]
	(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
	(vi) Screen Rate Determination:	
	— Reference Rate:	[ ] (*Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)*
	— Interest Determination Date(s):	[ ] (*Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	— Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Telerate 248 ensure it is a page which shows a composite rate of amend the fallback provisions appropriately*)
	(vii) ISDA Determination:	
	— Floating Rate Option:	[ ]
	— Designated Maturity:	[ ]
	— Reset Date:	[ ]
	(viii) Margin(s):	[+/–] [ ] per cent. per annum
	(ix) Minimum Rate of Interest:	[ ] per cent. per annum
	(x) Maximum Rate of Interest:	[ ] per cent. per annum
	(xi) Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/360 30/360 30E/360 *Other*] (*See Condition 7 for alternatives*)

	(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in Conditions:	[ ]
17.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Accrual Yield:	[ ] per cent. per annum
	(ii) Reference Price:	[ ]
	(iii) Any other formula/basis of determining amount payable:	[ ] (*Consider applicable day count fraction if not U.S. dollar denominated*)
	(iv) Day Count Fraction in relation to Redemption Amounts and late payment:	[Condition 10.7 *applies/specify other*]
18.	**Index Linked Interest Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Index/Formula:	'[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the principal and/or interest due:	[ ]
	(iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[ ]
	(iv) Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *specify other*]
	(vi) Additional Business Centre(s):	[ ]
	(vii) Minimum Rate of Interest:	[ ] per cent. per annum
	(viii) Maximum Rate of Interest:	[ ] per cent. per annum
	(ix) Day Count Fraction:	[ ]
19.	**Dual Currency Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate of exchange/method of calculating rate of exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	[ ]
	(iii) Provisions applicable where calculating by reference to rate of exchange impossible or impracticable:	[ ]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

20. Call Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[ ]
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[ ]
(b) Maximum Redemption Amount:	[ ]
(iv) Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
21. Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Optional Redemption Date(s):	[ ]
(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[ ]
(iii) Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22. Final Redemption Amount of each Note:	[Nominal Amount/*specify other*/see Appendix]
23. Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 10):	[ ]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate*)
26. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the issue price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. NB a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28. Details relating to Instalment Notes:	
(i) Instalment Amount(s):	[Not Applicable/*give details*]
(ii) Instalment Date(s):	[Not Applicable/*give details*]
29. Redenomination applicable:	Redenomination [not] applicable (*if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Pricing Supplement*)
30. Other terms or special conditions:	[Not Applicable/*give details*]
31. Governing law:	English law

DISTRIBUTION

32. (i) If syndicated, names of Managers:	[Not Applicable/*give names*]
(ii) Stabilising Manager (if any):	[Not Applicable/*give names*]
33. If non-syndicated, name of relevant Dealer:	[ ]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
37. Delivery:	Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any):	[ ]

ISIN:	[ ]
Common Code:	[ ]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$400,000,000 Euro Medium Term Note Programme of Alfa MTN Issuance Limited and Alfa MTN Markets Limited.]

RESPONSIBILITY

The Issuer and the Guarantors accept responsibility for the information contained in this Pricing Supplement.

If any applicable Pricing Supplement specifies any modification to the Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only Conditions 3, 6, 7, 8, 10, 11, 12 (except Condition 10.2(b)), 15, 16, 17 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 18, they will not necessitate the preparation of a supplement to the Offering Circular. If the Conditions of the Notes of any Series are to be modified in any other respect, a supplemental to the Offering Circular will be prepared, if appropriate.

Signed on behalf of:
[ALFA MTN ISSUANCE LIMITED/ALFA MTN MARKETS LIMITED]

By: ________________________________
(*Duly authorised*)

Signed on behalf of:
ABH FINANCIAL LIMITED

By: ________________________________
(*Duly authorised*)

Signed on behalf of:
OPEN JOINT-STOCK COMPANY "ALFA-BANK"

By: ________________________________
(*Duly authorised*)

By: ________________________________
(*Chief Accountant*)

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global Note. The relevant Pricing Supplement (or relevant provisions thereof) will be endorsed upon or attached to each Global Note and Definitive Note. The Terms and Conditions of the Notes applicable to Global Notes will differ from those which would apply to a Definitive Note to the extent described under "Forms of Notes".

1. INTRODUCTION

Alfa MTN Issuance Limited ("Alfa Issuance") and Alfa MTN Markets Limited ("Alfa Markets") have established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to U.S.$400,000,000 in aggregate principal amount of notes (the "Notes") guaranteed on a joint and several basis by ABH Financial Limited ("ABH Financial") and Open Joint-Stock Company "ALFA-BANK" ("Alfa Bank" and, together with ABH Financial, the "Guarantors").

Notes issued under the Programme are issued in series (each a "Series") and each Series may comprise one or more tranches (each a "Tranche") of Notes. Each Tranche is the subject of a pricing supplement (the "Pricing Supplement") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

The Notes are the subject of a trust deed dated 22 June 2004 (the "Trust Deed") between Alfa Issuance, Alfa Markets, ABH Financial, Alfa Bank and J.P. Morgan Corporate Trustee Services Ltd. as trustee (the "Trustee", which expression includes all persons for the time being appointed as trustee or trustees under the Trust Deed).

The Notes are the subject of a paying agency agreement dated 22 June 2004 (the "Agency Agreement") between Alfa Issuance, Alfa Markets, the Guarantors, JPMorgan Chase Bank as principal paying agent (the "Principal Paying Agent"), which expression includes any successor Principal Paying Agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Principal Paying Agent, the "Paying Agents" which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).

The Notes are the subject of a deed of guarantee given by ABH Financial in Clause 5 of the Trust Deed (the "ABH Financial Guarantee") and by Alfa Bank pursuant to a deed of guarantee dated 22 June 2004 entered into by Alfa Bank (the "Alfa Bank Guarantee" and, together with the ABH Financial Guarantee, the "ABH Financial and Alfa Bank Guarantees"). The original Alfa Bank Guarantee is held by the Trustee on behalf of the Noteholders and Couponholders.

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these Conditions are summaries of the Trust Deed, the ABH Financial and Alfa Bank Guarantees or the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the ABH Financial and Alfa Bank Guarantees applicable to them. Copies of the Trust Deed, the Agency Agreement and the Alfa Bank Guarantee are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below. Copies are also available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Trinity Tower, 9 Thomas More Street, London E1W 1YT.

References in these Conditions to the "Issuer" are, save where the context requires otherwise, to Alfa Issuance or Alfa Markets as so specified in the Pricing Supplement.

2. INTERPRETATION

2.1 In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Pricing Supplement;

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Additional Financial Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Affiliate" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person (which shall include the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise), (b) any other Person who is a director or officer (i) of such specified Person, (ii) of any subsidiary of such specified Person or (iii), or of any Person described in (a) above;

"Board of Directors" means, as to any Person, the board of directors (or comparable governing body under applicable law) of such Person or any committee thereof duly authorised to act on behalf of such board;

"Business Day" means:

(i) with respect to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) with respect to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"Business Day Convention", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "Following Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "Modified Following Business Day Convention" or "Modified Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "Preceding Business Day Convention" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "FRN Convention", "Floating Rate Convention" or "Eurodollar Convention" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "No Adjustment" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Calculation Agent" means the Principal Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

A "Change of Control" shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of ABH Financial) that any Person or any Persons acting in concert, or any Persons acting on behalf of any such Person(s), at any time is/are or become(s) interested in or acquires an interest in (a) more than 50% of the issued or allotted ordinary share capital of ABH Financial or (b) shares in the capital of ABH Financial carrying more than 50% of the voting rights normally exercisable at a general meeting of the shareholders of ABH Financial;

"Coupon Sheet" means, in respect of a Note, a coupon sheet relating to the Note;

"Day Count Fraction" means (subject as provided in Condition 6), in respect of the calculation of an amount of interest for any Interest Period:

(i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the relevant Pricing Supplement, means the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/360" is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(iv) if "30/360", "360/360" or "Bond Basis" is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other London than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(v) if "30E/360" or "Eurobond Basis" is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"Domestic Bank Debt" means loans from banks or financial institutions domiciled in, or incorporated under any of the laws of any state forming part of the Commonwealth of Independent States or any territory thereof which are not subsidiaries of Persons domiciled in or incorporated under the laws of any territory outside any such state;

"Early Redemption Amount (Tax)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Early Termination Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"Extraordinary Resolution" has the meaning given in the Trust Deed;

"Final Redemption Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Fixed Coupon Amount" has the meaning given in the relevant Pricing Supplement;

"Group" means ABH Financial and its Subsidiaries taken as a whole;

"Guarantee" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"IFRS" means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board;

"Indebtedness" means any present or future indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised; any present or future amount raised by acceptance under any acceptance credit facility; any present or future amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any present or future amount of money raised pursuant to any issue of shares which are expressed to be redeemable; any present or future amount raised under any other transaction having the commercial effect of a borrowing; and the amount of any present or future liability in respect of any guarantee or indemnity for any of the items referred to above;

"Independent Appraiser" means an investment banking, accountancy or appraisal firm of international standing selected by Alfa Bank (with the prior written consent of the Trustee), provided it is not an Affiliate of the Issuer, Guarantor or any Material Subsidiary;

"Instalment Amount" has the meaning given in the relevant Pricing Supplement;

"Instalment Date" has the meaning given in the relevant Pricing Supplement;

"Instalment Note" means a Note specified as such in the relevant Pricing Supplement;

"Interest Amount" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"Interest Commencement Date" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"Interest Determination Date" has the meaning given in the relevant Pricing Supplement;

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"Interest Period" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Definitions" means the 2000 ISDA Definitions (as supplemented by the Annex to the 2000 ISDA Definitions and as further amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc.;

"Issue Date" has the meaning given in the relevant Pricing Supplement;

"Lien" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien or charge securing any obligation of any Person or adverse claim or any preferential arrangement of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/Leaseback Transaction) having a similar effect to the foregoing;

"Lowest Rating" means, in respect of any Rated Security or any corporate rating of the Issuer or either Guarantor, the lowest rating assigned by a Rating Agency (or, where more than one Rating Agency has assigned an equivalent rating to such Rated Security or any corporate rating of the Issuer or either Guarantor, the relevant Rating Agencies) and existing on the Business Day immediately preceding the commencement of the Relevant Period, as compared with the ratings of such Rated Security or such corporate rating assigned by any other Rating Agency and existing on such date;

"Maximum Rate of Interest" has the meaning given in the relevant Pricing Supplement;

"Maximum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Margin" has the meaning given in the relevant Pricing Supplement;

"Material Adverse Effect" means a material adverse effect on the business, operations, property, condition (financial or otherwise) or prospects of ABH Financial and its Subsidiaries taken as a whole or on either Guarantor's ability to perform or comply with its obligations under the Trust Deed and/or the ABH Financial and Alfa Bank Guarantees or on the validity or enforceability of the ABH Financial and Alfa Bank Guarantees, the Trust Deed or any document related to them or on the rights and remedies of any person thereunder;

"Material Subsidiary" means, at any particular time, a Subsidiary of ABH Financial (a) whose total assets exceed 5% of the consolidated IFRS total assets of ABH Financial or (b) whose net profit before taxation exceeds 5% of the consolidated IFRS net profit before taxation of ABH Financial, for which purpose:

(i) all calculations shall be determined in accordance with generally accepted accounting principles from (a) the then latest annual consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the then latest annual non-consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non-consolidated accounts) or if the relevant Subsidiary does not prepare audited accounts, the then latest annual consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the latest annual non-consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non-consolidated accounts) and (b) the then latest audited consolidated IFRS financial statements of ABH Financial;

(ii) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary of ABH Financial the transferor shall cease to be a Material Subsidiary and any such transferee which is not already a Material Subsidiary shall thereupon be deemed to be a Material Subsidiary until the next audited consolidated IFRS financial statements of ABH Financial are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with (i) above; and

(iii) subject to (ii) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a Material Subsidiary which immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation satisfied either of the tests referred to in (i) or (ii) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy any of such tests, shall cease to be a Material Subsidiary for the purposes of this definition.

Within 10 Moscow Business Days of a request therefor, Alfa Bank or ABH Financial shall provide a certificate (in the English language if so requested by the relevant party) signed by a director of ABH Financial and accompanied by a report by an Independent Appraiser addressed to the directors of ABH Financial as to the proper extraction of the figures used in determining a Material Subsidiary and the mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantors and the Noteholders.

"Maturity Date" has the meaning given in the relevant Pricing Supplement;

"Minimum Rate of Interest" has the meaning given in the relevant Pricing Supplement;

"Minimum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Moscow Business Day" means a day on which commercial banks and foreign exchange markets settle payments generally in Moscow;

A "Negative Ratings Event" shall be deemed to have occurred:

(i) if, at any time upon or following the announcement or (in the absence of such an announcement) the occurrence of a Reorganisation or a Change of Control, until:

  (a) the date which is six weeks after the date of such an announcement or occurrence, as the case may be, of the relevant Reorganisation or Change of Control, the Lowest Rating shall be placed on "credit watch" or formal review (or equivalent) with negative implications or a negative outlook; or

  (b) the date which is six months after the date of such an announcement or occurrence, as the case may be, of the relevant Reorganisation or Change of Control (such period, the "Relevant Period"), the Lowest Rating shall be downgraded or withdrawn; or

(ii) if at any time during the Relevant Period, any rating of any Rated Security or any corporate rating of the Issuer, ABH Financial or Alfa Bank assigned by any other Rating Agency and existing on the Business Day immediately preceding the commencement of the Relevant Period, shall be downgraded to a rating below the Lowest Rating or withdrawn by such Rating Agency;

"Optional Redemption Amount (Call)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Amount (Put)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Date (Call)" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Date (Put)" has the meaning given in the relevant Pricing Supplement;

"Partly Paid Note" means a Note (other than a partly paid note which is a Zero Coupon Note) on which interest accrues on the paid-up principal amount of such Note and otherwise as specified as such in the applicable Pricing Supplement;

"Payment Business Day" means:

(i) if the currency of payment is euro, any day which is:

(a) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(b) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(a) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(b) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"Permitted Disposal" means the sale, lease, transfer or other disposition of any of the assets of the Group referred to in note 9 (Investments) to the audited consolidated annual financial statements of ABH Financial for the year ended 31 December 2003;

"Permitted Lien" means any:

(i) Lien securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with either of the Guarantors or any Subsidiary; provided that such Lien was not created in contemplation of such merger or consolidation and does not extend to any, other assets, income or property of either of the Guarantors or any Subsidiary;

(ii) Lien on assets or property acquired by a Guarantor or a Subsidiary; provided that such Lien was not created in contemplation of such acquisition and does not extend to any other assets or property (other than proceeds of such acquired assets or property);

(iii) Lien incurred, or pledge and deposit in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(iv) Lien imposed by law, including, without limitation, a mechanics', carriers', warehousemen's, materialmen's, suppliers' and vendors' Lien in the ordinary course of business;

(v) Lien for *ad valorem*, income or property taxes or assessments and similar charges which either is not delinquent or is being contested in good faith by appropriate proceedings for which the Guarantors have set aside on its books reserves to the extent required by International Financial Reporting Standards or Russian Accounting Standards (as applicable);

(vi) easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Lien arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Guarantors or any of the Subsidiaries and existing, arising or incurred in the ordinary course, of business;

(vii) (a) bankers' Lien in respect of deposit accounts, (b) statutory landlords' Lien, (c) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in subclauses (a), (b) and (c) above of this clause (vii), such Lien (A) does not secure obligations constituting Indebtedness for borrowed money and (B) is incurred in the ordinary course of business), and (d) Lien arising from any judgment, decree or other order which does not constitute an Event of Default;

(viii) any renewal of or substitution for any Lien permitted by any of the preceding paragraphs (i) through (vii); provided, however, that, with respect to any Lien incurred pursuant to this paragraph the principal amount secured has not increased and such Lien has not been extended to any additional property (other than proceeds of the property in question);

(ix) any Lien created in respect of or in connection with a Securitisation Transaction;

(x) any Lien arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (i) in connection with Alfa Bank's proprietary trading activities (and not for the purpose of raising credit or funds not related to the securities transaction itself) and/or (ii) in connection with any Repos solely related to the financing of the securities the subject of such agreement or any Repo of securities acquired through Alfa Bank as broker; and

(xi) any other Lien not otherwise described in sub-paragraphs (i) through (x) above provided that the aggregate amount of Indebtedness secured thereby shall not exceed U.S.$50 million;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Potential Event of Default" means an event which, with the passage of time or the giving of notice or both, would constitute an Event of Default;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Put Event" means the occurrence of a Change of Control and a Negative Ratings Event in respect of that Change of Control;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"Rated Securities" means the Notes so long as they shall have an effective rating from any Rating Agency and, if there is no such rating, all unsecured and unsubordinated debt of the Issuer or either Guarantor having an initial maturity of one year or more which is rated by any of the Rating Agencies;

"Rating Agency" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., Moody's Investors Service, Inc. or Fitch Ratings Ltd, or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer, Alfa Bank or ABH Financial, as the case may be, from time to time with the prior written approval of the Trustee;

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"Reference Banks" has the meaning given in the relevant Pricing Supplement or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"Reference Price" has the meaning given in the relevant Pricing Supplement;

"Reference Rate" has the meaning given in the relevant Pricing Supplement;

"Relevant Date" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"Relevant Financial Centre" has the meaning given in the relevant Pricing Supplement;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 Money Rates Service and Bridge/Telerate) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"Relevant Time" has the meaning given in the relevant Pricing Supplement;

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multinational organisation;

"Reserved Matter" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"Sale/Leaseback Transaction" means an arrangement with any lender or investor whereby that lender or investor leases to ABH Financial or one of the Material Subsidiaries any property or assets that have been sold by ABH Financial or one of the Material Subsidiaries to that lender or investor or to another person to whom that lender or investor has advanced funds on the security of the leased property or assets;

"Securitisation Transaction" means any series of related transactions involving the issuance of securities backed by Alfa Bank's credit card, debit card, cheque, cash remittance, workers remittances or trade payment rights receivables and in respect of which there is no recourse to any member of the Group or to any of its assets other than to such assets as are being securitised, provided that the aggregate outstanding principal amount of such securities does not at any time exceed 5% of the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of ABH Financial);

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"Signing Date" means 22 June 2004;

"Specified Currency" has the meaning given in the relevant Pricing Supplement;

"Specified Denomination(s)" has the meaning given in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements;

"Specified Interest Payment Date" has the meaning given in the relevant Pricing Supplement;

"Specified Office" has the meaning given in the Agency Agreement;

"Specified Period" has the meaning given in the relevant Pricing Supplement;

"Subsidiary" of any person means any corporation, association, partnership or other business entity of which more than 50% of the total voting rights of its share capital is at the time owned or controlled directly by such Person, such Person and one or more Subsidiaries of such Person or one or more Subsidiaries of such Person;

"Talon" means a talon for further Coupons;

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open; and

"Zero Coupon Note" means a Note specified as such in the relevant Pricing Supplement.

2.2 In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8, any premium payable in respect of a Note, in relation to Notes redeemable in instalments, the Instalment Amounts and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 8 and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(vii) if an expression is stated in Condition 2.1 to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

3. FORM, DENOMINATION AND TITLE

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder.

The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The provisions relating to such redenomination will be contained in the applicable Pricing Supplement.

Notes may be issued on a fully-paid or partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

4. STATUS AND THE ABH FINANCIAL AND ALFA BANK GUARANTEES

4.1 The Notes and Coupons constitute direct, unconditional and (subject as provided in Condition 5) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future outstanding unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4.2 The Guarantors have in the ABH Financial and Alfa Bank Guarantees unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer under the Trust Deed and in respect of the Notes and Coupons and agreed to be bound by the covenants set out herein. The ABH Financial and Alfa Bank Guarantees constitute direct, general and unconditional obligations of the Guarantors which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantors, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. NEGATIVE PLEDGE AND COVENANTS

5.1 *Negative Pledge:* So long as any Note remains outstanding the Issuer shall not and shall not permit any of its Subsidiaries (if any) to, and shall procure that neither Guarantor nor any of its Subsidiaries shall, directly or indirectly, create, incur or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, securing any Indebtedness unless (i) the Notes are secured equally and rateably with such other Indebtedness or (ii) such other security for the Notes as may be approved by the Trustee or an Extraordinary Resolution of the Noteholders, is provided.

5.2 *Limitation on Affiliate Transactions:* Neither Guarantor shall, and each Guarantor shall procure that no Material Subsidiary shall, directly, or indirectly, conduct any business, permit to exist or enter into any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property, the rendering of any service, the making of any loan or guarantee or the creation of any other contingent obligation, whether directly or indirectly) with or for the benefit of any of its respective Affiliates (each an "Affiliate Transaction") unless (i) in the case of an Affiliate Transaction with any Affiliate who is not a member of the Group (a) the terms of such Affiliate Transaction are no less favourable to the relevant Guarantor or Material Subsidiary than those that would be obtained in a comparable arms-length transaction with a person that is not an Affiliate of such Person, (b) the fair market value of all Affiliate Transactions does not at any time exceed 35% of ABH Financial's consolidated total assets, determined in accordance with IFRS from the latest published annual consolidated audited accounts of ABH Financial and (c) such Affiliate Transaction or series of related Affiliate Transactions has been approved by a resolution of the Board of Directors of the relevant Guarantor or Material Subsidiary, as the case may be, resolving that the Affiliate Transaction or series of related Affiliate Transactions complies with the requirements of this Condition and such resolution has been adopted by a majority of the disinterested members of such Board of Directors or, if there are insufficient disinterested members, by a majority of such Board of Directors acting in good faith or, in the case of Alfa Bank, approved by any relevant managing body of Alfa Bank, adopted in good faith and in accordance with the relevant requirements of the laws of the Russian Federation and Alfa Bank's constitutive documents and that a copy (in English) of such resolution has been delivered to the Trustee, provided in any case that if the fair market value as determined by the Board of Directors of the relevant Guarantor or Material Subsidiary, as the case may be, of an Affiliate Transaction is in excess of U.S.$25,000,000 (or the equivalent thereof in any other currency or currencies), such Board of Directors shall have also received a written opinion from an Independent Appraiser (a copy of which opinion shall be provided to the Trustee) that such Affiliate Transaction is fair to the relevant Guarantor or Material Subsidiary, as the case may be, from a financial point of view; such written opinion of an Independent Appraiser may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties, or (ii) in the case of an Affiliate Transaction with any Affiliate who is a member of the Group the terms of such Affiliate Transaction are no less favourable to the relevant Guarantor or Material Subsidiary than those that would be obtained in a comparable arms-length transaction with a person that is not an Affiliate of such Person as determined in the reasonable opinion of the relevant Guarantor or Material Subsidiary, as the case may be.

Any assessment of fair market value by a Board of Directors, as contemplated by this Condition, shall be made by the relevant Board of Directors acting in good faith. In addition, each Guarantor shall procure that the level of Affiliate Transactions should not at any time exceed the annual limits set by the Board of Directors of either Guarantor or any Material Subsidiary, as the case may be. For the purposes of these Conditions, whether or not a member of a Board of Directors is disinterested or acting in good faith with respect to any particular resolution shall be determined in accordance with the laws of the jurisdiction in which the relevant Person is incorporated (or otherwise existing) and such Person's constitutive (or equivalent) documents.

This Condition 5.2 does not apply to compensation or employee benefit arrangements with any officer or director of either Guarantor or a Material Subsidiary, as the case may be, arising as a result of their employment contract.

5.3 *Limitation on Restricted Payments:*

(i) Subject to sub-paragraph (ii) below, ABH Financial will not, and will not permit any Material Subsidiary to, directly or indirectly:

(a) declare or pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital other than dividends of distributions payable to either Guarantor; or

(b) voluntarily purchase, redeem or otherwise retire for value any capital stock or subordinated debt of either Guarantor, other than capital stock owned by either Guarantor or subordinated debt payable to either Guarantor,

any such action being referred to herein as a "Restricted Payment".

(ii) Notwithstanding sub-paragraph 5.3(i) above, ABH Financial may make a Restricted Payment if at the time of such payment no Potential Event of Default has occurred or would result therefrom and the aggregate amount of all Restricted Payments in any annual accounting period does not exceed 50% of ABH Financial's consolidated net profit for the immediately preceding accounting period determined by reference to the latest consolidated financial statements of ABH Financial, prepared in accordance with International Accounting Standards.

5.4 *Maintenance of Capital Adequacy:*

(i) ABH Financial shall not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices to fall below 8%, such recommendations to be as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and such calculation to be made by reference to the latest annual consolidated audited accounts of ABH Financial.

(ii) Alfa Bank shall not, and ABH Financial shall ensure that each other Material Subsidiary which carries on a banking business shall not, permit its total capital ratio to fall below the minimum total capital ratio required by, in the case of Alfa Bank, the Central Bank of Russia and, in the case of each other such Material Subsidiary, the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such other Material Subsidiary carries on its banking business, such calculation to be made by reference to, in the case of Alfa Bank, the latest annual non-consolidated audited accounts of Alfa Bank and, in the case of each other such Material Subsidiary, the latest annual non-consolidated audited accounts of such Material Subsidiary or if such Material Subsidiary does not prepare audited accounts, the latest annual non-consolidated unaudited accounts of such Material Subsidiary provided that, should Alfa Bank or any other Material Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

5.5 *Maintenance of authorisations:* Alfa Bank and ABH Financial shall ensure that each other Material Subsidiary shall take all action which may be necessary or desirable to (i) ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein and (ii) make or cause to be made all registrations, recordings and filings which may at any time be required to be obtained or made in the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein.

5.6 *Limitation on change of business:* Alfa Bank and ABH Financial shall not, and ABH Financial shall procure that no other Material Subsidiary shall, make any material change to the general nature or scope of its business from that carried on as of the Signing Date.

5.7 *Limitation on sale of assets:* Alfa Bank and ABH Financial shall not and ABH Financial shall ensure that no other Material Subsidiary shall, in any financial year, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not but not including Permitted Disposals), the whole or any part of its assets which results in a decrease in excess of 5% in the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of ABH Financial) to any person other than ABH Financial or a Material Subsidiary unless such transaction (i) is on an arm's length basis and on commercially reasonable terms and (ii) has been approved by a resolution of the Board of Directors of the relevant company resolving that the transaction complies with the requirements of this Condition and such resolution has been adopted by a majority of the disinterested members of such Board of Directors or, if there are insufficient disinterested members, by a majority of such Board of Directors acting in good faith or, in the case of Alfa Bank or any of its Material Subsidiaries incorporated in Russia, approved by any relevant managing body of Alfa Bank, adopted in good faith and in accordance with the relevant requirements of the laws of the Russian Federation and Alfa Bank's constitutive documents and that a copy (in English) of such resolution has been delivered to the Trustee.

5.8 *Limitation on merger and consolidation:* Alfa Bank and ABH Financial shall not and ABH Financial shall procure that no other Material Subsidiary shall, without the prior consent of the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed in accordance with applicable laws or participate in any other type of corporation reconstruction (each such reorganisation or reconstruction a "Reorganisation")) unless such Reorganisation would not or does not result in (i) a Material Adverse Effect as certified in an opinion of an Independent Appraiser provided to the Trustee or (ii) a Negative Ratings Event arising solely as a result of, or in connection with, such Reorganisation as specified by the relevant Rating Agency in connection with such Negative Ratings Event.

5.9 *Limitation on restrictions on distributions from Material Subsidiaries:* Alfa Bank and ABH Financial will not, and ABH Financial will not permit any other Material Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Material Subsidiary to (i) pay dividends or make any other distributions on its share capital; (ii) make any loans or advances or pay any Indebtedness owed to either Guarantor; or (iii) transfer any of its property or assets to either Guarantor other than encumbrances or restrictions existing under the Notes, the Trust Deed and any other agreement in effect prior to the Signing Date and advised in writing to the Trustee.

6. FIXED RATE NOTE PROVISIONS

6.1 This Condition 6 is applicable to the Notes only if the relevant Pricing Supplement specifies the Fixed Rate Note Provisions as being applicable.

6.2 The Notes bear interest on the outstanding principal amount (or, if it is a Partly Paid Note, the amount paid up) from the Interest Commencement Date at the rate(s) per annum equal to Rate(s) of Interest payable in arrear on each Interest Payment Date in each year and on the Maturity Date if that does not fall on Interest Payment Date, subject as provided in Condition 11. Unless otherwise specified in the relevant Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Pricing Supplement, amount to the Broken Amount(s) so specified.

6.3 If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. In these Conditions "sub-unit" means, with respect of any currency other than the euro, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to euro means one cent.

6.4 For the purposes of these Conditions, "Day Count Fraction" means:

(i) if Actual/Actual (ISMA) is specified in the relevant Pricing Supplement:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and

the most recent Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or, as the case may be, first) scheduled Interest Payment Date or (y) in the case of Notes where interest is scheduled to be paid other than only by means of regular annual payments, the product of the number of days in the period from (and including) the most recent Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next scheduled Interest Payment Date and the number of Interest Payment Dates that would end in one year assuming interest was to be calculated in respect of the whole of that year; and

(ii) if "30/360" is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 days (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

7. FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS

7.1 This Condition 7 is applicable to the Notes only if the relevant Pricing Supplement specifies the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions as being applicable.

7.2 The Notes bear interest on the outstanding principal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) (each, an "Interest Payment Date") in each year specified in the relevant Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the relevant Pricing Supplement, each date (each, an "Interest Payment Date") which falls in the number of months or other period specified as the Specified Period in the relevant Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date, subject to adjustment in accordance with the applicable Business Day Convention.

Such interest will be payable in respect of each Interest Period (which expression shall in these Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

7.3 The Rate of Interest payable from time to time in respect of the Floating Rate Notes will be determined in the manner specified in the relevant Pricing Supplement.

(i) Where "Screen Rate Determination" is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

(a) the offered quotation; or

(b) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (a) above, no such offered quotation appears or, in the case of (b) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(ii) Where ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(b) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(c) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

7.4 If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

7.5 If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

7.6 The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

7.7 If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

7.8 The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have than been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

7.9 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. ZERO COUPON NOTE PROVISIONS

8.1 This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

8.2 If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. DUAL CURRENCY NOTE PROVISIONS

9.1 This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

9.2 If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. REDEMPTION AND PURCHASE

10.1 Unless previously redeemed, or purchased and cancelled, each Note will be redeemed at its Final Redemption Amount, on the Maturity Date, subject as provided in Condition 11.

10.2. The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(a) (A) the Issuer satisfies the Trustee immediately before the giving of notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of Cyprus or any political subdivision or any authority thereof or therein having power to tax therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(b) (A) both Guarantors satisfy the Trustee immediately before the giving of notice that they have or (if a demand was made under each of the ABH Financial and Alfa Bank Guarantees) they would become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of (in the case of ABH Financial), the British Virgin Islands and/or (in the case of Alfa Bank), the Russian Federation or any political subdivision or any authority thereof or therein having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (B) such obligation cannot be avoided by the Guarantors taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(x) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer or the relevant Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the ABH Financial and Alfa Bank Guarantees were then made; or

(y) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer or the relevant Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the ABH Financial and Alfa Bank Guarantees were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer or ABH Financial (or the equivalent authorised senior officer and the chief accountant of Alfa Bank), as the case may be, stating that the Issuer or, as the case may be, the Guarantors, is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer or, as the case may be, the Guarantors, so to redeem have occurred. Upon the expiry of any such notice as is referred to in this Condition 10.2(b), the Issuer or, as the case may be, the Guarantors, shall be bound to redeem the Notes in accordance with this Condition 10.2(b).

10.3 If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

10.4 If the Notes are to be redeemed in part only on any date in accordance with Condition 10.3, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange, and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10.3 on which the Notes are then listed, and the notice to Noteholders referred to in Condition 10.3 shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

10.5 If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10.5, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10.5, may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10.5, the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

In addition to any other Put Option specified in the relevant Pricing Supplement, if a Put Event shall occur while any Note is outstanding, the holder of each such Note will have the option (unless prior to giving the Put Option Notice, the Issuer gives notice under Condition 10.2) to require the Issuer to redeem that Note on the Optional Redemption Date (Put) as its principal amount together with accrued interest (if any) to the Optional Redemption Date (Put).

10.6 The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 10.1 to 10.5 above.

10.7 Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10.7 or, if none is so specified, a Day Count Fraction of 30E/360.

10.8 The Issuer, the Guarantors or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

10.9 All Notes which are redeemed pursuant to Conditions 10.1 to 10.6 by the Issuer, the Guarantors or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold. All Notes so cancelled shall be forwarded to the Principal Paying Agent.

10.10 Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates in accordance with the provisions of this Condition 10 and the applicable Pricing Supplement.

10.11 Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 10 and the applicable Pricing Supplement.

11. PAYMENTS

11.1 Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

11.2 Payments of interest shall, subject to Condition 11.7 below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 11.1.

11.3 Payments of principal or interest in US Dollars may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents with Specified Offices outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at such Specified Offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) such payment is permitted by applicable United States law.

11.4 All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

11.5 If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(a) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "Relevant Coupons") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(b) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (i) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

11.6 If the relevant Pricing Supplement specifies that this Condition 11.6 is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Conditions 10.2, 10.3, 10.4 or 10.4, all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

11.7 If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

11.8 Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 11.3 above).

11.9 If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

11.10 On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14. Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. TAXATION

12.1 All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantors shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Cyprus or in the case of ABH Financial, the British Virgin Islands or in the case of Alfa Bank, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantors shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Cyprus, the British Virgin Islands or the Russian Federation, other than the mere holding of such Note or Coupon; or

(ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union.

12.2 If the Issuer or either of the Guarantors becomes subject at any time to any taxing jurisdiction other than Cyprus or in the case of ABH Financial, the British Virgin Islands or in the case of Alfa Bank, the Russian Federation respectively, references in these Conditions to Cyprus or in the case of ABH Financial, the British Virgin Islands or in the case of Alfa Bank, the Russian Federation shall be construed as references to Cyprus or (as the case may be) in the case of ABH Financial, the British Virgin Islands or in the case of Alfa Bank, the Russian Federation and/or such other jurisdiction.

13. EVENTS OF DEFAULT

The Trustee may at its discretion, and if so requested in writing by the holders of at least one fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to be indemnified to its satisfaction) (but in the case of the happening of any of the events mentioned in Condition 13.2 and, so far as they relate to a Material Subsidiary other than Alfa Bank, Conditions 13.5, 13.6, 13.7, 13.8, 13.9, 13.10, 13.11, 13.13, 13.14, 13.15, 13.16 and 13.17 below, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall accordingly thereupon immediately become, due and repayable at their Early Termination Amount, together with accrued interest as provided in the Trust Deed, if any of the following events (each, an "Event of Default") shall occur:

13.1 *Non-Payment:* default is made for more than seven days in the payment on the due date of interest or principal in respect of any of the Notes; or

13.2 *Breach of Other Obligations:* the Issuer or either Guarantor fails to perform or comply with any one or more of its obligations under the Notes or in the Trust Deed which default is incapable of remedy or if, in the opinion of the Trustee, capable of remedy, is not to the satisfaction of the Trustee remedied within 15 days after notice of such default shall have been given to the Issuer or the relevant Guarantor, as the case may be, by the Trustee; or

13.3 *Cross-Default:* (i) any Indebtedness of the Issuer, either Guarantor or any of their respective Subsidiaries becomes or any Indebtedness of the Issuer, either Guarantor or any Material Subsidiary (other than Domestic Bank Debt) becomes capable of being declared due and payable prior to its stated maturity otherwise than at the option of the Issuer, either Guarantor or such Subsidiary, as the case may be, or (ii) any Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, either Guarantor or any Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned above in this Condition 13.3 have occurred equals or exceeds U.S.$20,000,000 or its equivalent in another currency or other currencies (as reasonably determined by the Trustee); or

13.4 *Judgment:* a final judgement or order or arbitration award for the payment of an aggregate amount in excess of U.S.$20,000,000 (or its equivalent in any other currency or currencies) is recorded or granted against the Issuer, ABH Financial or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days (or such longer period as the Trustee may allow) after the date thereof or, if later, the date therein specified for payment; or

13.5 *Security Enforced:* an encumbrancer takes possession, or an administrative or other receiver, manager or other similar officer is appointed, of the whole or a substantial part (in the opinion of the Trustee) of the undertaking or assets of the Issuer, ABH Financial or any Material Subsidiary; or

13.6 *Insolvency:* any of the Issuer, ABH Financial or any Material Subsidiary (i) stops payment of all or (in the opinion of the Trustee) a substantial part of its debts or (ii) (otherwise than for the purposes of such a consolidation, amalgamation, merger, reconstruction or voluntary solvent winding-up or dissolution as is referred to in Conditions 13.7 or 13.8 ceases or through an official action of the Board of Directors of the Issuer, ABH Financial or such Material Subsidiary (as the case may be) threatens not to carry on business; or

13.7 *Winding-up of Issuer or a Guarantor:* an effective resolution is passed or an order of a court of competent jurisdiction is made that the Issuer or a Guarantor be wound up, liquidated or dissolved other than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction on terms approved by an Extraordinary Resolution; or

13.8 *Winding-up of Material Subsidiary:* an effective resolution is passed or an order of a court of competent jurisdiction is made for the winding-up or dissolution of any Material Subsidiary except (a) for the purposes of or pursuant to and followed by a consolidation, amalgamation with or merger into the Issuer or either Guarantor or any Subsidiary of ABH Financial, provided that the new entity formed or coming into existence as a result of such consolidation, amalgamation, merger or reconstruction of any such Material Subsidiary with or into a Subsidiary of ABH Financial, shall be a Material Subsidiary, (b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than a described in (a) above) the terms of which shall have previously been approved in writing by an Extraordinary Resolution or (c) by way of a voluntary winding-up or dissolution as a result of which there are surplus assets of such Material Subsidiary attributable to ABH Financial which are distributed to ABH Financial, provided in each case that any Reorganisation in relation to which such resolution or order is passed or made would not breach Condition 5.8; or

13.9 *Insolvency Proceedings Initiated by a Third Party:* proceedings shall have been initiated against either the Issuer, ABH Financial or any Material Subsidiary under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 90 days or the Issuer, ABH Financial or any Material Subsidiary is declared insolvent or bankrupt by a competent court or judiciary; or

13.10 *Other Insolvency Proceedings:* the Issuer, ABH Financial or any Material Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law (including, in the case of the Issuer, a petition for suspension of payment) or make a general assignment for the benefit of, or enter into a general composition or arrangement with or for the benefit of, its creditors; or

13.11 *Moratorium:* a moratorium is agreed or declared in respect of any indebtedness of the Issuer, ABH Financial or any Material Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or (in the opinion of the Trustee) a material part of the assets, licences or shares of the Issuer, ABH Financial or any Material Subsidiary and such seizure, compulsory purchase, transfer or expropriation by such governmental authority or agency is not reversed, ceased or terminated and the relevant assets, licences or shares (or part thereof) returned or transferred back to the relevant Person within seven days of the occurrence of such event; or

13.12 *Ownership:* the Issuer or Alfa Bank ceases to be wholly-owned and controlled (directly or indirectly) by ABH Financial; or

13.13 *Licences:* any licence, authorisation, exemption, permit or approval required by the Issuer, ABH Financial or any Material Subsidiary to carry on its respective business or (in the opinion of the Trustee) any material part of its business is revoked or withdrawn or expires and is not renewed or otherwise ceases to apply or be in full force and effect; or

13.14 *Banking Licence/CBR Reorganisation:* (i) either of Alfa Bank's or, in the case of a Material Subsidiary which operates a banking business, such Material Subsidiary's banking licence is revoked, suspended, restricted or withdrawn or expires or is not renewed (on the same or substantially the same terms so far as applicable legislation permits) or otherwise ceases to be in full force and effect or (ii) the Central Bank of Russia initiates a reorganisation or appoints a temporary administrator of Alfa Bank on account of the failure of Alfa Bank to pay its debts when they fall due or to comply with any applicable mandatory economic ratio prescribed by Russian legislation; or

13.15 *Illegality, etc:* any action, condition or thing at any time required to be taken, fulfilled or done in order to (i) enable the Issuer and the Guarantors lawfully to enter into and perform and comply with their respective obligations under and in respect of the Notes, and Trust Deed and the ABH Financial and Alfa Bank Guarantees, (ii) to ensure that those obligations are legal, valid and binding and enforceable and (iii) to make the Notes, the Trust Deed and the ABH Financial and Alfa Bank Guarantees admissible in evidence in the courts of Cyprus, the Russian Federation and the British Virgin Islands is not taken, fulfilled or done; or

13.16 *Analogous Events:* any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

13.17 *Guarantee:* the Guarantors' respective payment obligations under the Trust Deed and/or the ABH Financial and Alfa Bank Guarantees are not (or are claimed by either Guarantor not to be) in full force and effect.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or either of the Guarantors unless the Trustee having become bound to do so, fails to do so within a reasonable period and such failure is continuing.

14. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

15. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority stock exchange or quotation system), subject to all applicable laws and listing authority stock exchange or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

16. AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantors and, in certain circumstances, the Trustee. The Paying Agents do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer and the Guarantors, with the prior written approval of the Trustee, reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor Principal Paying Agent or Calculation Agent and additional or successor paying agents; provided, however, that:

16.1 the Issuer and the Guarantors shall at all times maintain a Principal Paying Agent;

16.2 if European Union Directive 2003/48.EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, the Issuer and the Guarantors shall ensure that they maintain a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive;

16.3 if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer and the Guarantors shall at all times maintain a Calculation Agent; and

16.4 if and for so long as the Notes are admitted to listing, trading and/or quotation, by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer and the Guarantors shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

17.1 The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer and the Guarantors (acting together) and shall be convened by the Issuer or either of the Guarantors upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

17.2 The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and (iii) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such, provided that such modification, waiver or determination is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

17.3 The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of any other company in place of the Issuer or either of the Guarantors, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

17.4 In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or either of the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

18. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

19. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) of if such publication is not practicable, in a leading English language daily newspaper having general circulation in London. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

20. CURRENCY INDEMNITY

If any sum due from the Issuer or the Guarantors in respect of the Notes or the Coupons or any order or judgement given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under these Conditions or such order or judgement into another currency (the "second currency") for the purpose of (i) making or filing a claim or proof against the Issuer or the Guarantors, (ii) obtaining an order or judgement in any court or other tribunal or (iii) enforcing any order or judgement given or made in relation to the Notes, the Issuer or the Guarantors shall, to the extent permitted by applicable law, indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (b) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgement, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and the Guarantors and shall give rise to a separate and independent cause of action.

21. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (ii) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (iii) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (iv) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. ENFORCEMENT

The Trustee may, at its discretion and without further notice, institute such proceedings in the manner contemplated in Condition 24 against the Issuer and/or the Guarantors, as the case may be, as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons; but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one fifth in principal amount of any Notes outstanding at such time, and (b) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer and/or the Guarantors, as the case may be, unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

23. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

24. GOVERNING LAW, JURISDICTION AND ARBITRATION

24.1 *Governing Law*

The Notes are governed by, and shall be construed in accordance with, English law.

24.2 *Arbitration*

(a) Subject to Condition 22 and notwithstanding Condition 24.2(b), each of the Issuer and the Guarantors has agreed in the Agency Agreement, the Trust Deed and in the case of Alfa Bank, the Alfa Bank Guarantee that the Trustee or any Noteholder may elect by written notice to the Issuer and/or either Guarantor, as the case may be, that, with respect to the Trustee, such Noteholder, as the case may be, any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a claim, dispute or difference regarding the existence, termination or validity of the Notes or the Trust Deed (a "Dispute")) shall be resolved by litigation and not by arbitration (a "Litigation Election"), provided that a Litigation Election may not be made by a Noteholder who has (i) given or received notice of arbitration pursuant to the UNCITRAL Arbitration Rules (the "Rules") with respect to such Dispute and (ii) appointed an arbitrator under the Rules or failed to do so within the time prescribed by the Rules.

(b) Subjection to Conditions 24.2(a) and 24.3, any Dispute between the Issuer and/or, as the case may be, either Guarantor and the Trustee, any Noteholder(s) shall be finally settled by arbitration in accordance with the Rules as at present in force and as modified by this Condition, which Rules shall be deemed incorporated in this Condition. For the purposes of any arbitral proceedings commenced pursuant to this Condition:

(i) the number of arbitrators shall be three;

(ii) the seat of arbitration shall be London, England;

(iii) the language of arbitration shall be English;

(iv) the appointing authority shall be the London Court of International Arbitration (the "LCIA");

(v) where the parties to the Dispute number more than two and such parties have not agreed in writing that the disputant parties can be divided into "claimant" and "respondent" sides for the purposes of the formation of the arbitral tribunal and are unable to agree any other method for the constitution of the arbitral tribunal, the LCIA shall appoint the arbitral tribunal without regard to any party's nomination;

(vi) without prejudice, and subject to Condition 24.2(a), the arbitral tribunal under appropriate circumstances shall have the power to order, upon the application of any of the Issuer, either Guarantor, any Noteholder(s) (whether or not such applicant is an existing party to the arbitral proceedings), the joinder of any of the Issuer, either Guarantor, any Noteholder(s) to the arbitral proceedings; and

(vii) Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) In the event that a Litigation Election is made in the manner contemplated in Condition 24.2(a), the arbitration agreement contained in Condition 24.2(b) shall be inoperative in relation to the person making the election and, for the avoidance of doubt, the matters in respect of which the Litigation Election is made cannot thereafter be referred to arbitration by such person.

24.3 Jurisdiction

In the event that a Litigation Election has been made in the manner contemplated in Condition 24.2(a) with respect to any Dispute, each of the Issuer and the Guarantors, for the benefit of the Trustee and/or any Noteholder(s) that make(s) a Litigation Election with respect to any Dispute, irrevocably submits to the jurisdiction of the courts of England. The irrevocable submissions to the jurisdiction of the courts of England are made for the benefit of each of the Trustee and/or the Noteholder(s) and shall not affect the right of any of them to take proceedings ("Proceedings") in relation to a Dispute in any other court of competent jurisdiction nor shall the taking of such Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

24.4 *Appropriate Forum*

Each of the Issuer and the Guarantors hereby irrevocably waive any objection which any of them might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agree not to claim that any such court is not a convenient or appropriate forum.

24.5 *Service of Process*

Each of the Issuer and the Guarantors agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Alfa Bank's representative offices (attention: Simon Roache) at City Tower, Level 12, 40 Basinghall Street, London EC2V 5DE or, if different, its registered office for the time being or at any address of the Issuer or the Guarantors in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act in 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer and the Guarantors, the Issuer and the Guarantors (acting together) shall, on the written demand of the Trustee, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantors. Nothing in this paragraph shall affect the right of the Trustee or any of the Noteholders to serve process in any other manner permitted by law.

25. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

Certain Risk Factors

Investments in Notes involve a high degree of risk. Potential investors should carefully review this entire Offering Circular and in particular, should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Issuers' and/or the Guarantors' respective businesses, operations and financial conditions and/or the rights under the Notes of the holders of the Notes.

RISKS RELATING TO THE RUSSIAN FEDERATION

Set out below is a description of some of the risks incurred by investing in Russia, although the list is not an exhaustive one.

Political and social risks

Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-oriented democracy. A significant number of changes were undertaken during these years but there can still be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on Alfa Banking Group and its ability to meet its obligations under the ABH Financial and Alfa Bank Guarantees.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions in the short time they have been in effect, and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of Alfa Bank, potentially without adequate compensation, would have a material adverse effect on Alfa Banking Group.

The Russian Government has been highly unstable, having experienced four changes in prime minister since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. Although political stability has improved significantly since Mr Putin's election, the various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders who formulate and implement them, are subject to rapid change especially in view of the December 2003 elections to the State Duma and the March 2004 Presidential elections. The latest State Duma elections resulted in the defeat of the opposition parties (the social-democratic Yabloko and the pro-business Union of Right Forces). The majority of the seats in the new State Duma were distributed between pro-presidential and nationalist parties (United Russia, Liberal Democrats, Motherland). (See "Russian Federation — A General Overview — Political Structure and Recent Political Developments — Political Parties and Elections"). Some experts believe that this allocation of the State Duma seats will result in a lack of strong opposition to the President and render impossible the blocking of any governmental initiatives by the State Duma. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian Government may have a material adverse effect on Alfa Banking Group's business, financial condition, results of operations and prospects.

Russia is a federative state consisting of 89 constituent entities of different status (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous region). From 1 December 2005, as a result of the "merger" of two of the existing federal entities, their number will be reduced to 88. The division of powers between the Russian Federation and its constituent entities is based on a three-fold system of competence set out in the Constitution of the Russian Federation: the competence of the Russian Federation, the joint competence of the Russian Federation and its constituent entities, and the competence of the constituent entities. The distribution of powers between the Russian Federation and certain constituent entities has been further adjusted in bilateral agreements on the transfer of powers, and treaties on the delineation of powers. According to the amendments to the Law "On General Principles for Organisation of Legislative (Representative) and Executive Bodies of the Constituent Entities of the Russian Federation" as of July 2003, such agreements and treaties will cease to be effective in July 2005, unless they have been approved by governmental regulations and federal laws respectively. The system of constituent entities is supplemented by the system of seven federal districts (federalny okrug) supervised by representatives of the President. (See "Russian Federation — A General Overview — Political Structure and

Recent Political Developments — Political Parties and Elections".) Lack of consensus between local and regional authorities and the Russian Government may result in political instability. This lack of consensus may have negative economic effects on Alfa Banking Group, which could have a material adverse effect on its ability to meet its financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict.

In Chechnya, federal armed forces have carried out several anti-terrorist operations since 1992; a substantial number of internal troops still have to remain there to keep law and order. The escalation of violence may entail grave political consequences. In particular, the Federal Constitutional Law "On Emergency" of 2001 allows under certain circumstances the declaration of a state of emergency in the whole territory of the Russian Federation or in any part thereof, which may adversely impact its investment climate.

Economic risks

At the same time as enacting political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises and reforming natural monopolies, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

Despite the reform policies that have been implemented, up to 1999 the Russian economy had been characterised by declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption and the penetration of organised crime into the economy, and the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. The events and aftermath of 17 August 1998 — the Russian Government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the abandonment by the CBR of the Rouble currency band and efforts to maintain the Rouble/U.S. dollar rate within it and the temporary moratorium on certain hard-currency payments to foreign counterparties — led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, a significant deterioration of the country's banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities, and an inability to raise funds on the international capital markets. While the Russian economy has improved significantly in a number of respects since 1998, there can be no assurance that recent trends in the Russian economy will continue or will not be reversed.

Although economic conditions in Russia have improved in the last few years, the prospect still exists of widespread insolvency, substantial unemployment and deterioration of certain sectors of the Russian economy. Moreover, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia will remain receptive to foreign trade and investment, or that the economy in Russia will continue to improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of Alfa Banking Group.

The ongoing Government investigation of Yukos could have a negative effect on the Russian economy

Since June 2003, representatives of the Russian Government have been conducting investigations into Russia's largest oil company Yukos and its subsidiaries, which culminated in the filing of charges of tax evasion against the company and in the arrest on criminal charges of some of the company's key shareholders (including Yukos's ex-Chief Executive Officer, Mikhail Khodorkovsky). On 20 April 2004, S&P downgraded Yukos' long-term debt rating from BB– to CCC amid concern that a Russian court order preventing the sale of most of Yukos's assets could potentially lead to the insolvency of Yukos or effective nationalisation of its assets, should it be required to repay tax indebtedness to the state. According to some commentators, these events have called into question the security of property and contractual rights and the independence of the judiciary in Russia, and raise concerns about the revision of tax and mineral resources legislation, the re-examination of Russia's privatisations and the re-distribution of the assets involved. There has been considerable volatility in the Russian stock market in the context of these events. Some commentators have noted a negative impact of the Yukos affair on the size of investments in the Russian economy, especially in the oil sector. While Alfa Banking Group has no ongoing business relationships with Yukos or its principal shareholders, there can be no assurance that any impact of the Yukos affair on the Russian economy will not have an adverse effect on Alfa Banking Group.

Funding from international organisations; access to the international capital markets

Russia in the past has received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurance can be given that further financial assistance will be provided to Russia, should it be needed.

Moreover, due to previous defaults on certain obligations and other factors, the Russian Government may be unable to raise funds on the international capital markets, which may lead to direct or indirect monetary financing of the budget, putting further pressure on inflation and the value of the Russian Rouble.

The considerable external debt of Russia, as well as the failure to obtain funding from foreign governments and international organisations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget in the absence of access to the international capital markets, could have a material adverse effect on the Russian economy.

Banking activity risks

Russian companies face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, relatively high taxes, limited lending by the banking sector to the industrial sector and other factors. Some Russian companies cannot make timely payments for goods or services and owe large amounts of overdue federal, regional and local taxes, as well as wages to employees, although this situation continues to improve. A re-emergence of liquidity problems that have disrupted the Russian banking sector in the past or deterioration of the Russian banking system could have a material adverse effect on Alfa Banking Group's business, financial condition, results of operations and prospects.

The Russian banking sector remains in a nascent state compared to its Western counterparts. It is unclear how legal and regulatory developments may affect the competitive banking landscape in Russia and whether it will significantly advantage certain banking activities. No assurance can be given that the regulatory environment in which Alfa Bank operates in Russia will not change in a manner that has a material adverse effect on Alfa Banking Group's ability to compete and thus on its business, financial condition, results of operations and prospects.

In May-June 2004, the Russian financial markets were shaken as a result of the collapse of two associated banks. The revocation of the banking licence from Sodbusinessbank due to violation of money-laundering regulations prompted panic on the interbank market. Whilst most banks started closing limits and reducing exposure to smaller banks, liquidity in the system fell and interbank rates grew, which provoked the default of another bank, CreditTrust. It is not yet clear whether the above events are part of the CBR's campaign against unreliable and weaker players. Should the CBR take similar actions against other banks, this would seriously undermine depositors' trust in the Russian banking system and create overall instability in the markets, which could have a negative impact on Alfa Bank's performance and financial results.

Alfa Bank enters into transactions with derivate instruments, including foreign currency options, and plans to continue to develop risk management tools by utilising financial products. However, the Russian regulatory and legal framework relating to derivative instruments is still underdeveloped and court protection of such instruments is limited. Russian law neither specifically prohibits nor authorises derivative transactions as such transactions are unregulated (although a few documents issued by Russian regulators refer to such transactions). There are some doubts as to the enforceability of certain derivative arrangements under Russian law, and this may negatively affect Alfa Bank.

Alfa Banking Group's investment banking activities might be negatively affected by such factors as limited liquidity in the Russian corporate securities market, a relatively small amount of buying or selling activities, unfavourable press coverage, market making and use of practices not permitted in more advanced securities markets.

Legal risks

Risks associated with the Russian legal system include, *inter alia*: (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies among laws, Presidential decrees, and Government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting the applicable laws; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and federal laws and regulations; (vi) the relative inexperience of judges and courts in interpreting new legal norms; and (vii) the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws in Russia regulating ownership, bankruptcy and corporate governance of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and anti-fraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. For example, although the bankruptcy law establishes a procedure to declare an entity bankrupt and liquidate its assets, relatively few entities have been declared bankrupt in Russia, and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect Alfa Bank's ability to enforce its rights, or to defend itself against claims by others in respect of its Russian subsidiaries, and could affect enforcement in Russia of any rights of the holders of the Notes against Alfa Bank as a Guarantor. Further, no assurance can be given that the development or implementation or application of legislation (including Government resolutions or Presidential decrees) will not have a material adverse effect on foreign investors (or private investors generally).

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation, deprivatisation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Some government entities have tried to renationalise privatised businesses. Expropriation, deprivatisation or nationalisation of any of Alfa Banking Group's entities or their assets, potentially without adequate compensation, would have a material adverse effect on Alfa Banking Group.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and Government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violation committed.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is understated and under-funded. Judges and courts are generally inexperienced in the areas of business and corporate law. Russia is a civil law jurisdiction and judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. Additionally, court decisions are not always enforced or followed by law enforcement agencies. There is no guarantee that the proposed judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system. From 1 September 2002, most of the provisions of the new 2002 Arbitration Procedural Code of the Russian Federation regulating the resolution of commercial disputes had come into force, thereby replacing the 1995 Arbitration Procedural Code of the Russian Federation. The 2002 Arbitration Procedural Code introduced a number of significant changes in arbitration procedures. However, the Arbitration Procedural Code has not been fully tested in practice and its efficacy in resolving commercial disputes is unclear.

Foreign court judgments or arbitral awards

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions (including the United Kingdom) for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Notes and other issue documents contain a provision allowing for the arbitration of disputes. A foreign arbitral award obtained in a state which is party to that Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Exchange rates, exchange controls and repatriation restrictions

Since 2000, the Rouble has been stable relative to the U.S. dollar, unlike in the period immediately following the crisis of August 1998, when the Rouble experienced significant depreciation relative to the U.S. dollar.

The ability of the Russian Government and the CBR to maintain low volatility of the Rouble, which has been achieved in recent years, will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The Rouble is not convertible outside Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. Currently, 25% of foreign currency revenues from export sales must be converted into Roubles. The relative stability of the exchange rate of the Rouble against the U.S. dollar since 2000 has mitigated the risks associated with a forced conversion, but no assurance can be given that such stability will continue. Moreover, the banking system in Russia is not as developed as its Western counterparts, and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia.

While the current policy of the Russian Government is to allow the repatriation by foreign investors of profits earned in Roubles, there may be restrictions on such repatriation. The restrictions on its ability to convert its Rouble revenues into foreign currencies, or to reconvert the Roubles it obtains pursuant to the mandatory repatriation and conversion requirements, could have a material adverse effect on Alfa Banking Group's business, financial condition and results of operations.

Risks relating to the changes in the currency control legislation

On 10 December 2003, the Russian President signed a Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") which is to replace the existing Law "On Currency Regulation and Currency Control" of 1992. The New Currency Control Law was officially published in December 2003, and most of its provisions came into force on 18 June 2004. The New Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the formation of mandatory reserves and the use of special accounts). In particular, Russian borrowers (including banks) may be required to reserve up to 20% of the amount of foreign currency loans received from foreign lenders, for a period of up to one year, while Russian lenders may be required to reserve up to 100% of the amount of their foreign currency loans extended to foreign borrowers, for a period of up to two months. At the same time, Russian banks may be required to reserve at the CBR up to 100% in roubles of the total amount of their operations not covered by their banking licences, including securities activities, for a period of up to 60 days. These reserve requirements are intended to give the CBR additional tools to combat asset-price and currency instability by curbing the inflow of short-term speculative funds into Russia and preventing the outflow of funds from Russia. The implementation of these new requirements may make certain foreign currency operations burdensome and financially unattractive for Russian banks and their clients. However, until the Russian Government and the CBR have implemented regulations under the New Currency Control Law, it is not clear whether and to what extent the New Currency Control Law will affect Alfa Bank's business and the businesses of its clients. There is a risk that the new regime could hamper Alfa Bank's ability to receive foreign funding and make loans to foreign lenders as well as its ability to engage in securities operations.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of the United States or Western European countries, which could adversely affect the value of the Notes in the event of Alfa Bank's insolvency

Russian bankruptcy law often differs from comparable law in the United States or Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against Alfa Bank would be resolved in case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Notes.

In addition, under Russian law, Alfa Bank's obligations under the Notes would be subordinated to the following obligations:

- costs related to bankruptcy litigation;
- claims of retail depositors and of individuals who have accounts with Alfa Bank;
- personal injury and "moral harm" obligations;
- severance pay, employment-related obligations and copyright royalty obligations;
- secured obligations; and
- tax and other payment obligations to the government.

In the event of Alfa Bank's insolvency, this subordination may substantially decrease the amounts available for repayment of the Notes.

Lack of official data reliability

Official statistics and other data published by Russian federal, regional and local governments, and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of the available official and public information.

Taxation

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit tax, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase Government revenues. However, the Russian Government has initiated reforms of the tax system, including the enactment of the Tax Code (Part One came into force in 1999 and some chapters of Part Two of the Tax Code came into force in 2001, 2002 and 2003). The reforms have resulted in a relative improvement in the tax climate. The recently enacted corporate profits tax chapter of the Tax Code reduced the corporate profits tax rate from 35% for corporates and 43% for financial institutions to 24% for both corporates and financial institutions as at 1 January 2002 and also allowed for a broader range of expenses which are deductible from the tax base.

Russia's tax laws and regulations are subject to frequent change (including an increase in the profit tax rate for commercial banks from 38% to 43% on 1 January 2001 and a decrease from 43% to 24% on 1 January 2002), varying interpretations and inconsistent enforcement. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively. In addition to the usual tax burden imposed on the Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses. This uncertainty could possibly expose Alfa Bank to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden. In addition, transfer-pricing legislation became effective in Russia on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%, including all transactions involving the trading of securities and derivatives. Controlled transactions include transactions with related parties, barter transactions external trade transactions and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. To date, there has been no formal guidance (although some court practice is already available) as to how these rules will be applied. If the tax authorities impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on Alfa Banking Group. Additionally, despite the Russian government taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's tax collection system remains largely ineffective and non-interest budget expenses remain relatively high. Due to these facts, there is a risk that the recent trend towards lower taxes will not continue or even that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on Alfa Banking Group's business, financial condition and results of operations.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by RAR. Accordingly, there are opportunities for banks, including Alfa Banking Group, to structure transactions to take advantage of opportunities in the Russian tax legislation to restructure income and expenses in order to reduce the overall effective tax rate. Alfa Banking Group's results of operations have historically benefited significantly from the use of on-shore and off-shore tax-reduction mechanisms. Alfa Banking Group believes that it has complied and complies with all applicable tax legislation and its management believes that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Accordingly, no provision for a potential tax liability, with regard to these transactions, has been recorded in the consolidated financial statements. However, because Russian tax legislation is subject to varying interpretation and inconsistent enforcement at federal, regional and local levels, there can be no assurance that such mechanisms and restructuring of taxable income will not be challenged.

Whilst certain reductions in the rates, such as for corporate income tax, have been effected, it is expected that Russian tax legislation will become more sophisticated and introduce additional revenue raising measures for the federal budget. Although it is unclear how these provisions will operate, the introduction of these provisions may affect Alfa Banking Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although Alfa Banking Group will continue to undertake to minimise such exposures with effective tax planning, Alfa Banking Group cannot offer any assurances that the effective tax burden will not increase while the Notes are outstanding. Additional tax exposure could cause Alfa Banking Group's financial results to suffer. Alfa Banking Group's effective tax rate for the years ended 31 December 2002 and 31 December 2003 was 3.3% and 9.4%, respectively, based on IFRS.

Each entity in Alfa Banking Group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in Alfa Banking Group. Furthermore, any dividends within the entities comprising the consolidated group would be subject to taxes at each level.

Corporate governance and disclosure

The corporate affairs of Alfa Bank and other Russian companies in Alfa Banking Group are regulated by the laws governing companies incorporated in Russia and by their Charters. The rights of shareholders and the responsibilities of members of the Board of Directors and Executive Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States and the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. Alfa Bank and other Russian companies in Alfa Banking Group are subject to Russian law requirements, which oblige them to publish, *inter alia*, annual financial statements and information on material events relating to the relevant company (such as major acquisitions and increases in charter capital). However, there is less publicly available or other information about Alfa Bank and its other Russian subsidiaries than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other jurisdictions.

RISKS RELATING TO ALFA BANKING GROUP

Relationship with the Alfa Consortium

In terms of both funding and revenues, Alfa Banking Group has historically been reliant on the Alfa Consortium (as defined below), although management have successfully reduced this reliance significantly over recent years (see "Related Party Transactions"). Alfa Banking Group has two types of exposure to the Alfa Consortium, namely, the loans it makes to members of the Alfa Consortium and the guarantees and other credit related commitments it assumes on behalf of members of the Alfa Consortium. The vast majority of credit extended to members of the Alfa Consortium is made on an "arm's length" basis and are no more favourable than those offered to third parties.

The management's stated objective is to continue to reduce its exposure to related parties and members of the Alfa Consortium (see "Alfa Banking Group Strategy" and "Related Party Transactions"). Alfa Banking Group's management imposes internal limits on Alfa Banking Group's exposure to related parties. While Alfa Banking Group has a number of commercial relationships with members of the Alfa Consortium, Alfa Banking Group is within its self-imposed limits in terms of its exposure to related parties, including members of the Alfa Consortium. The management of Alfa Banking Group periodically reviews its limits on related party transactions. As at 31 December 2003, Alfa Banking Group's loan exposure to related parties represented 2.9% and 1.8% of gross loans to customers and total assets respectively, compared to 18.1% and 11.3% as to 31 December 2002. On 24 December 2003, the Executive Board of Alfa Bank passed a resolution, effective from 1 January 2004, imposing a total limit on lending and credit related commitments to TNK-BP ("TNK") of U.S.$125 million and a total limit on lending and credit related commitments to all related parties of U.S.$200 million. The resolution sets out the plan of reducing the concentration of the lending limits during 2004. Alfa Bank is currently in full compliance with these limits. The amount of customer accounts maintained by Alfa Banking Group with respect to related parties totalled U.S.$563.0 million as at 31 December 2003, which is 16.6% of the total customer accounts of Alfa Banking Group (see note 26 to the audited consolidated financial statements for the year ended 31 December 2003 for a description of Alfa Banking Group's related party transactions).

Competition

The markets for financial and banking services are highly competitive, with 1,277 banks (including Russian banks and Russian subsidiaries of foreign banks) operating in Russia at 1 January 2004, according to the CBR. Alfa Bank is one of a small number of Moscow based banks which dominate the Russian banking industry including Alfa Banking Group's main competitor, Sberbank, which is majority owned by the CBR. Sberbank has the advantage of having inherited a retail branch network of over 20,000 branches from the State and which is also able to offer State-backed deposit guarantees to its customers. Alfa Banking Group faces strong competition in each of its market segments from Sberbank and other leading domestic banks and increasingly from Western banks and financial institutions. Increased competition has led to falling margins, which is likely to reduce Alfa Banking Group's revenues and possibly impact adversely on the financial performance of each of its business divisions.

Alfa Banking Group aims to consolidate its position as the largest private bank in Russia. It plans to do this by increasing its market share in the corporate and retail sector in Russia by continuing to expand its range of corporate and personal banking services. It also plans to distinguish itself from other Russian banks by offering a full range of banking services to its customers. In the corporate sector it aims to focus in particular on developing small and medium sized corporate clients, diversifying its customer base and continuing to reduce its exposure to the Alfa Consortium. Alfa Banking Group will continue to expand its branch network in Russia and the CIS and invest in information technology (see "Alfa Banking Group — Strategy" and "Description of Alfa Banking Group's Business — Branch Operations"). However, there is no certainty that, in an increasingly competitive environment, Alfa Banking Group will succeed in achieving these strategies, target growth and expansion rates.

Relatively high industry and borrower concentrations in Alfa Banking Group's loan portfolio

Alfa Banking Group's loan portfolio shows relatively high industry and individual borrower concentration. As of 31 December 2003, the manufacturing and construction sector and the energy and oil related sector accounted for 41% and 29%, respectively, of Alfa Banking Group's loans to customers. Furthermore, as of such date, loans to Alfa Banking Group's sixteen largest borrowers amounted to U.S.$1,742.9 million representing 48.2% of the Alfa Banking Group's total gross loans to customers, with loan exposure to Alfa Banking Group's single largest borrower being U.S.$317.7 million, constituting 8.8% of total gross loans to customers. To minimise the risk related to loan portfolio concentration, Alfa Banking Group has taken measures to diversify its portfolio and to restrict its involvement with sectors and customers that could increase credit risk.

Interest rate, liquidity and exchange rate risks, which are inherent in Alfa Banking Group's business, cannot be eliminated completely

Like other Russian commercial banks, Alfa Banking Group is exposed to risks resulting from mismatches during the repricing periods of its interest-bearing liabilities and interest-earning assets. While Alfa Banking Group tries to minimise these risks by monitoring pricing on the basis of fluctuating interest rates on a large and representative portion of its assets and liabilities, material adverse interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa Banking Group.

Alfa Banking Group also monitors maturity mismatches between its assets and liabilities in order to minimise its liquidity risk. Although management believes that Alfa Banking Group's access to domestic and international interbank markets will continue to allow it to meet its short-term liquidity needs, maturity mismatches may have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa Banking Group (see "Asset and Liability Management").

Alfa Banking Group trades currency on behalf of its customers and for its own account and maintains open currency positions that result in foreign exchange risk. Although Alfa Banking Group is subject to limits on its open positions pursuant to CBR regulations and Alfa Banking Group's own internal policies, future changes in currency exchange rates and the volatility of the Rouble may have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa Banking Group.

Financial position and financial statements of Alfa Bank

Accounting and reporting regulations in Russia are not comparable to those in Western countries and Russian financial statements have historically been prepared largely to comply with regulatory and tax requirements rather than to reflect fairly the financial position of a company or its results of operations. Russian accounting legislation is in its early stages of development and has been subject to change on a regular basis in recent years.

Potential investors should not solely rely on the financial statements of Alfa Bank prepared in accordance with RAR and reporting regulations when considering whether to invest in the Notes. Among other things, Russian financial statements, including those of Alfa Bank, are prepared on a cash rather than an accrual basis, are not restated to reflect inflation and do not recognise contingent liabilities or future tax liabilities. Russian financial statements are not consolidated. An aggregation is carried out which may not exclude all intra-group transactions and may not include some wholly-owned subsidiaries. Russian accounting legislation has also required, from time to time, the revaluation of fixed assets to reflect increases in inflation. Depreciation of fixed assets is charged on recorded values on a straight-line basis at rates established by the Russian Government. The statutory rates applied may differ from those based on the useful life or production capacity of the assets. The distributable profit of Alfa Bank may not reflect distributable profit as would be the case under IFRS (see "Summary of Significant Differences between IFRS and RAR").

Banking reform and impact on business approach by Russian banks

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code preventing the early withdrawal of funds held on deposit accounts with a fixed period, (iii) the adoption of IFRS by all Russian banks with an initial reporting date set on 30 September 2004 and (iv) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks (see "The Banking Sector and Banking Regulation in the Russian Federation").

On 23 December 2003, the Law on the Insurance of Individuals' Bank Deposits in the Russian Federation (the "New Deposit Law") came into force and introduced a system of mandatory insurance of deposits held by individuals in Russian banks (the "System").

The New Deposit Law, with its ensuing CBR regulations (the "New Deposit Regime"), has introduced new requirements for banks in Russia wishing to participate in the System.

In particular, under the New Deposit Regime, banks are required to meet certain standards on the accuracy of banks' financial reports, compliance with the CBR prudential requirements and financial stability. The adequacy of a bank's financial stability is assessed on, *inter alia*, certain transparency criteria, such as the transparency of a bank's shareholding structure, the transparency of the parties exercising a material influence (direct or indirect) on the management of a bank, and the significance of the influence of off-shore entities on the management of a bank.

With the aim of ensuring that it satisfies the new transparency requirements, Alfa Bank, following consultation with the CBR, replaced 11 of its shareholders with a single entity, OJSC AB Holding (OJSC AB Holding was registered on 10 February 2004). Further, Alfa Banking Group aims to replace Alfa Finance Holdings S.A. in its capacity as the shareholder of the Alfa Banking Group with the newly-established company, ABH Holdings Corp, by the end of 2004. ABH Holdings Corp was incorporated in the British Virgin Islands and is wholly owned by individuals who are currently the ultimate beneficial owners of Alfa Finance Holdings S.A. To complete this reorganisation, Alfa Finance Holdings S.A. will transfer its ownership of ABH Financial Limited to ABH Holdings Corp.

All banks wishing to continue to accept individuals' deposits in Russia and participate in the System are required to apply to the CBR for a certificate confirming compliance with the New Deposit Regime prior to 27 June 2004. Alfa Bank intends to comply with this deadline. Alfa Bank's management has consulted at some length with the CBR and is confident that the changes illustrated above will be satisfactory to the CBR, in order to ensure that its application is successful. However, once submitted, there is no guarantee that Alfa Bank's application will be successful. If Alfa Bank is unable to participate in the System, it will be unable to take bank deposits from, or maintain accounts for, individuals. This would cause Alfa Bank to lose its current individual client base and would have an adverse effect on its business. (see "Alfa Banking Group" and "The Banking Sector and Banking Regulation in the Russian Federation").

The planned adoption of IFRS by all Russian banks and changes to banking regulation could also adversely impact the overall legal structure, including the tax structure, of Alfa Banking Group and, in particular, Alfa Bank. Alfa Bank currently prepares its financial statements in accordance with RAR. Following the proposed regulatory changes, Alfa Bank may be required to report its financial statements in accordance with IFRS. Since Alfa Bank operates as a part of Alfa Banking Group, and much of its equity is recorded on the accounts of its off-shore subsidiaries, no assurances can be given that, without any appropriate remedial action, Alfa Bank's capital adequacy, based on IFRS financial statements, would satisfy the guidelines regarding solvency and capitalisation adopted by the Basel Committee on Banking Regulations and the Supervision Practices of the Bank for International Settlements as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1998, as amended in November 1991 (the "BIS Guidelines").

Although such changes are generally viewed as beneficial reforms to the Russian banking system and are considered by the management of Alfa Banking Group to be beneficial for Alfa Banking Group, it is uncertain whether such reforms may also adversely impact on Russian banks, including Alfa Banking Group, and their approach to business. Without a clearer understanding of what legislative steps and structural changes are to be implemented as part of the CBR's banking reform package, it is difficult to identify or estimate how such reforms might adversely impact Alfa Banking Group and its business, financial condition, results of operations or prospects.

Revocation of Alfa Bank's existing banking licence by the CBR would have a material adverse effect on its business

Currently, all banking and various related operations performed by the banks in Russia require a banking licence from the CBR. Alfa Bank has obtained the required licence in connection with its banking activities. The CBR is the only body that is authorised to suspend or revoke a banking licence of a credit organisation for breach of any applicable banking regulations or non-compliance with mandatory economic ratios and reserve requirements set out by the CBR. If the CBR were to suspend or revoke Alfa Bank's general banking license, this would result in Alfa Bank's inability to perform any banking operations or in a winding-up of its business. However, Alfa Bank has no grounds to believe that its licence will be revoked for any reason.

Differences in standard definitional methodology between those countries adopting BIS Guidelines and Russia

The methods by which capital adequacy is calculated and provision for loan impairment and other provisions are determined for Russian banks differ in some significant respects from the methods used in those countries which have adopted the BIS Guidelines. Alfa Bank is required to comply with the capital adequacy requirements of the CBR. For the purposes of calculating Alfa Bank's capital adequacy ratio in accordance with the CBR requirements, the principal component of Alfa Bank's share capital and Alfa Bank's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the CBR is currently 10% for banks whose capital is euro 5 million or more, and 11% for banks whose capital is less than euro 5 million. Alfa Bank's capital adequacy ratio under CBR guidelines was 13.7% as at 1 January 2004. As at 1 January 2002 and 1 January 2003, the corresponding figures were 21.2% and 15.4% respectively. Alfa Banking Group reports Tier I and Total Capital ratios 10.0% and 10.3% as at 31 December 2003 calculated under the BIS Guidelines to provide an indication of its capital adequacy position on a consolidated basis. As an unregulated bank holding company, ABH Financial currently does not have an obligation to meet specific international or Russian regulatory capital ratios.

Changes in customer focus

Alfa Banking Group's strategy in the immediate future is, amongst other things, to (i) focus on growing its medium-sized and smaller corporate client base and (ii) to grow its retail customer base significantly. In order to achieve this, Alfa Banking Group will seek to offer new lines of business, implement an aggressive branch network expansion programme within Russia and other regions of the Commonwealth of Independent States ("CIS") and, via the implementation of its Mercury retail, Mars corporate and related OMEGA IT projects, introduce widespread modernisation of Alfa Banking Group's information technology and management systems at all levels within its business divisions. Budgeted capital expenditure required in respect of the introduction of new lines of business, expansion of the branch network and modernisation of Alfa Banking Group's information technology is substantial. During the year ended 31 December 2003, Alfa Banking Group invested U.S.$17 million in information technology, compared with approximately U.S.$19 million and U.S.$30 million, for the years ended 31 December 2002 and 2001, respectively (see "Alfa Banking Group — Information Technology"). There is a risk that budgeted capital expenditure will be too low in order for Alfa Banking Group to achieve its stated strategies. Further, there is a risk that, despite significant amounts being spent, Alfa Banking Group might fail to attract additional medium-sized and smaller corporate clients and significant numbers of retail customers. This could have an adverse impact on the business, financial condition, results of operations and prospects of Alfa Banking Group.

In addition, although increased lending to medium-sized and smaller corporate clients, as well as retail customers, diversifies the Alfa Banking Group loan portfolio, it may also increase the credit risk exposure in the loan portfolio. Medium and small-sized companies and retail customers typically have less financial strength, and negative developments in the Russian economy could affect these borrowers more significantly than large companies. As a result, lending to these segments represents a relatively higher degree of risk than lending to other groups, which may result in higher levels of past due amounts. This in turn could result in higher levels of provisions for loan impairment. Further, lending to these new target segments has required the implementation and application of credit policies and provisioning procedures which differ from those used for large corporate borrowers. The ability of Alfa Banking Group to grow its customer base and expand its loan portfolio will depend on continuing to successfully implement its credit policies and provisioning procedures, as well as capital growth in order to maintain its capital adequacy requirements. Finally, this change in customer focus is likely to result in an increase in the operating costs of Alfa Banking Group given that working with medium-sized and smaller corporate clients and retail customers is generally more costly than working with larger corporate customers.

It is difficult to assess the future profitability of Alfa Banking Group's foreign operations and the impact of Alfa Banking Group's proposed international expansion

Certain existing investments of Alfa Banking Group are in high risk and volatile markets apart from Russia, such as Ukraine and Kazakhstan, which may be susceptible to significant adverse developments similar to those which occurred in Russia in 1998. With plans for the further expansion of the branch network and operations in other parts of the CIS in coming years, the exposure of Alfa Banking Group to high risk and volatile markets is likely to increase. International expansion, particularly into markets that remain in the relatively early stages of development which are more susceptible to fiscal and economic crises, may expose Alfa Banking Group to additional risks.

The implementation of Alfa Banking Group's information technology projects may result in unexpected delays, costs and technical difficulties

Alfa Banking Group has commenced the implementation of the OMEGA IT project across its branch network, starting with branches in Moscow (see "Alfa Banking Group — Branch Operations" and "Alfa Banking Group — Information Technology"). The implementation of the new IT systems will involve significant changes across a wide range of Alfa Banking Group's operating activities and will require the retraining of a significant number of Alfa Banking Group's employees. As is the case with many similar complex projects, it is possible that Alfa Banking Group will experience delays, unexpected costs, and technical difficulties in the implementation of this and related projects.

Failure to manage rapid growth, including through the integration of new branches, could have material adverse effects

Alfa Banking Group has experienced rapid growth and development, particularly in the size of its overall loan portfolio and in its branch network, in a relatively short period of time and may continue to do so to meet its strategic objectives. Expansion of Alfa Banking Group's branch network entails significant investment, as well as increased operating costs. Alfa Banking Group may also acquire regional banks as part of its domestic expansion. Overall growth in Alfa Banking Group's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of Alfa Banking Group's financial and information management control systems, the ability to integrate new branches or newly acquired businesses with the existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. Failure to manage this growth, while at the same time maintaining adequate focus on Alfa Banking Group's existing business divisions, could have a material adverse effect on the business financial condition, results of operations and prospects of Alfa Banking Group.

Liability for the Obligations of Subsidiaries

The Russian Civil Code and the Federal Law on Joint-Stock Companies generally provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company bears joint and several liability for transactions concluded by the subsidiary in carrying out these decisions if (i) this decision-making capability arises from prevailing participation in the charter capital of the subsidiary or it is provided in a contract between the companies or arises due to certain other reasons, and (ii) the parent company gives obligatory directions to the subsidiary by virtue of provisions in the subsidiary's charter or an agreement between the parent company and the subsidiary.

In addition, the parent company is secondarily liable for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt resulting from the action or inaction of the parent company. This is the case when the parent company's ability to influence or determine decisions of the subsidiary arises from its right to give obligatory directions described above. In these instances, other shareholders of the subsidiary may claim compensation for the subsidiary's losses from the parent company which caused the subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses.

Corporate securities market risks

Due, among other reasons, to the limited liquidity of the Russian corporate securities market and the relative lack of effective regulation, the prices of Russian corporate securities may be significantly affected by a relatively small amount of buying or selling activity of favourable or unfavourable press commentaries. Since regulation of insider trading and market making is not fully developed, the prices of Russian corporate securities may be affected by practices that are not permitted in other markets. This may affect Alfa Banking Group's investment banking activities in this market.

Ability to continue to attract and retain high-calibre management and employees

Alfa Banking Group is dependent on key members of its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, the personal connections and relationships of certain members of senior management are important to the conduct of its business. No assurance can be given that those members of senior management will remain with Alfa Banking Group.

Alfa Banking Group places significant importance to its success in the global market on recruiting high-calibre Western and Russian management and employees with qualifications and relevant experience derived from the West. However, its ability to continue to attract and retain such people is in large part dependent on the continued growth of the Russian economy and the Russian banking system. Further volatility in the Russian economy or the banking system may adversely impact its ability to continue to recruit and retrain high-calibre staff at all levels.

In addition, the emergence of other Russian banks and Western banks and financial institutions in Russia and the other regions in which Alfa Banking Group operates not only represents an increase in competition for business but an increased competition in the specialised financial services employment markets. There is a risk that current Alfa Banking Group employees will be recruited by other employers in coming years. The loss of managers or key staff of Alfa Banking Group or the inability of Alfa Banking Group to attract and retain other qualified personnel could have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa Banking Group.

Divestiture of non-core assets

In the course of Alfa Banking Group's reorganisation, various non-core assets were sold outside Alfa Banking Group to third parties or to other companies within the Alfa Consortium. Certain non-core assets, however, remain, and as part of Alfa Banking Group's planned further reorganisation, it intends to sell off a substantial part of these non-core assets over the next few years, conditions permitting. Alfa Banking Group's non-core asset portfolio, which consists of various television, pharmaceutical, investment and manufacturing companies, is carried in Alfa Banking Group's consolidated balance sheet at a value of U.S.$65.4 million as at 31 December 2003. However, there can be no assurances that Alfa Banking Group will be successful in making all such dispositions or of the level of total proceeds that will be generated thereby.

RISKS RELATING TO NOTES

Taxation

In general, interest or other income payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20% for legal entities and 30% for individuals, unless they are reduced or eliminated pursuant to the terms of an applicable tax treaty. If payments under the ABH Financial and Alfa Bank Guarantees are subject to any withholding, the relevant Guarantor is obliged to increase the amounts payable as may be necessary to ensure that the Noteholders receive a net amount that will not be less than the amount they would have received in the absence of such withholding. In addition, payments by each Issuer in respect of Notes issued by it will, except in certain limited circumstances, be made without deduction or withholding for or on account of Cypriot taxes, except as required by law and if payments under the Notes are subject to any withholding (subject as provided in the Notes), the relevant Issuer will pay additional amounts. If the relevant Issuer fails or is unable to make the required payment of additional amounts, the Guarantors will be obliged to increase the amounts payable so as to enable the Noteholders to receive a net amount not less than the gross amount that would have been payable in the absence of the withholding.

Under the Russian Tax Code, each person must pay taxes established by law individually, whereas grossing-up provisions (whether in relation to Russian taxes which may be required to be withheld by Alfa Bank or British Virgin Island taxes which may be required to be withheld by ABH Financial or Cypriot taxes which may be required to be withheld by Alfa Issuance or Alfa Markets) can be interpreted as requiring Alfa Bank to pay the tax liabilities of Alfa Issuance, Alfa Markets, ABH Financial and the Noteholders. Accordingly, there is some doubt as to whether the gross-up arrangements Alfa Bank intends to enter into under the Alfa Bank Guarantee are enforceable under Russian law.

As indicated above, it is currently unclear whether the provisions obliging Alfa Bank to gross-up payments under the Alfa Bank Guarantee will be enforceable in Russia. If a Russian court does not rule in favour of the Noteholders, there is a risk that gross-up for withholding tax will not take place and that payments, in respect of interest, made by Alfa Bank under the Alfa Bank Guarantee will be reduced by a rate of 20% for legal entities and 30% for individuals.

Structural subordination

A significant amount of Alfa Banking Group's assets are held, and revenue generated, by subsidiary companies in Alfa Banking Group other than ABH Financial. In general, claims of a subsidiary's creditors, including secured and unsecured creditors, for indebtedness incurred, and against any guarantee issued, by such subsidiary, will have priority with respect to the assets of that subsidiary over the claims of creditors of its parent company, except to the extent that such parent company is also a valid creditor of that subsidiary under the laws of the relevant jurisdiction. Similarly, a Noteholder's right to receive payment of any amounts which at any time become due and payable in respect of the Notes from the Guarantors under the ABH Financial and Alfa Bank Guarantees may be structurally subordinated to the prior ranking claims of creditors (secured or unsecured) of subsidiaries of the Guarantors, except to the extent that the relevant Guarantor is a valid creditor of such subsidiary.

No existing market/market volatility

Application has been made for Notes to be admitted to the Official List and to be admitted to trading on the London Stock Exchange's market for listed securities. However, there can be no assurance that an active trading market for Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for Notes does not develop or is not maintained, the market price and liquidity of Notes may be adversely affected.

The market for securities issued by Russian issuers is influenced by economic and market conditions in other Eastern European countries and other emerging markets. Although international markets have stabilised since the Asian crisis in 1997 and the devaluation of the Russian Rouble in August 1998, there can be no assurance.

Credit rating

Outstanding Eurobonds of the Russian Federation are rated "Baa3" (outlook stable) by Moody's, "BB+" (outlook stable) by Standard & Poor's and "BB+" (outlook stable) by Fitch. Moody's and Standard & Poor's have both raised Russia's sovereign rating to Baa3 and BB+ respectively in recent months, which highlights their positive expectations in respect of Russia's medium- to long-term performance. Alfa Bank has received a long-term credit rating of Ba2 from Moody's and B (with a positive outlook) from Standard & Poor's. This rating has been prepared by the ratings agencies based on ABH Financial's audited consolidated IFRS financial statements and not on financial statements prepared for Alfa Bank on a stand-alone basis. Any change in the credit rating of either Alfa Bank or the Russian Federation could adversely affect the trading price for the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Use of Proceeds

The net proceeds from each issue of Notes will be on-lent by the relevant Issuer to one or both of the Guarantors for their general corporate purposes.

Alfa Issuance

HISTORY

Alfa Issuance, a wholly-owned subsidiary of ABH Financial, was incorporated under the laws of Cyprus on 14 January 2004 as a private company with limited liability and unlimited duration. Alfa Issuance's corporate domicile is in Nicosia, Cyprus. The registered office of Alfa Issuance is Themistokli Dervi Street 3, Julia House, 1st Floor, PC 1066, Nicosia, Cyprus. Alfa Issuance is registered with the Register of Companies under No. 144679.

CAPITALISATION AND INDEBTEDNESS

The table below sets out the unaudited capitalisation and indebtedness of Alfa Issuance as at 31 May 2004, which has been extracted without material adjustment from the unaudited management accounts of Alfa Issuance as at 31 May 2004:

	As at 31 May 2004 (U.S.$)
Shareholders' equity	
Share capital[1]	2,180
Accumulated deficit	(6,700)
Total shareholders' deficit	(4,520)
Indebtedness	
Short term indebtedness	4,520
Total indebtedness	4,520
Total capitalisation and indebtedness	—

Notes:

(1) *Alfa Issuance has an authorised share capital of CYP£1,000, comprising 1,000 ordinary shares of CYP£1.00 each, of which 1,000 fully-paid shares have been issued.*

(2) *As at 31 May 2004, none of Alfa Issuance's indebtedness was secured and none was guaranteed.*

(3) *As at 31 May 2004, Alfa Issuance had no contingent liabilities or guarantees.*

(4) *There has been no material change in contingent liabilities and guarantees of Alfa Issuance since 31 May 2004.*

(5) *There has been no material change in capitalisation and indebtedness of Alfa Issuance since 31 May 2004.*

BUSINESS

Alfa Issuance is a finance vehicle through which Alfa Banking Group intends to raise funds in the international bank and capital markets. It is authorised to fund, directly or indirectly, those companies and other enterprises forming part of Alfa Banking Group. It will raise funds through borrowing under loan agreements, the issuance of bonds, notes and other debt securities, and will on-lend those funds to companies in Alfa Banking Group. Alfa Issuance may in the future enter into other financing arrangements for similar purposes.

MANAGEMENT

Alfa Issuance is managed by a Board of Directors whose members are appointed by a general meeting of shareholders and may be suspended or removed from office by the shareholders at any time. At present, Alfa Issuance has the following directors: Pavel Nazarian, Sophia Ioannou and Charalambos Michaelides. Under Alfa Issuance's Articles of Association, the management of the business of the company is vested in the board of directors. The shareholders do not have the power to instruct the board as to financial and economic matters.

Pavel Nazarian is also a director of other Alfa Consortium companies, Charalambos Michaelides is a Principal Director of Abacus Secretarial Limited and Sophia Ioannou is a Director of Abacus Secretarial Limited.

The business address of Mr. Pavel Nazarian is Grand Rue 22, 2nd Floor, L-1661, Luxembourg. The business address of Messrs. Michaelides and Ioannou is Themistokli Dervi Street 5, Elenion Building, 2nd Floor, PC 1066, Nicosia, Cyprus.

FINANCIAL STATEMENTS

Since its date of incorporation, Alfa Issuance has not commenced operations and no financial statements of Alfa Issuance have been prepared as at the date of this document. Alfa Issuance intends to publish its first financial statements in respect of the year ended 31 December 2004.

Alfa Issuance will be consolidated into ABH Financial's consolidated financial statements starting from the interim consolidated financial statements for the six-month period ended 30 June 2004.

Alfa Issuance does not intend to publish interim financial statements.

GENERAL INFORMATION

Alfa Issuance has obtained all necessary consents, approvals and authorisations in Cyprus in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

Alfa Markets

HISTORY

Alfa Markets, a wholly-owned subsidiary of ABH Financial, was incorporated under the laws of Cyprus on 13 January 2004 as a private company with limited liability and unlimited duration. Alfa Markets' corporate domicile is in Nicosia, Cyprus. The registered office of Alfa Markets is Themistokli Dervi Street 3, Julia House, 1st Floor, PC 1066, Nicosia, Cyprus. Alfa Markets is registered with the Register of Companies under No. 144638.

CAPITALISATION AND INDEBTEDNESS

The table below sets out the unaudited capitalisation and indebtedness of Alfa Markets as at 31 May 2004, which has been extracted without material adjustment from the unaudited management accounts of Alfa Markets as at 31 May 2004:

	As at 31 May 2004 (U.S.$)
Shareholders' equity	
Share capital[1]	2,180
Accumulated deficit	(6,690)
Total shareholders' deficit	(4,510)
Indebtedness	
Short term indebtedness	4,510
Total indebtedness	4,510
Total capitalisation and indebtedness	—

Notes:

(1) *Alfa Markets has an authorised share capital of CYP£1,000, comprising 1,000 ordinary shares of CYP£1.00 each, of which 1,000 fully-paid shares have been issued.*

(2) *As at 31 May 2004, none of Alfa Markets' indebtedness was secured and none was guaranteed.*

(3) *As at 31 May 2004, Alfa Markets had no contingent liabilities or guarantees.*

(4) *There has been no material change in contingent liabilities and guarantees of Alfa Markets since 31 May 2004.*

(5) *There has been no material change in capitalisation and indebtedness of Alfa Markets since 31 May 2004.*

BUSINESS

Alfa Markets is a finance vehicle through which Alfa Banking Group intends to raise funds in the international bank and capital markets. It is authorised to fund, directly or indirectly, those companies and other enterprises forming part of Alfa Banking Group. It will raise funds through borrowing under loan agreements, the issuance of bonds, notes and other debt securities, and will on-lend those funds to companies in Alfa Banking Group. Alfa Markets may in the future enter into other financing arrangements for similar purposes.

MANAGEMENT

Alfa Markets is managed by a Board of Directors whose members are appointed by a general meeting of shareholders and may be suspended or removed from office by the shareholders at any time. At present, Alfa Markets has the following directors: Pavel Nazarian, Sophia Ioannou and Charalambos Michaelides. Under Alfa Markets' Articles of Association, the management of the business of the company is vested in the board of directors. The shareholders do not have the power to instruct the board as to financial and economic matters.

Pavel Nazarian is also a director of other Alfa Consortium companies, Charalambos Michaelides is a Principal Director of Abacus Secretarial Limited and Sophia Ioannou is a Director of Abacus Secretarial Limited.

The business address of Mr. Pavel Nazarian is Grand Rue 22, 2nd Floor, L-1661, Luxembourg. The business address of Messrs. Michaelides and Ioannou is Themistokli Dervi Street 5, Elenion Building, 2nd Floor, PC 1066, Nicosia, Cyprus.

FINANCIAL STATEMENTS

Since its date of incorporation, Alfa Markets has not commenced operations and no financial statements of Alfa Markets have been prepared as at the date of this document. Alfa Markets intends to publish its first financial statements in respect of the year ended 31 December 2004.

Alfa Markets will be consolidated into ABH Financial's consolidated financial statements starting from the interim consolidated financial statements for the six-month period ended 30 June 2004.

Alfa Markets does not intend to publish interim financial statements.

GENERAL INFORMATION

Alfa Markets has obtained all necessary consents, approvals and authorisations in Cyprus in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

Capitalisation and Indebtedness of ABH Financial

The table below sets out the unaudited consolidated capitalisation and indebtedness of ABH Financial as at 31 December 2002, which has been extracted without material adjustment from the audited consolidated annual financial statements of ABH Financial for the year ended 31 December 2002, and the unaudited capitalisation and indebtedness of ABH Financial as at 31 December 2003 which has been extracted without material adjustment from the audited consolidated annual financial statements of ABH Financial for the year ended 31 December 2003.

	As at 31 December 2002	As at 31 December 2003
	(U.S.$ million)	(U.S.$ million)
Shareholders' equity		
Share capital[1]	160.8	160.8
Fair value reserve for investments available for sale	62.7	22.8
Revaluation reserve for premises and equipment	6.3	5.2
Retained earnings	201.4	358.2
Total shareholders' equity	431.2	547.0
Minority interest	3.5	6.6
Indebtedness[2]		
Short term indebtedness	3,229.7	4,872.2
Long term indebtedness:		
Due to other banks	17.6	13.5
Customer accounts	9.6	39.5
Promissory notes issued	76.7	16.7
Other borrowed funds	193.6	173.7
Total indebtedness	3,527.2	5,115.6
Total capitalisation and indebtedness	3,961.9	5,669.2

Note:

(1) *The authorised share capital of ABH Financial is U.S.$160,800,000, comprising 160,800,000 ordinary shares with a par value of U.S.$1 each, of which 160,800,000 fully-paid shares have been issued.*

(2) *As at 31 December 2002, U.S.$180.4 million of ABH Financial's indebtedness was secured and none was guaranteed. As at 31 December 2003, U.S.$309.2 million of ABH Financial's indebtedness was secured and none was guaranteed.*

(3) *Credit related commitments comprising guarantees issued and export and import letters of credit amounted to U.S.$761.0 million as at 31 December 2002 and U.S.$704.1 million as at 31 December 2003.*

(4) *There has been no material change in contingent liabilities and guarantees of ABH Financial since 31 December 2003 except that by 1 June 2004 total guarantees issued increased by U.S.$135.6 million.*

(5) *There has been no material change in the consolidated capitalisation and indebtedness of ABH Financial since 31 December 2003.*

Capitalisation and Indebtedness of Alfa Bank

The following table sets out the unaudited non-consolidated capitalisation and indebtedness of Alfa Bank as at 31 December 2002, which has been extracted without material adjustment from the 31 December 2002 audited non-consolidated financial statements of Alfa Bank, and its unaudited non-consolidated capitalisation and indebtedness as at 31 December 2003, which has been extracted without material adjustment from the 31 December 2003 audited non-consolidated financial statements of Alfa Bank.

This information should not be read in conjunction with, and cannot be compared to, much of the other information presented elsewhere in this document, which has, unless otherwise stated, been calculated in accordance with IFRS and which relates to Alfa Banking Group as a whole. IFRS differs in certain significant respects from RAR. For a description of significant differences between IFRS and RAR, see "Summary of Significant Differences between IFRS and RAR" included elsewhere in this Offering Circular. (See also "Certain Risk Factors — Risks Relating to Alfa Banking Group — Financial Position and Financial Statements of Alfa Bank").

	As at 31 December 2002	As at 31 December 2003
	(RUR '000)	(RUR '000)
Shareholders' equity		
Share capital[(1)]	768,679	768,679
Share premium	19,927,045	19,927,045
Revaluation reserve	36,272	32,533
Other reserves	1,228,350	826,698
Total shareholders' equity	21,960,346	21,554,955
Liabilities[(2)(3)]		
Due to other banks	39,097,361	41,057,664
Customer accounts	59,734,305	88,051,915
Promissory notes	19,188,351	21,119,737
Other liabilities and payables	3,986,981	5,759,295
Total liabilities[(4)]	122,006,998	155,988,611
Total capitalisation[(6)]	143,967,344	177,543,566
U.S. exchange rate	31.78	29.45
U.S. equivalent	4,530,124	6,028,644

Notes:

(1) *The authorised share capital of Alfa Bank is RUR768,679,000, comprising 768,679 ordinary shares with a par value of RUR1,000 each, of which 768,679 fully-paid shares have been issued.*

(2) *As at 31 December 2003, RUR1,507 million of Alfa Bank's indebtedness is secured.*

(3) *As at 31 December 2003, contingent liabilities (namely guarantees and export and import letters of credit) equal RUR22,513 million.*

(4) *There has been no material change in contingent liabilities and guarantees of Alfa Bank since 31 December 2003.*

(5) *It is not possible to ascertain the extent to which Alfa Bank's indebtedness is guaranteed as opposed to unguaranteed.*

(6) *There has been no material change in the non-consolidated capitalisation and indebtedness of Alfa Bank since 31 December 2003.*

Alfa Banking Group

HISTORY

Alfa Banking Group is part of the Alfa Finance Group and the Alfa Consortium (both as defined below).

Alfa Finance Holdings S.A. is a Luxembourg 1929 holding company with its principal address at 22, Grand Rue, 2nd Floor, L-1661, Luxembourg. Alfa Finance Holdings S.A. was originally incorporated in May 1999. The principal business of Alfa Finance Holdings S.A. is to function as a holding company of the Alfa Finance Group. Alfa Finance Holdings S.A., together with its subsidiaries, is referred to herein as the Alfa Finance Group (the "Alfa Finance Group").

In 2000, Alfa Finance Holdings S.A. completed a multi-stage reorganisation (the "Reorganisation") in order to accomplish the following objectives:

- to arrange all of the companies in the Alfa Finance Group into a transparent structure with one parent company to reflect the way in which the business is managed; and

- to create separate holdings for non-banking assets.

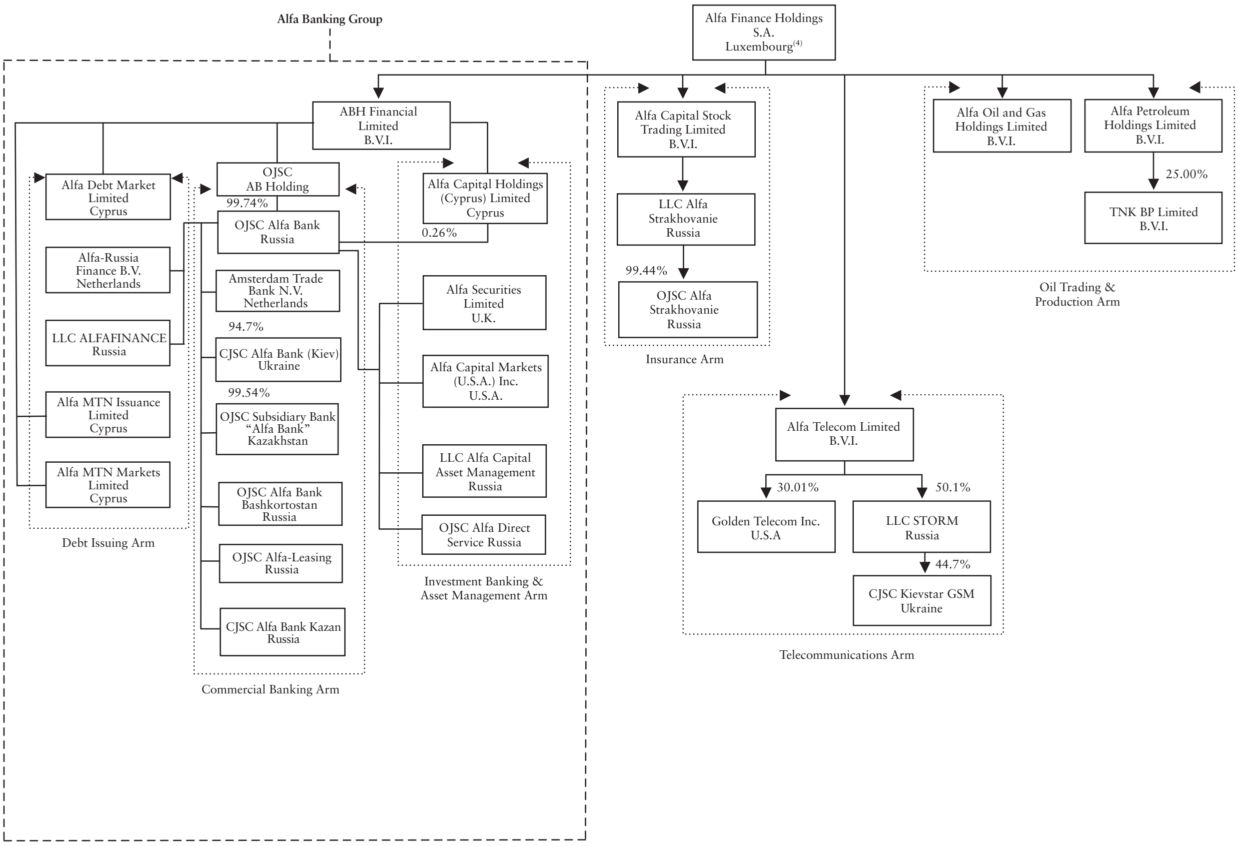
Pursuant to the Reorganisation, Alfa Finance Holdings S.A. now controls four wholly-owned sub-holding companies, each corresponding to the four main business segments in which the Alfa Finance Group operates: (i) commercial and investment banking; (ii) telecommunications; (iii) oil trading and production; and (iv) insurance (see "The Reorganisation" below). In addition, Alfa Finance Holdings S.A. controls certain wholly owned special purpose entities.

As shown in the diagram below, Alfa Finance Holdings S.A. is the sole shareholder of each of ABH Financial (commercial and investment banking), Alfa Telecom Limited (telecommunications), Alfa Petroleum Holdings Limited (oil trading and production), and Alfa Capital Stock Trading Limited (insurance).

In early 2004, Alfa Bank reformed its shareholding structure. The reform resulted in the merger of the 11 shareholders (holding in aggregate 99.74% of Alfa Bank's charter capital) into one company, OJSC AB Holding. The necessary CBR and anti-monopoly authorities' approvals were obtained to undertake the merger, and the issuance of its shares was registered with the Federal Commission for the Securities Market on 16 April 2004. OJSC AB Holding is a wholly-owned subsidiary of ABH Financial.

By the end of December 2004, Alfa Finance Holdings S.A. will be replaced as a shareholder of ABH Financial with a newly-established company, "ABH Holdings Corp". ABH Holdings Corp is wholly owned by individuals who are currently the ultimate beneficial shareholders of Alfa Finance Holdings S.A. ABH Holdings Corp was incorporated in the British Virgin Islands on 5 March 2004. To complete this reorganisation, Alfa Finance Holdings S.A. will transfer its ownership of ABH Financial to ABH Holdings Corp. It is anticipated that corporate approval for such transfer will be received by the end of June 2004. The registration of the necessary transfer of shares is planned to be effected by the end of December 2004.

The rationale behind these changes is to ensure that Alfa Bank's ownership structure is separated from other Alfa Consortium business segments, thereby becoming sufficiently transparent to allow it to comply with the CBR requirements applicable to banks attracting deposits from individuals (see "Certain Risk Factors" and "The Banking Sector and Banking Regulation in the Russian Federation").



Notes:

(1) *The companies referred to in this chart are the principal operating subsidiaries of the Alfa Finance Group.*

(2) *Unless otherwise indicated, all shareholdings are 100%.*

(3) *During 2004, in the process of restructuring the telecommunications assets of the Alfa Consortium, the telecommunications arm is to be excluded from Alfa Finance Holdings S.A. but will remain part of the Alfa Consortium.*

(4) *By the end of December 2004, Alfa Finance Holdings S.A. will be replaced as a shareholder of ABH Financial with a newly-established company, "ABH Holdings Corp". ABH Holdings Corp is wholly owned by individuals who are currently the ultimate beneficial shareholders of Alfa Finance Holdings S.A.*

Although Alfa Bank has several subsidiaries engaged in commercial banking business, Alfa Bank is by far the most significant asset of Alfa Banking Group. Alfa Bank generates a large portion of the fee income and issues a large portion of the loans within Alfa Banking Group.

ABH FINANCIAL

As explained above, the sub-holding company responsible for the banking business arm of the Alfa Finance Group is ABH Financial. ABH Financial was incorporated under the laws of the British Virgin Islands on 3 November 1995 as a private company with limited liability and is registered with the Register of Companies of the British Virgin Islands under No. 165196 (originally named Alfa Capital Holdings Limited). The original name Alfa Capital Holdings Limited was changed to Alfa Bank Holdings Limited on 19 January 2001 and on 24 September 2002 to ABH Financial Limited. Subject to certain exceptions, ABH Financial is authorised to engage in any act or activity that is not prohibited under the laws of the British Virgin Islands.

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

THE REORGANISATION

The Reorganisation was effected between December 1999 and September 2000 and as a result of which, ABH Financial became the parent company of Alfa Banking Group. In the course of the Reorganisation, the most significant non-core assets were transferred outside Alfa Banking Group to other companies within the Alfa

Finance Group. Alfa Banking Group has continued to divest its non-core business assets which comprises interests in pharmaceutical, media and manufacturing businesses, principally in Russia, so as to focus on its core business segments, although as at 31 December 2003 it continued to hold investments with a carrying value of approximately U.S.$65.4 million which are considered to be non-core assets.

OVERVIEW AND BUSINESS OF ALFA BANKING GROUP

Alfa Banking Group is comprised of two main divisions — commercial banking which is operated principally through Alfa Bank in Russia and its subsidiaries in Kazakhstan and The Netherlands and through Alfa Bank Ukraine in Ukraine, and investment banking which is conducted through operations in Russia (Moscow), the UK (London), the USA (New York) and Cyprus (Nicosia).

Currently, Alfa Banking Group is considering opening a subsidiary bank in Belarus.

Alfa Banking Group is one of Russia's largest banks in terms of equity, assets, branches, retail deposits and assets under management among private banks. Alfa Banking Group offers a wide range of products and operates in all sectors of the financial markets including lending, interbank and retail deposits, foreign exchange operations, debt, bond and equity trading, project finance, leasing and asset management. In January 2004, Alfa Banking Group had over 100 offices (including subsidiary branches, regional branches and outlets) throughout Moscow, St. Petersburg and other key cities in Russia. Alfa Banking Group is actively developing its branch network throughout Russia and the CIS.

Alfa Banking Group is the largest VISA branded debit card issuer in Russia and has the third largest share (2.2%) of the retail banking market in Russia behind Sberbank and Bank of Moscow. Sberbank is majority owned by the CBR and dominates the Russian retail banking market having a market share of around 62.2% of all retail deposits as at 1 January 2004, compared to 2.5% for Bank of Moscow, according to "Interfax — 100: Russian Banking Sector — Results of First Quarter of 2004".

Alfa Banking Group had total assets of approximately U.S.$5,884.1 million as at 31 December 2003, and total shareholders' equity of approximately U.S.$547.0 million as at 31 December 2003. For the year ended 31 December 2003, Alfa Banking Group generated operating income of U.S.$421.4 million, compared with U.S.$336.6 million for the year ended 31 December 2002 and net profit of U.S.$105.6 million, compared with U.S.$104.6 million for the year ended 31 December 2002.

RELATIONSHIP WITH ALFA CONSORTIUM

The Alfa Finance Group is part of a wider group of companies commonly referred to as the "Alfa Consortium" (the "Alfa Consortium"). The ultimate majority shareholder of Alfa Banking Group is also the majority shareholder of the companies in the Alfa Consortium. In addition to those companies comprising the Alfa Finance Group operating in banking, insurance, telecommunications and oil and gas referred to in the chart above describing the Alfa Finance Group, there are other companies in the Alfa Consortium engaged in domestic commodities and retail trade.

Alfa Banking Group has traditionally had significant related party assets and liabilities. During 2003, however, its exposure to related parties was reduced, principally through the repayment of certain loans and guarantees. Loans to Alfa Telecom Limited in the amount of U.S.$190.3 million were repaid in September 2003. Similarly, Alfa Eco repaid loans in the amount of U.S.$77.0 million in the fourth quarter of 2003. As at 31 December 2003, Alfa Banking Group's gross exposure comprising loans and guarantees to related parties was U.S.$150.5 million. A list of the exposures of Alfa Banking Group to related parties is set out under "Related Party Transactions".

COMPETITION

According to the CBR, as at 1 January 2004, there were 1,277 banks operating in Russia. According to the most recent CBR figures, as at 1 January 2004, the ten largest banks accounted for 52% of total bank assets and the top five of those banks accounted for 43% of total bank assets. A small number of Moscow-based banks dominate the Russian banking industry. Alfa Banking Group's main competitors are Sberbank, which has the advantage of having inherited a retail branch network of approximately 20,000 branches from the State and it is also the only domestic bank able to offer State-backed deposit guarantees to its customers, Vneshtorgbank (Bank for Foreign Trade), Gazprombank, Bank of Moscow, MDM Bank and Western banks operating in Russia. Alfa Banking Group faces strong competition in different market segments, but few of its competitors appear to be planning to develop into a bank offering such a wide range of services and broad regional network (see "Strategy").

Faced with increased competition as a result of recent and proposed banking reform in Russia and with the continuing entry of Western banks into the Russian market, Alfa Banking Group believes that it could be advantageous to consider the possibility of a strategic partnership with a large Western financial institution in the future. Such a partnership would make it possible to combine Alfa Bank's experience of working in the Russian markets, its local knowledge and strong client base, with the benefits that a large Western bank could bring to Alfa Banking Group's businesses.

STRATEGY

Alfa Banking Group's future strategy is guided by the following major aims.

Focused growth on medium-sized and smaller corporate client business

Alfa Banking Group aims to consolidate its position as one of the largest private banks in Russia as well as making up ground on the significantly larger state-owned banks. It plans to increase its market share in the corporate and retail sector in Russia by continuing to expand its range of corporate and personal banking services. In the corporate sector, it aims to reduce its reliance on large corporate clients and related parties and develop its strategy to focus more on medium-sized and small corporate clients, both of which are poorly served in the Russian market. Alfa Banking Group will endeavour to attract medium-sized and smaller corporate clients in order to capitalise on the potential of this market. Demand for banking services exceeds supply in both of these market segments. Alfa Banking Group intends to create a "one-stop-shop" service for medium-sized and smaller corporate customers based on a thorough knowledge of the segment's needs, the use of its broad branch network, strong brand and expertise. Both medium-sized and smaller corporate clients will benefit from Alfa Banking Group's information technology initiative (see "Alfa Banking Group — Information Technology") and its related advantages of improved efficiency, faster transaction times and greater accessibility to Alfa Bank and its services through internet banking. Smaller corporate clients will also be targeted by offering them modern retail branches.

Alfa Banking Group also plans to further develop its investment banking business both in Russia and overseas.

Creating a modern retail brand

Alfa Banking Group will continue to focus on growing its retail customer base by offering retail customers a complete banking service based on the following competitive advantages: new service standards, integrated product range, fast and efficient 24-hour services, wide branch network (currently standing at over 100 offices) and remote access channels. The new business model, which is now operating under the "Alfa Bank Express" brand, is largely based on improved economies of scale and offers standardised products, service and a retail environment aimed at bringing the new retail business closer to the customer by making it accessible and transparent. This enables Alfa Banking Group to sustain a consistent quality of service and make the new model scalable, which is crucial for such a large country as Russia.

The proposed multi-channel service for retail customers includes 24-hour highly automated and user-friendly branches, which are quite different from the branches of any of its Russian competitors (such as Sberbank), a fully operational call centre, a field sales force calling on new customers, an ATM network (including ATMs with drop-boxes) and remote access channels — internet banking and telephone banking. As at 1 January 2004, Alfa Bank had 20 branches operating under the new brand name and the next steps of the "Alfa Bank Express" roll-out will be to increase the number of branches to up to 40 branches by the end of 2004. Alfa Banking Group will also focus on gradually converting its existing retail network into the new format and enhancing the range of products and services available to its retail customers.

Alfa Bank promotes one-point access to all banking features in any branch on a 24-hour basis. This is a result of Alfa Bank's information technology initiatives (including the on-going OMEGA Project) (see "Commercial Banking Division — Information Technology"). Every new customer is provided with a single key to the whole banking package — a VISA Electron card. Alfa Bank has thus become the first bank in Russia to issue this card with every account, giving customers access to their funds and freeing up staff to ensure better service and offer a wider range of products.

The product portfolio offered by Alfa Banking Group to private individuals and medium-sized and smaller corporate customers includes current accounts, savings, credit cards and overdraft facilities as well as a limited number of products in high demand such as instant cash transfers, pre-paid cards and individual strong-boxes.

Expansion of commercial banking operations in the CIS

Alfa Banking Group aims to expand its commercial banking operations in the CIS, both in Ukraine and, on a smaller scale, in Kazakhstan and Belarus. Currently, Alfa Bank has a subsidiary bank in Kiev with six regional branches and three representative offices in Ukraine. Alfa Bank believes that Ukraine is currently positioned to enjoy the highest growth potential of any of the CIS states, other than Russia.

Alfa Banking Group takes a more conservative approach to Kazakhstan, where it currently has one subsidiary in Almaty with branches in Astana, Karaganda and Ust-Kamenogorsk.

Currently, Alfa Banking Group is considering opening a subsidiary bank in Belarus.

Improving the funding base

Recognising the need to provide medium and longer term financing to clients, Alfa Banking Group intends to improve its funding base by increasing its medium term funding from the capital and bank finance markets and increasing its longer term deposits from corporate and retail clients. Alfa Banking Group believes that such funding will enable it to gain access to new lines of business, such as project finance lending. It will also allow Alfa Banking Group to compete more effectively with Sberbank and with Western banks entering the Russian market. As the Russian retail banking market develops, Alfa Banking Group expects to be able to attract retail customers and deposits by offering high quality and accessible banking services and competitive lending and deposit rates. In addition, the Programme and other note issuances will give the Alfa Banking Group a readily accessible source of funding in the international and domestic capital markets.

Reducing reliance on related party transactions

Alfa Banking Group companies have traditionally been to some extent reliant (both for funding and revenues) on the Alfa Consortium. Since 1997, however, Alfa Banking Group has pursued a strategy of diversifying its customer base. Alfa Banking Group intends to continue to reduce its reliance on related party transactions with companies in the Alfa Consortium and in December 2003 implemented new limits on related party transactions (see "Related Party Transactions").

Focus on banking business

Conditions permitting, Alfa Banking Group intends to continue to divest its portfolio of non-core assets so as to be able to focus on its commercial and investment banking businesses (see "Alfa Banking Group — Planned divestiture of non-core assets").

Continued employment of high calibre staff

Alfa Banking Group's employment strategy is to attract and retain high calibre employees at all levels, many of whom have either Western professional experience or Western qualifications. The continued implementation of this strategy is fundamental to Alfa Banking Group continuing to remain a leading commercial and investment banking group in Russia and in other regions in which it conducts business.

Information technology

Alfa Bank views information technology as an integral part of its daily operations and is committed to continued investment in information technology in order to support the growth of its operations in the future. This commitment is evident from the importance placed on the implementation of the information technology projects (see "Alfa Banking Group — Information Technology", the "Mars Project" and "the Mercury Project").

Description of Alfa Banking Group's Business

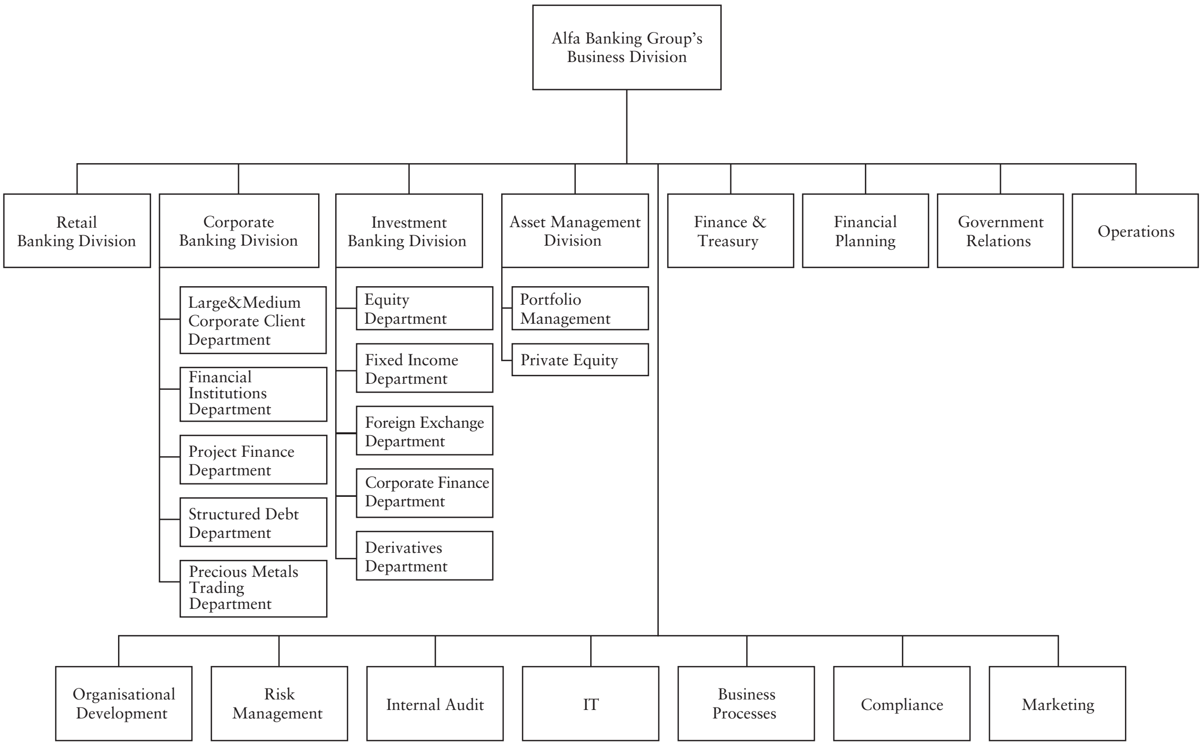
OVERVIEW

Alfa Banking Group operates predominantly in two business divisions: commercial banking and investment banking (which includes asset management). Of these, commercial banking is operated by Alfa Bank and its subsidiaries, and investment banking is operated by Alfa Bank and Alfa Capital and certain other subsidiaries, each with domestic and international operations.

The Reorganisation was an essential prerequisite to Alfa Banking Group achieving its objective of becoming a universal bank with the broadest range of product lines possible. Alfa Banking Group is now well placed to be able to distinguish itself from other Russian banks and to compete with the Western banks which, to date, have been unsuccessful in establishing a significant presence in the Russian commercial banking sector. To improve the profitability of each segment of its business, Alfa Banking Group will continue to implement its combined strategies of continued growth (both within Russia and in Ukraine and Kazakhstan), cost control and investment in information technology and high calibre personnel.

Structure of Alfa Banking Group

The following table depicts Alfa Banking Group's internal business divisions:



COMMERCIAL BANKING

Overview

Alfa Bank was established on 20 December 1990 as LLP CIB Alfa Bank, a partnership with limited liability, and obtained its general banking licence from the CBR in January 1991. During 1996, Alfa Bank was converted from a limited liability partnership (*Tovarischestvo s Ogranichennoi Otvetstvennost'u*) to a limited liability company (*Obschestvo s Ogranichennoi Otvetsvennost'u*) in line with Russian legislation on the status of such companies. In January 1998, LLC CIB Alfa Bank was reorganised as an open joint stock company, to increase the transparency and flexibility of the legal structure. Alfa Bank is registered with the CBR under No. 1326 and with Moscow Registration Chamber under No. 001.937. Alfa Bank's registered office is at 27 Kalanchyovskaya Str., Moscow 107078, Russian Federation.

Alfa Bank is registered in Russia to carry out banking and foreign exchange activities, has operated under a general CBR banking licence since 1991 and obtained a licence to deal in precious metals in 1994. Alfa Bank operates in all sectors of the Russian financial markets. It is committed to expanding its range of corporate and banking services to its customers through its commercial banking business and is investing significantly in the expansion of its various businesses and branches.

Alfa Bank has established a network of branches across Moscow, as well as in certain other major cities in the Russian Federation. Alfa Bank opened a fully-owned subsidiary in Almaty in Kazakhstan in December 1994, the first Russian bank to do so. Alfa Bank also has subsidiaries engaged in commercial banking in Ukraine, The Netherlands and Bashkortostan — the first two were acquired in 2000 and 2001 and the latter in 1997. In March 2003, a subsidiary bank in the Republic of Tatarstan started to operate. Alfa Bank has brokerage businesses in the United States, the United Kingdom and Cyprus (established in 2001, 2000 and 1996, respectively), as well as a representative office in the United Kingdom (established in 2000).

Alfa Bank is regulated and supervised by the CBR. Alfa Bank has been a member of SWIFT since 1994 and a member of Euroclear since May 1996. In addition, Alfa Bank is a member of the Moscow InterBank Currency Exchange ("MICEX"), the National Association of Security Markets Participants and of the Russian Trading System ("RTS"), a remote electronic stock trading system. Alfa Bank is also a member shareholder of the InterBank Credit Union, a clearing institution connected to the Depositary and Clearing Company. These institutions are the principal constituents of the developing infrastructure for safe custody and settlements in the Russian capital markets. Alfa Bank was also one of the 16 banks which the CBR originally selected in August 1996 to open "S" accounts. This gave Alfa Bank the authority to open special accounts on behalf of international counterparties and investors in order to participate in the domestic treasury and government debt markets.

Alfa Bank has recently won several Russian and International awards — being named "Best Trade Finance Bank in Russia and the CIS" and "Best Correspondent Bank in Russia and the CIS" in April 2004 by Emerging Markets, "Overall Best Bank in an Emerging Market" in March 2004 by Operational Risk, "Best Trade Finance Bank" and "Best Foreign Exchange Provider in Russia", "Best Retail Bank" and "Best M&A Adviser" by Global Finance in February 2004, "Best Overall Bank in Russia", "Best M&A Adviser" and "Best Trade Finance Bank" by Global Finance in February 2003, "Best Bank in Russia 2002" in July 2002 by Euromoney, "Best Trade Finance Bank in Russia 2002" in April 2002 by Global Finance and "Best Russian Bank" in March 2002 by Global Finance. In September 2003 and October 2002, JPMorgan Chase Bank presented Alfa Bank with its "Quality Recognition Award". In addition, Russia's Financial Press Club awarded Alfa Bank its Gold Diploma for openness of information.

Alfa Bank is one of the few banks in post-Soviet Russia to have successfully developed its own distinct brand. Alfa Bank prides itself on its brand and has achieved high recognition for it. Alfa Bank's management believes that the Alfa Bank brand is synonymous with reliability and stability — two factors which are critically important to most Russians since the 1998 banking crisis — and with leadership.

Alfa Bank has built its brand primarily through the high level of working relationships and its reputation — which was enhanced in 1998 when, in contrast to other Russian banks, it continued to honour its obligations to clients. Other factors that have contributed to the brand are the continuing expansion of the branch network across Russia and abroad, well targeted PR communications, advertising and sponsorship of popular cultural events and support for charities.

An independent survey conducted by IPSOS/F-Squared in September 2003 found that Alfa Bank has 98% awareness among heads of large and medium-sized companies in Moscow, St. Petersburg and four regional cities.

Alfa Bank and its subsidiaries operate Alfa Banking Group's commercial banking business. Commercial banking generated total revenues of U.S.$554.1 million for the year ended 31 December 2003, compared to U.S.$474.3 million for the year ended 31 December 2002.

The commercial banking business at Alfa Bank and its regional branches is broadly split into the Corporate Banking Division that caters to large and medium sized corporate clients and the Retail Banking Division servicing small businesses and private individuals. The range of services to customers of both the corporate and retail departments include trade and project finance, lending, plastic cards and precious metals trading. Banking services are offered to clients in Roubles, U.S. dollars and other foreign currencies.

A 100% shareholding in Amsterdam Trade Bank N.V. ("ATB") was purchased by Alfa Bank in March 2001, as a result of which Alfa Bank became the first private Russian commercial bank with an affiliate bank holding a full banking licence in the European Union.

Branch Operations

The development of the branch network has been key to expanding Alfa Banking Group's client base and offering an all round service to existing and new clients. The rapid development of the branch network has also been dictated by increasing demand for payment services and in response to government programmes to finance Russia's financial and agricultural sectors.

As at 1 May 2004, the total number of Alfa Banking Group offices within Russia and the CIS was 120 (including subsidiary banks, regional branches and outlets), compared with 85 as at 30 June 2002. The branch network comprises branches in Russia located in Moscow and other cities such as St. Petersburg, Nizhny Novgorod, Vladivostok, Omsk, Perm and Orenburg and a subsidiary in Kazakhstan and Alfa Bank Ukraine. Most branches in Moscow are located on major streets near subway stations and parking facilities. Some savings branches are also located in residential satellite areas away from the centre of Moscow.

At present, Alfa Bank has 388 automated teller machines (ATMs) across its branch network.

Mercury Project

Alfa Bank has implemented a cost efficiency project known as the "Mercury Project". Under the Mercury Project, Alfa Bank will seek to enhance its existing retail business operations with a more efficient, cost effective and profitable retail business and to expand this new business in Moscow and throughout the regions.

The key objectives of the Mercury Project are to:

- remodel Alfa Bank's existing 25 retail branches in Moscow, centralise back office operations and reduce front office personnel;
- expand Alfa Bank's network of branches to 80 branches in Moscow;
- increase Alfa Bank's market share of private individuals and small businesses served;
- increase Alfa Bank's market share of individual deposits and further diversify funding sources; and
- increase the overall profitability of Alfa Bank's retail business.

As at 1 January 2004, 20 retail branches in Moscow had been remodelled under the "Alfa Bank Express" brand. Alfa Bank aims to complete the remodelling of its retail branches in Moscow by the end of 2004. Investment in construction and equipment of retail branches is budgeted at U.S.$11 million in 2003-2004. The total cost of the Mercury project for the financial year ended 31 December 2003 was U.S.$19.0 million as compared with U.S.$18.0 million for the year ended 31 December 2002. Alfa Bank plans to spend a further U.S.$35.4 million in 2004.

Retail customers have access to internet banking, telephone banking and branch banking (and customers become customers of the network, not only of one branch).

Information Technology

Part of Alfa Banking Group's strategy is to be the most technologically advanced and efficient banking group in Russia. To achieve this, Alfa Banking Group has implemented the OMEGA programme which will result in a highly automated business — in its back, middle and front office, its central management and throughout the branch network.

The OMEGA programme reduces the time it takes to roll out new financial products and to adapt to changes in market conditions. It provides management information in key areas such as risk and profit across all product and department lines. The OMEGA programme also enables Alfa Banking Group to increase the number of clients, accounts and transactions without limits, and reduces costs and risk. It has provided the platform on which Alfa Banking Group has launched its new modern retail network.

The OMEGA programme is designed not only to ensure that Alfa Banking Group remains a leader in Russia, but also to maintain Alfa Banking Group's competitiveness as large Western banks enter the domestic market.

The OMEGA programme is leading to the construction of a technically advanced banking supermarket geared entirely to electronic transactions. This will facilitate Alfa Banking Group's plans to provide clients with a 24-hour on-line service for most products. Alfa Banking Group is already the market leader for many high technology products. The Electronic Business Centre successfully uses advanced technology, and Alfa-Direct, Alfa Banking Group's internet broker service, is widely used by both professional and private investors.

The centrepiece of the OMEGA programme is software technology developed by an international leader in banking technology, Misys. In 2003, Alfa Banking Group successfully implemented the core part of the software package, called Equation.

Since 1999, Alfa Banking Group has invested over U.S.$90 million in information technology and it plans to invest a further U.S.$9 million by the end of 2004 in the IT-development of the Mercury Project alone.

Large and Medium-sized Corporate Client Department

Alfa Bank has a large and medium-sized corporate customer base of over 14,000 clients and as at 31 December 2003 its corporate loan portfolio amounted to U.S.$3,566.5 million. Alfa Bank's Corporate Department plans to expand its presence in the medium-sized corporate segment with the aim to significantly grow the loan portfolio of these customers, thus reducing the share of large corporate clients. The latter currently account for approximately 70% of Alfa Bank's loan portfolio, compared to approximately 75% at the end of 2002. Depending on the circumstances, Alfa Bank aims to obtain collateral and/or guarantees to reduce credit risk (see "Selected Statistical and Other Information — Collateral"). Historically, a significant proportion of Alfa Bank's corporate lending has been to related parties in the Alfa Consortium. However, Alfa Bank has sought to diversify its customer base and loan portfolio and the level of its related party exposure has continued to decrease through 2003 (see "Related Party Transactions").

Alfa Bank's prudent credit policy has resulted in a very low rate of overdue loans, which stands at 0.9% of the total loan portfolio as at 31 December 2003, only 0.1% of which is believed by Alfa Bank to be irrecoverable. Alfa Bank is committed to further improving its credit policy by implementing stringent risk management requirements, which include reducing credit limits for new customers to a ratio of loan to capital (calculated based on consolidated IFRS financial statements) of 22% in 2004. Although the CBR's N6 ratio requirement is for such a ratio to be 25%, the lower percentage achieved for Alfa Bank reflects its prudent approach. Alfa Bank is also committed to diversifying its loan portfolio, reducing its exposure to large companies in oil and gas industries and developing its business in emerging sectors, such as defence, metallurgy, food, retail and construction.

Mars Project — Defining Business Strategy for Corporate Clients (2004-2008)

Alfa Bank has launched another strategic programme for the corporate part of its commercial banking operations called the Mars Project.

The key objectives of the Mars Project are to:

- identify sustainable long-term competitive advantages to capitalise on to maintain market leadership and grow the business;

- develop an effective and optimum organisational and management model to meet the established objectives; and
- introduce a cost-effective infrastructure and IT model.

The current branch network covers most of Russia's key financial centres, so the main objective is to primarily focus on vertical growth opportunities and significantly increase investment returns from the existing branch network.

Retail Banking Division

Retail banking is a traditional priority for Alfa Bank, one of the largest retail banks in Russia, third in the marketplace after Sberbank and Bank of Moscow. Alfa Bank has more than 11-years' experience in the retail banking market and a dynamically-growing customer base of around 900,000 retail customers. Alfa Bank has built a network of retail branches all over Russia including 41 offices in Moscow and 79 offices throughout Russia and the CIS. This enables Alfa Bank to satisfy the needs of the emerging middle class in its quality banking service and products.

Although Alfa Bank has achieved very good results in attracting retail customers, it was decided that the speed at which the retail business had been developing was lower than the macroeconomic situation in the country allowed. An analysis of the problem showed that the retail market required a different approach to the banking service based on the following competitive advantages: new service standards, integrated product range, fast and efficient 24 hour services, a wide branch network and remote access channels.

To form and lead the emerging retail banking market in Russia, Alfa Bank has created an innovative retail business model based on an intuitive, multi-channel product offering, effective business processes, an advanced IT platform and strong branding. The new business model is largely based on economies of scale and offers standardised products, service and a retail environment aimed at bringing the new retail business closer to the customer by making it accessible, transparent and easy to use. This enables Alfa Bank to sustain a consistent quality of service and make the new model applicable on a large scale, which is crucial for a large country such as Russia.

The concept that has now become Alfa Bank Express started in 2001 with extensive market research carried out to define the needs of modern Russians and establish a business case. Research showed that customers were very interested in carrying out all their operations in any branch of the network. As a result, a single key change to the whole banking package has been implemented — a Visa Electron card given to every new customer. Alfa Bank Express has thus become the first bank in Russia to issue this card with every account, allowing customers access to their funds at retail outlets and at cash dispensers — and freeing up staff to provide a better service and offer a wider range of products.

The unique and internally-cohesive product portfolio for private individuals and SMEs offered by Alfa Bank Express encompasses current accounts, savings, credit cards and overdraft facilities as well as a limited number of highly sought-after products such as Western Union cash transfers, Visa TravelMoney pre-paid cards and individual strong-boxes.

Alfa Bank Express promotes a one-point access to all banking features. A customer going into a branch to open a current account and receive his or her Visa Electron card can at the same time apply for a credit card. Customers can also apply for a credit card on-line through Alfa Bank's web site. Alfa Bank is using a scoring model that allows it to offer revolving credit cards as a mass market product.

The new retail business was launched with 11 branches in central Moscow providing 24-hour services supported by a fully operational Call Center, a system of field sales force calling on new customers and an ATM network (including envelope depositaries and drop-boxes). By the end of 2003, the number of Alfa Bank Express branches in Moscow had increased to 20. The multi-channel service proposition is enhanced by the remote access channels — Internet Bank and Telephone Bank.

Alfa Bank is planning to further extend its retail concept. Along with the introduction of Alfa Bank Express in Moscow, Alfa Bank has also started converting the existing retail network into the new format and carrying out research on regional market conditions to prepare for regional expansion. Alfa Bank continues to enlarge the range of products and services available to customers and introduce increasingly simple and attractive banking facilities.

Financial Institutions Department
One of Alfa Bank's priorities is to provide flexible domestic and international clearing for its corporate and interbank customers. Domestic clearing is carried out through SWIFT, a facility for interbank transactions, which Alfa Bank joined in 1994. Alfa Bank has established itself as one of the leading banks operating in the Russian and CIS clearing business. By the end of 2003, Alfa Bank had a global correspondent network of more than 400 institutions and around 50 "nostro" accounts with leading banks from the CIS, the United States and Eastern and Western Europe. Building on the confidence and trust of its foreign partners in the past years, Alfa Bank has been able to increase the scope of its operations in domestic and foreign settlements, money market and trade finance activities.

Project Finance Department
Alfa Bank established a project finance department in 2000 by merging three departments — project finance, export-import finance and guarantees and leasing operations. The department offers a wide range of services to clients including financing import contracts with monetary funds, letters of credit and guarantees, export lending, financing investment projects and capital construction. With the backing of foreign financial institutions and national export credit agencies, Alfa Bank is able to finance investment projects at low interest rates and with longer maturities.

OJSC Alfa-Leasing, a wholly-owned subsidiary of Alfa Bank, acquires capital assets and leases them to Russian enterprises involved in a variety of different industries. Alfa Bank provides clients with assistance in forming cost-effective leasing schemes based on minimising tax exposure and maximising depreciation. Alfa Leasing was established in 1999 and is a wholly-owned subsidiary of Alfa Bank. The company works together with the largest foreign manufacturers of vehicles and equipment, including Caterpillar (USA), Leibher (Germany), Claas (Germany), Marubeni (Japan), Komatsu (Japan) and Tetra Pak.

Structured Debt Department
The structured debt department was established in 2000 to handle the restructuring of Russian Federation and CIS sovereign and corporate debt as well as to offer general forfeiting services. The department's success is demonstrated by a track record of continued deal growth, having concluded deals in excess of U.S.$200 million in 2003. Furthermore, to maintain its competitive edge against other top-tier financial institutions in the Russian and CIS markets, the structured debt department plans to expand its services this year to include specialized trade finance products.

Precious Metals Trading Department
The precious metals department was established in 2000 and has developed a small business trading silver and gold in the Russian market. The precious metals department is also involved in financing mining organisations, buying and selling precious metals in the interbank market, export operations with precious metals, including commission agreements and organising the transportation of precious metals and their storage in certified depositories.

INVESTMENT BANKING DIVISION

Overview
Alfa Capital, Alfa Bank and certain of its affiliates operate Alfa Banking Group's investment banking activities. Alfa Banking Group is one of the leading investment banking presences operating in the Russian market and offers a wide range of international banking and brokerage services relating to mergers and acquisitions, corporate restructuring advisory services and equity, fixed income and foreign exchange trading. The primary emphasis of the investment banking business is on Russia and Ukraine, although brokerage operations have also been established in New York, London and Nicosia (Cyprus).

Alfa Banking Group's investment banking business generated total revenues of U.S.$213.4 million for the year ended 31 December 2003, compared to U.S.$120.3 million for the year ended 31 December 2002.

Corporate Finance Department
Alfa Banking Group has over recent years strengthened its position in corporate finance and is now ranked as a leader among Russian and international investment banks operating in Russia in terms of volume of deals. The volume of corporate finance transactions on which Alfa Capital advised in 2003 exceeded U.S.$18 billion. The size of transactions in 2003 was greatly increased by the BP-TNK alliance. Its main area of activity is the provision of financial advice on mergers and acquisitions to Russian and foreign

clients. The corporate finance department draws on the extensive reach of its branch network and the international expertise of its investment bank to advise on investment into and within Russia.

Recent transactions handled by the corporate finance department include acting as financial adviser to ICN Pharmaceuticals, an American public company, in the sale of its Russian assets to Millhouse Capital; to Tomsk Cellular Communications, a leading cellular operator in Tomsk region, in its sale to Mobile TeleSystems; Sibirtelecom in the sale of a 30% stake in Siberian Cellular Systems — 900 to Mobile TeleSystems; to Sibirtelecom in the acquisition of 49% stakes in BaikalWestCom and Eniseytelecom, leading Siberian cellular operators. The corporate finance department also participated in the private placements of 3.8% of Amtel equity capital, one of the largest manufacturers of tyres in Russia, and 7.7% of Perekrestok equity capital, one of the largest food retailers in Russia, to Templeton Strategic Emerging Markets Fund. The corporate finance department acted as a financial adviser to the TNK Russian shareholders in the landmark alliance of TNK and BP Russian and Ukrainian assets.

The corporate finance department also continued to render advisory services to Russia's utility monopoly, JSC RAO Unified Energy System, as part of the company's restructuring effort.

Equity Department

Alfa Banking Group is one of the leading Russian brokers and actively participates in all major trading systems and exchanges on which Russian securities are traded — mainly RTS, MICEX and the GDR/ADR markets in London and New York. The equity department specialises in the six key areas of equity trading, international equity sales, domestic sales, structured products, analytical research and an internet brokerage. Alfa Banking Group is also active in capital markets transactions and participated as co-lead manager in the IPOs of both Wimm-Bill-Dann and RosBusinessConsulting. The department has also introduced a system for securities trading via the Internet, known as AlfaDirect, which facilitates work with retail clients across Russia. Alfa Banking Group's Research Department produces regular macroeconomic, industry and company specific reports.

In 2000, Alfa Banking Group set up Alfa Securities Limited, a UK company regulated by the Financial Services Authority, to provide brokerage, research and investment banking services. Alfa Securities Limited has client relationships with many UK and European institutional clients.

In 2001, a new brokerage operation, Alfa Capital Markets Inc., was established in New York to serve clients in North and South America. Alfa Capital Markets Inc. provides brokerage and investment services for U.S. institutional clients investing in Russia. Alfa Capital Markets Inc. is a NASD member firm.

Fixed Income Department

Alfa Banking Group has maintained a leading position in fixed income trading, covering a range of products including Russian government and corporate bonds, promissory notes and repos. Alfa Bank works with more than 400 local clients. In the domestic debt capital market, Alfa Bank is known as one of the top underwriters. During 2003, Alfa Bank was a lead manager of Rouble corporate bond issues totalling RUR 7.7 billion, compared to RUR 3.2 billion in 2002. In addition, Alfa Banking Group trades emerging markets' fixed income instruments as well as derivative contracts.

Derivatives Department

Alfa Banking Group recently created a separate Derivatives Department, which is in charge of its brokerage derivatives operations. Trading is carried out through two entities — Alfa Bank and Alfa Capital. The range of instruments covers FOREX, the Rouble, commodities, Russian equities and eurobond derivatives, both OTC as well as exchange-traded. Alfa Bank is a clearing member of the St. Petersburg Currency Exchange (SPCEX), which is currently the main exchange trading floor for different derivative contracts in Russia. Recently, Alfa Bank has also become a member of FORTS — Futures and Options on the RTS Stock Exchange.

Foreign Exchange Department

Alfa Banking Group maintains market-making positions on the domestic foreign exchange market, currently covering approximately 10% of Russia's Rouble/U.S. dollar turnover with proprietary and client driven operations on the bank-to-bank market and MICEX. Apart from traditional Rouble/U.S. dollar transactions, Alfa Banking Group executes over 20% of the total trading volume of other CIS currencies (LCC-Limited Convertible Currencies) and is part of the group of five domestic banks used by the CBR for determination of the CBR's daily official rate for CIS currencies. Alfa Banking Group is an active participant in the international FOREX markets with over U.S.$250 million in trading lines from leading European and North American financial institutions and is consistently a leading Russian based spot and margin trader based on trading volumes.

Infrastructure and Support Division

The Infrastructure and Support division comprises several departments, including administration, risk management, government relations, operations, information technology, finance and treasury departments.

FUNDING

Sources of Funding

The principal sources of funding for the Alfa Banking Group are demand and term deposits from corporates and individuals, which as at 31 December 2003, amounted to U.S.$3,400.4 million and represented 63.8% of total liabilities. The Group's funding strategy is to increase its Rouble and foreign currency deposit base through the expansion of its network and its corporate and retail customer base. The balance on individual Rouble and foreign currency accounts rose by 61.9% in 2002 to U.S.$791.6 million, and by a further 63.4% in 2003 to U.S.$1,293.2 million, ranking Alfa Banking Group in second place among Russian banks in terms of retail deposits. This increase will allow for the expansion of customer lending operations and will lead to a diversification of its sources of funding. The successful roll-out of the "Alfa Bank Express" concept should allow Alfa Banking Group to significantly diversify its source of deposits.

Alfa Banking Group also borrows in Roubles and foreign currencies from domestic and foreign banks and institutions on both bilateral and syndicated bases, through the issuance of certificates of deposit and promissory notes and inter-bank borrowing.

Alfa Banking Group intends to continue to obtain short- and medium-term financing in the Rouble bond market, through the issue of Rouble bonds and promissory notes and also intends to continue to obtain medium-term financing through its correspondent banking relationships and through financings in the international markets (including in the syndicated loan and capital markets). In June 2002, RUR1 billion was raised through the first Rouble bond issue of Alfa Banking Group, and the second Rouble bond issue in the amount of RUR2 billion was placed in April 2004. Alfa Banking Group issued a U.S.$175.0 million Eurobond in November 2002, the first such issue by a privately owned Russian bank since 1998. In January and November 2003 two syndicated loans of U.S.$50.0 million and U.S.$82.0 million respectively with 1-2 year maturities were obtained from a consortium of leading European banks. The proceeds from the loans were used to finance the trade operations of one of Alfa Banking Group's clients. On 11 December 2003 Alfa Banking Group established a U.S.$200.0 million euro-commercial paper programme. The programme represents the first traditional euro-commercial paper programme out of Russia since the 1998 debt crisis.

In addition, following the implementation of the Government's proposed pension reform, Alfa Banking Group intends to attract funds from the resultant pension fund market.

PLANNED DIVESTITURE OF NON-CORE ASSETS

Alfa Banking Group holds certain non-core assets, a substantial part of which it intends to sell off over the next few years, conditions permitting, as part of the planned further reorganisation of Alfa Banking Group and its focus on key business banking segments. The following table sets out its main investments (the "Investments") as at 31 December 2003 and Alfa Banking Group's stake in each company:

Investments	Line of Business	Country of Registration	Ownership stake (%)	Carrying value (U.S.$'000)
Story First Communications	Television	Russia	25.0	19,558
Akrikhin	Pharmaceutical	Russia	80.2	38,630
Other				7,255
Total				65,443

Alfa Banking Group's non-core asset portfolio is carried in Alfa Banking Group's consolidated balance sheet at a value of U.S.$65.4 million at 31 December 2003, being approximately 1.1% of its total assets.

To maintain the transparency of Alfa Banking Group's business, in 2001 it was decided that the recently acquired insurance companies, Ostra Kiev Insurance Company and OJSC VEStA (now OJSC Alfastrakhovanie), as well as the recently established Alfa Guaranty Insurance should be held by Alfa Finance Holdings S.A., separately from Alfa Banking Group. Accordingly, in 2001, Alfa Guaranty Insurance and OJSC VEStA were transferred to Alfa Capital Stock Trading Limited, which is a wholly-owned subsidiary of Alfa Finance Holdings S.A. Notwithstanding this, the products of such insurance business continue to be marketed and sold through the Alfa Banking Group branch network. Ostra Kiev Insurance Company was sold to an unrelated third party in December 2003.

SUBSIDIARIES

ABH Financial's principal consolidated subsidiaries as at 31 December 2003 are set out below:

Name	Nature of Business	Percentage Controlled[(2)]	Country of Registration
Alfa Bank	Banking		Russian Federation
Alfa Bank Kazakhstan	Banking		Kazakhstan
Alfa Bank Ukraine	Banking	94.7	Ukraine
Alfa Capital Asset Management	Assets Management		Russian Federation
Alfa Capital Holdings (Cyprus) Limited	Financial Services		Cyprus
Alfa Capital Markets USA Inc	Brokerage		U.S.A.
Alfa Leasing	Leasing		Russian Federation
Alfa-Russia Finance B.V.	SPV[(1)]		Netherlands
Alfa Securities Limited	Brokerage		United Kingdom
Amsterdam Trade Bank	Banking		Netherlands
Manwood Limited	SPV[(1)]		Isle of Man
Tormead Marketing Limited	SPV[(1)]		Isle of Man
Westlaw Incorporated	SPV[(1)]		Nevis, West Indies

Notes:

(1) *SPV — special purpose vehicle.*

(2) *Unless otherwise stated, each of the principal subsidiaries listed above is directly or indirectly wholly-owned by ABH Financial.*

A number of ABH Financial's subsidiaries are incorporated outside the Russian Federation and some of Alfa Banking Group's business is generated by entities other than the Issuers and the Guarantors.

Amsterdam Trade Bank

ATB was incorporated in September 1994 in Amsterdam, The Netherlands, and holds a full banking licence from the Dutch Central Bank (De Nederlandsche Bank N.V.).

In March 2001, Alfa Bank acquired a 100% stake in ATB, which thus became its wholly-owned subsidiary operating on a stand-alone basis. ATB is the only banking institution located in the European Union that is 100% owned by a private commercial Russian bank.

ATB is a member of SWIFT, TARGET and Interpay settlement systems. The latter membership allows it to issue private and corporate EuroCards and Mastercards. ATB is the main correspondent bank of Alfa Bank for clearing services in euro.

ATB operates primarily in trade finance markets and those involving Russia, other CIS countries and the European Union; providing banking, consultancy and project finance services to a wide range of corporate clients. ATB also facilitates foreign direct investment in Russia and the CIS.

According to its audited financial statements, ATB's net profit for the year ended 31 December 2003 amounted to EUR 1.3 million with assets increasing almost three-fold from EUR 345 million to EUR 952 million on a year-on-year basis. The loan portfolio accounted for EUR 244 million up from EUR 79 million a year ago. The bank's BIS solvency ratio was more than 30%, well above the minimum requirement of 8%.

On 3 September 2003, Alfa Bank made an equity contribution in the amount of EUR 26 million, thereby increasing the total equity to EUR 42 million.

Alfa Bank Ukraine

In 2000 Alfa Banking Group acquired control over Ukrainian commercial bank Kievinvestbank and then reorganised it into CJSC Alfa-Bank (Ukraine) with the long-term aim of establishing a high-tech, universal bank, utilizing both the expertise of Alfa Bank and the know-how of a local operator in the Ukrainian market. As of 1 December 2003, Alfa Bank Ukraine was ranked 13th in terms of capital by Ukrainian Banking Association. Alfa Bank Ukraine has now set itself the target of being among the top 10 banks in Ukraine in the next few years.

In 2002 Alfa Bank Ukraine started to increase the reach of its branch network. Over the last two years, Alfa Bank Ukraine opened four branches in the cities of Donetsk, Kharkov, Dnipropetrovsk, and Mykolaev, and registered representative offices in Lvov, Zaporozhye, and Simferopol, as well as two outlets in Kiev. Alfa Bank Ukraine aims to expand its branch business in the future by establishing new outlets in Kiev and other large cities, and opening branches in the big industrial regional centers of Ukraine.

Alfa Bank Kazakhstan

Established in 1994, Alfa Bank Kazakhstan is now a notable participant on the local Kazakh market. Its clients are served by three branches located in Karaganda, Ust-Kamenogorsk and the new capital, Astana, as well as in the Head Office in the old capital Almaty.

In August 2001, Alfa Bank Kazakhstan started issuing VISA branded debit cards under a licence from VISA International. In late 2001, it became a full member of SWIFT.

Alfa Securities Limited

Alfa Securities Limited is the London arm of Alfa Bank's rapidly expanding equities business, providing brokerage, research and investment banking services to institutional clients in the U.K. and throughout Europe. Alfa Securities Limited is licensed and regulated by the United Kingdom's Financial Services Authority (FSA). Since its establishment in 2000 Alfa Securities has rapidly developed into one of the most active participants engaged in attracting foreign investment into Russia's fast-growing economy. The operation is supported by analysts, sales and marketing staff, as well as administration and compliance officers. Alfa Securities Limited has established client relationships with 45 institutional funds and sales volumes nearly doubled in the 2003 financial year.

Alfa Capital Markets Inc.

Alfa Capital Markets is the NASD registered U.S. arm of Alfa Bank's Investment Business, based in New York City. It aims to provide brokerage and investment services to many of the major U.S. institutional investment companies and has gained a customer base of over 30 blue chip institutional funds since its creation in 2001, and continues to expand. The operation consists of sales research, sales and trading, and securities compliance. Alfa Capital Markets has execution capability on all major U.S. equity exchanges. The New York office has direct trading lines open with both Moscow and London and operates in real time on all exchanges. It aims to distribute Alfa Bank's products to all major financial institutions in the U.S. and to be the gateway for U.S. investment into Russia.

Alfa Capital Holdings (Cyprus) Limited

Alfa Capital was incorporated in Cyprus on 23 August 1996, with registration No. 78416, under the provisions of the Cyprus Companies Law, Cap. 113. Alfa Capital is wholly-owned by ABH Financial. The principal activities of the company are investment operations in equities and bonds in the Russian Federation and the provision of financial services to other members of Alfa Banking Group. The company has been regulated by the Central Bank of Cyprus as a financial services company under permit No. EC/D/II/24839 issued in April 2002 by which it is licensed to offer financial services to banking or credit institutions, the company's shareholders or members of its group of companies and to other experienced or professional investors outside Alfa Banking Group. Pursuant to the provisions of the Investments Firms Law, Law 148(I)/2002 the Cyprus Securities and Exchange Commission ("CSEC") has assumed authority as the regulator of Alfa Capital in the conduct of its business and in that regard Alfa Capital filed an application with CSEC for licensing as an investment firm under the provisions of the Investments Firms Law. This application was successful and authorisation to operate as a Cypriot investment firm No. CIF25/04 was granted on 4 May 2004.

Alfa Capital Asset Management

This 100% subsidiary of Alfa Bank provides portfolio management services for financial institutions, individuals, banks, pension funds and insurance companies. Alfa Capital Asset Management, established in 1992, is one of Russia's oldest and biggest asset management companies. Alfa Capital Asset Management manages a total of over U.S.$120 million. Total retail assets under management amount to over U.S.$65 million, while pension assets (Non State Pension Funds, NPFs) amount to about U.S.$45 million. Alfa Capital's mutual funds are invested in domestic Russian securities, including listed and unlisted stocks, bonds, debt instruments, cash and cash equivalents.

After having signed an agreement with the Russian Pension Fund, Alfa Capital was given the right to manage pensioners' accumulated pension savings. Before the pension reform, accumulated pension savings were held in a separate account for each pensioner in the Russian Pension Fund. Until 31 December 2003, all future pensioners, born in and after 1957 for women and 1952 for men, could choose to invest their accumulated pension savings in one of the 55 selected private asset management companies. Those future pensioners, who failed to do so, had their pension savings automatically given for management for the duration of one year to Vnesheconombank, which was appointed by the Russian state to manage pension savings. Alfa Capital is amongst the top recipients of funds of future pensioners for all those people who were free to choose (i.e. where the employer did not decide on its employees' behalf).

Alfa Banking Group currently manages close to U.S.$45 million in Russian corporate pension funds and anticipates developing this business further. Alfa Banking Group expects that general demand for portfolio management services for Russian securities will grow, and may thus develop additional products or ventures to serve the high net worth and international market segments.

Alfa Banking Group also plans to establish a private equity programme in 2004. The programme will focus on investing in small- to medium-sized enterprises, mostly in Russia and Ukraine, across a range of industries. A dedicated team has been established to manage the programme. Alfa Banking Group's private equity initiative seeks to capitalize and expand on its extensive investment experience, on the improving political and economic climate in the region and the increasing demand for private equity.

LITIGATION

Norex

Since 2002, Alfa Finance Holdings, S.A., the Alfa Consortium, Crown Finance Foundation and CTF Holdings Limited 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. Neither Alfa Issuance, Alfa Markets, Alfa Bank nor ABH Financial were identified as the defendants in the caption in this lawsuit or were served with court papers.

Norex attempted to claim U.S.$1.5 billion under the U.S. RICO statute for the loss of its alleged ownership interest in Yugraneft, a Russian oil company.

On 18 February 2004, the court dismissed the claim on the grounds of "*forum non conveniens*". In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither entity has been served with any court papers or is named in the caption to this action. Norex representatives filed a notice of appeal on 10 March 2004. New evidence is due from Norex on 2 July 2004 and opposing evidence must be submitted by 2 August 2004. The next hearing is scheduled for 13 September 2004. Management believes that since the claim itself is without merit, the plaintiff is unlikely to succeed.

Other proceedings

Alfa Banking Group is involved in various other legal proceedings but does not believe that such proceedings individually or taken together, are likely to have a material adverse effect on the business of the Alfa Banking Group, ABH Financial or Alfa Bank or on the results of their respective operations or their financial condition.

Management

SENIOR MANAGEMENT OF ALFA BANKING GROUP

The names, qualifications and certain other information about each member of Alfa Banking Group's senior management team are set out below.

Mikhail Fridman — Chairman of the Board of Directors of Alfa Bank and principal founder of Alfa Bank; in 1989 began the process of creating the Alfa Consortium which has developed into one of the most powerful financial and industrial associations in Russia; MS Engineering, Moscow University of Alloys and Steel.

Pyotr Aven — President of Alfa Bank, formerly Minister of Foreign Economic Relations of Russia (1991-1992); Ph.D. Economics, MS Economics, Moscow State University. Mr. Aven is an internationally recognised economist.

Oleg Sysuev — First Deputy Chairman of the Board of Directors of Alfa Bank responsible for the Bank's regional branch network and banking in the regions; formerly First Deputy Head of the Administration of the President of the Russian Federation (1998-1999), Deputy Chairman of the Government of the Russian Federation and Minister of labour and social development (1997-1998), Head of Administration of Samara city (1992-1997); Mr. Sysuev is a member of several public and political organisations; Mr. Sysuev graduated from Kyuibishev Aviation Institute (Samara).

Leonard Vid — Deputy Chairman of the Board of Directors of Alfa Bank. Mr. Vid has been with Alfa Bank since 1996, formerly was Chairman of Alfa Bank (1996-2002), Director of the Centre for economic conjuncture under the Government of the Russian Federation (1991-1996) and the First Deputy Chairman of Gosplan (State Planning Agency) of the USSR.

Petr Smida — Deputy Chairman of the Board of Directors and a member of the Executive Board of Alfa Bank, Chief Executive Officer of Alfa Bank and Acting Head of Retail Business, Mr. Smida is responsible for Alfa Bank's general management and strategy. Previously Chairman and CEO at GE Capital Bank, Prague and Senior Vice-President at GE Consumer Finance, USA. Mr. Smida graduated from University of Economics in Prague.

German Khan — Member of the Board of Directors of Alfa Bank; Executive Director of TNK. Mr. Khan has occupied different positions in companies of Alfa Consortium since 1992; was Head of Trade Operations in Alfa Eco (1992-1996) and President of Alfa Eco (1996-1998); since 1998 Mr. Khan has been Deputy Chairman of TNK and in 2000 was appointed Executive Director of TNK; Mr. Khan graduated from Moscow University of Alloys and Steel.

Alexey Kuzmichev — Member of the Board of Directors of Alfa Bank; Chairman of the Board of Directors of Alfa Eco, Member of the Board of Alfa Finance Holdings S.A.; formerly headed the International Trade Division at Alfa Eco (1990-1996), in 1992 was appointed Member of the Board of Crown Resources AG and since 1996 has been Chairman of the Board of Crown Resources AG. Mr. Kuzmichev graduated from Moscow University of Alloys and Steel.

Alexander Gafin — Member of the Board of Directors and Director for Public Relations and Marketing responsible for PR-support, marketing of Alfa Bank and organisation of social and charitable events. Mr. Gafin joined Alfa Bank in 1994. Mr. Gafin holds a number of the highest awards in the field of public relations, fine arts and literature.

Oleg Tumanov — First Deputy CEO of Alfa Bank, joined Alfa Bank in 2001, formerly Deputy Chairman of the Board of Directors at Nikoil Group (Moscow), COO of Banque Unexim (Suisse), Head of International Corporate Finance at Ladenburg Thalmann Int. (USA), Deputy Chairman of Mosbusinessbank; PhD. Economics, advanced management programs at Wharton School and financial management courses at Harvard Business School.

Rushan Khvesyuk — Chairman of the Executive Board of Alfa Bank, formerly Head of Legal Department. Graduated from Moscow State Academy of Law in 1994 and headed Alfa Bank Legal department since 1995. Russian Career Magazine has named Mr. Khvesyuk as one of 50 best Russian corporate lawyers in 2001.

Teijo Pankko — Deputy Chairman of the Executive Board, Chief Financial Officer of Alfa Bank, formerly CFO of Alfa Capital and Lemminkainen Ltd. in Moscow, Financial Director of NHM-Commodities Trading Ltd., Financial Manager at Harris Corporation (US) in Finland, MS Economics, Helsinki School of Economics.

Andrey Kosogov — Head of Investment Bank, First Deputy Chairman of the Executive Board, previously CEO of Alfa Capital; MS Physics, Moscow Energy Institute. Mr. Kosogov is one of the pioneers of investments and merchant banking in Russia and is responsible for building one of the most successful investment banks in Russia and CIS.

Alexander Lukanov — Head of Corporate Sales, Deputy Chairman of the Executive Board, joined Alfa Bank in 1995. Prior to this, worked as a General Director of one of the first venture funds in Russia SPF Kontakt XXI. Mr. Lukanov graduated from the Moscow Power Engineering Institute.

Andrey Sokolov — Deputy Chairman of the Executive Board, joined the bank in 1995, formerly Chairman of the Board of Resso-Garantia, Deputy Chairman of the Board of Directors of MDM Commercial Bank and Deputy Chairman of the Board of Konversbank; Moscow State University.

Ildar Karimov — Deputy Chairman of the Executive Board, Alfa Bank, joined Alfa Bank in 1994, formerly researcher at International Institute of Applied Analysis in Austria and advisor to the Council on Foreign Economic Policy at the Ministry of Foreign Economic Relations in Moscow (1991-93).; Ph.D. (Mathematical Economics); MS Economic Sciences, Moscow State University.

Nikolay Shmigol — Director of Operations, Alfa Bank, formerly Head of Treasury and General Director at UFG; BA Honors Degree in Credit and Finance, Moscow Financial Academy.

Martin Pilecky — Director of Information Technology, Alfa Bank, formerly Chief Information Officer at Komercni Banka and General Electric — Global Consumer Finance GE; graduated from Research Institute of Mathematical Machines, Prague.

Simon Vine — Head of Derivatives, Managing Director, previously worked at American Express Bank, Refco, UBS, SocGen; MBA, Columbia Business School, MS Economics, Moscow Institute of Finance and Economics. Simon Vine is related to an officer of Merrill Lynch International and such officer has been actively involved in the structuring of, and advising in connection with, the documentation for the establishment of the Programme.

Dominic Gualtieri — Managing Director, Head of Equities, previously Managing Director of Franklin Templeton South Africa, Managing Director of Franklin Templeton Russia, Head of Representation at Canada-Russia Parliamentary Program; MA Economics, University of Toronto; Honours BA, Trinity College.

Philip Halperin — Director of Risk Management, previously Head of Risk Management of Refco Overseas Ltd., former head of trading support for Banque Indosuez, New York MPPM Yale University School of Management.

Maxim Shashenkov — Managing Director of Alfa Securities Limited London, formerly Vice President at Merrill Lynch and Smith New Court, PhD, Oxford University, MA Political Sciences, Moscow State University.

Simon Roache — Chairman of the Board of Alfa Securities and Chief Representative of Alfa Bank in London, formerly Executive Director at Alfa Capital Asset Management in Moscow, Vice President at Fleming Investment Management, Moscow, BA, Heriot-Watt University, Edinburgh.

Nicholas Beech — Head of Sales/Trading, Alfa Capital Markets (USA) Inc., formerly Head of Emerging Markets Equity Trading at Salomon Smith Barney; BA (Hons) in Geography, University of Birmingham.

Sergei Rodionov — Director of Capital Markets Division integrating fixed income, foreign exchange, money markets and derivatives trading as well as sales. Previously worked at Chase Manhattan Bank and WestLB. Degree in international law at Moscow University of International Relations.

Oleg Belov — Head of Fixed Income, Managing Director, joined Alfa Bank in 1999; graduated from Applied Mathematic Moscow Economic and Statistic Institute, 1991; worked as an Equity Trader at Mosbusiness Bank and IFC (1993-96), Head of Fixed Income Trading Uneximbank (1996-99).

Vladimir Tatarchuk — Managing Director, Head of Corporate Finance, formerly Deputy Head of Corporate Finance, Director. Joined the Alfa Consortium in 1995. Formerly Legal Adviser, Head of Legal Department of CSJC "Alfa Capital" (1995-1997). Head of Legal Department of JSC "Alfa Capital" (1997-1998). MA in Law, Moscow State University.

Petr Shvrchek — Organisational Development Director, Alfa Bank, previously HR Director for Czech and Slovak Republic at SAB-Miller Company, Management Consultant with A.T. Cearney; MBA, Bradford, London Business School.

Todd Esposito — Financial Planning and Analysis Director, Alfa Bank, previously Marketing Leader and E-Business Leader at GE Capital Global Consumer Finance, Chief Financial Officer at GE Capital GCF Multiservis, FP&A manager/Sales Marketing Finance manager at GE Capital Mercurbank; Syracuse University (NY), London School of Syracuse, Goethe Institute (Vienna).

Miroslav Boublik — Chief Operations Officer, Alfa Bank, previously Engagement Manager of Business Technology Office and Consultant of Business Technology Office at McKinsey & Company, Inc., President and CEO at Aminet Inc. (USA); MBA, Harvard University, Brown University.

MANAGEMENT OF ALFA BANK

Between shareholders' meetings, general corporate governance is exercised by the Board of Directors of Alfa Bank, a body comprising members elected by the Annual General Meeting of Shareholders. The Board of Directors has authority over all Alfa Bank operations except those matters reserved to the shareholders.

Operational control over the activities of Alfa Bank is exercised by the Executive Board.

The Executive Board meets on a weekly basis and members of the Board preside over the day to day operations of Alfa Bank according to their area of responsibility. The Chairman of the Board is ultimately responsible for all staff and administrative matters and for the organisation of Alfa Bank.

The current members of Alfa Bank's Board of Directors are:

Name	Principal Occupation	Principal activities outside Alfa Banking Group
Mikhail Fridman	Chairman of the Board of Directors of Alfa Bank	Member of the Board of Directors of OJSC "Vimpel Communication"; Member of the Board of Directors of CJSC "Trade House Perekryostok"; Member of the Board of Alfa Finance Holdings S.A.
Oleg Sysuev	First Deputy Chairman of the Board of Directors of Alfa Bank	Member of the Board of Directors of OSJC "STS"; Chairman of the Board of Directors of "Sozidaniye" Foundation
Pyotr Aven	President of Alfa Bank	Chairman of the Board of Directors of Golden Telecom, Chairman of the Board of Directors of STS Television; Member of the Board of Alfa Finance Holdings S.A.
Leonard Vid	Deputy Chairman of the Board of Directors of Alfa Bank	None
Petr Smida	Deputy Chairman of the Board of Directors and a member of the Executive Board of Alfa Bank, Chief Executive Officer of Alfa Bank and Acting Head of Retail Business	None
German Khan	Executive Director of TNK	Executive Director of TNK; Chairman of the Board of Directors of OJSC "Orenburgneft"; Member of the Board of Alfa Finance Holdings S.A.
Alexei Kuzmichev	Chairman of the Board of Directors of Alfa Eco	Member of the Board of Alfa Finance Holdings S.A.; Member of the Board of Directors of United Food Company
Alexander Gafin	Member of the Board of Directors of Alfa Bank	Executive Director of the Bolshoi Theater Foundation

The business address of the above members of the Board of Directors of Alfa Bank is 11 Mashy Poryvaevoy Street, 107078 Moscow, Russia.

The current members of the Executive Board of Alfa Bank are:

Name	Principal Occupation	Principal activities outside Alfa Banking Group
Rushan Khvesyuk	Chairman of Executive Board of Alfa Bank	None
Andrey Kosogov	First Deputy Chairman of the Executive Board of Alfa Bank, Investment Banking	Board Member of OJSC "Alfa Strakhovanie"; Board Member of Golden Telecom Inc.; Board Member of CJSC "Kievstar GSM"
Teijo Pankko	Chief Financial Officer of Alfa Bank and Deputy Chairman of the Executive Board of Alfa Bank	None
Ildar Karimov	Deputy Chairman of the Executive Board of Alfa Bank, Financial Planning and Control	Member of the Board of Directors of OJSC "Alfa Strakhovanie"
Alexander Lukanov	Deputy Chairman of the Executive Board of Alfa Bank	Member of the Board of CJSC "Trade House Perekryostok"; Member of the Board of "Alfa Strakhovanie"
Andrey Sokolov	Deputy Chairman of the Executive Board of Alfa Bank	None
Petr Smida	Deputy Chairman of the Board of Directors and a member of the Executive Board of Alfa Bank, Chief Executive Officer of Alfa Bank and Acting Head of Retail Business	None

The business address of each of the following members of the Executive Board of Alfa Bank is 11 Mashy Poryvaevoy Street, 107078 Moscow, Russia:

- Ildar Karimov
- Alexander Lukanov
- Andrey Sokolov
- Petr Smida

The business address of each of the following members of the Executive Board of Alfa Bank is 12 Acad. Sakharova Prospect, 107078 Moscow, Russia:

- Rushan Khvesyuk
- Andrey Kosogov
- Teijo Pankko

In addition, on 3 June 2004, the Board of Directors of Alfa Bank approved Vladimir Tatarchuk as a candidate for the Executive Board of Alfa Bank. Vladimir Tatarchuk will be appointed to the Executive Board subject to the approval of his candidacy by the CBR.

MANAGEMENT OF ABH FINANCIAL

The current members of the Board of Directors of ABH Financial are:

Name	Principal Occupation	Principal activities outside Alfa Banking Group
Pavel Nazarian	Director of ABH Financial	Director of other Alfa Consortium companies
Joseph Louis Moss	Director of ABH Financial	None

The business address of the above members of the Board of Directors of ABH Financial is 22, Grand Rue, 2nd Floor, Luxembourg, L-1661.

MANAGEMENT — CERTAIN TRANSACTIONS

There are no significant loans, guarantees or other contingent liabilities granted by any member of Alfa Banking Group to any member of its management.

For the year ended 31 December 2003, the total remuneration of the Executive Board of Alfa Banking Group, including pension contributions and discretionary compensation, amounted to U.S.$10.0 million (compared with U.S.$5.5 million for the year ended 31 December 2002).

Asset and Liability Management

INTRODUCTION

Alfa Banking Group seeks to control the size and degree of its interest rate and exchange rate exposure to minimise the effect of these risks on profitability levels and to ensure sufficient liquidity is available for funding and to minimise short-term liquidity problems.

Customer accounts as a percentage of total liabilities was 63.8% at 31 December 2003. Alfa Banking Group is seeking to enhance its liquidity by raising longer term financing, through issues such as the Notes, in the capital markets. In addition, Alfa Banking Group maintains a portfolio of liquid international and domestic corporate and Russian Federation bonds as a hedge against such potential outflows.

Alfa Banking Group monitors and manages its asset and liability position through its Asset and Liability Management Committee ("ALCO"), which consists of 11 members. ALCO is chaired by the Deputy CEO Oleg Tumanov and includes six additional members (Teijo Pankko, CFO and Deputy Head of ALCO), Alexander Lukanov (Head of Corporate Sales), Sergei Rodionov (Director of Capital Markets Division), Vladimir Izutin (Director and First Deputy Head of Retail Business), Philip Halperin (Head of Risk Management); Igor Knyazev (Treasurer). ALCO meets every two weeks to review Alfa Banking Group's asset and liability position including maturities and interest rates and yields; the size of Alfa Banking Group's loan and investment portfolios; the net foreign currency position; operational ratios, in the case of Alfa Bank, relative to CBR regulations; exchange rates, inflation rates and other factors; and general national, political and economic trends. Based on its reviews, ALCO assesses Alfa Banking Group's risk profile and determines short-term strategy.

ASSET — LIABILITY MANAGEMENT AND STRATEGY

Senior management monitors maturities or the duration of assets and liabilities (both on and off-balance sheet) to ensure they are consistent with Alfa Banking Group's strategy and that limits set by the CBR are respected. ALCO reviews Alfa Banking Group's positions and advises on any changes to be made.

Alfa Banking Group is exposed to interest rate risk, principally as a result of lending and advances to customers and other banks at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates. Also, interest rates, that are contractually fixed on both assets and liabilities, can be renegotiated to reflect current market conditions.

The tables below summarise the effective average period end interest rates, by major currencies, for monetary financial instruments outstanding at the respective period end. The analyses have been prepared for the various financial instruments using period end effective contractual rates.

	31 December 2002							
	U.S.$	End of period balance (U.S.$ million)	RUR	End of period balance (U.S.$ million)	Euro	End of period balance (U.S.$ million)	Other Currencies	End of period balance (U.S.$ million)
Assets								
Overnight placements with other banks	5.9%	43.2	16.2%	48.9	0.0%	8.6	0.0%	0.1
Mandatory cash balances with the CBR and other local banks	—	—	0.0%	213.6	0.0%	0.2	0.0%	0.5
Debt trading securities	8.8%	279.2	14.1%	90.1	—	2.8	—	4.0
Due from other banks	4.3%	116.5	14.5%	60.8	3.1%	30.5	14.5%	3.5
Loans and advances to customers	13.2%	1,665.7	20.1%	749.0	11.4%	4.6	14.0%	21.1
Liabilities								
Term placements of other banks	3.3%	245.0	12.3%	173.0	5.4%	5.5	5.0%	21.7
Current and settlement accounts	2.1%	547.0	2.3%	555.0	2.1%	18.2	2.3%	15.8
Term deposits of customers	6.1%	554.6	10.2%	261.4	6.1%	34.8	10.2%	10.6
Promissory notes issued	6.1%	289.8	15.6%	339.0	3.0%	9.7	15.6%	6.5
Other borrowed funds	12.0%	173.4	17.6%	38.7	—	—	17.0%	0.6

	31 December 2003							
	U.S.$	End of period balance (U.S.$ million)	RUR	End of period balance (U.S.$ million)	Euro	End of period balance (U.S.$ million)	Other Currencies	End of period balance (U.S.$ million)
Assets								
Overnight placements with other banks	4.0%	66.2	2.3%	34.0	2.3%	224.5	—	—
Mandatory cash balances with the CBR and other local banks	—	—	0.0%	279.0	0.0%	13.6	0.0%	0.7
Debt trading securities	7.5%	525.0	11.1%	101.5	5.7%	23.9	5.1%	2.8
Due from other banks	3.7%	60.9	4.3%	65.8	6.5%	3.3	5.0%	1.6
Loans and advances to customers	11.9%	1,997.3	16.1%	1,305.2	9.6%	101.7	14.2%	36.5
Liabilities								
Term placements of other banks	3.2%	500.9	7.1%	110.1	3.8%	26.1	1.0%	21.7
Current and settlement accounts	1.8%	370.3	0.5%	836.7	0.2%	65.9	0.0%	10.4
Term deposits of customers	3.9%	1,281.9	6.2%	616.8	3.3%	209.7	4.8%	8.7
Promissory notes issued	4.0%	171.7	12.5%	394.6	2.7%	28.6	—	—
Other borrowed funds	9.6%	307.2	7.5%	16.7	—	—	—	—

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

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 31 December 2003 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of Alfa Banking 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 following table shows Alfa Banking Group's banking assets and liabilities by residual contractual maturity as at 31 December 2003:

	31 December 2003 (U.S.$'000)					
	On 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	923,191	—	—	—	—	923,191
Mandatory cash balances with the CBR and other local central banks	293,294	—	—	—	—	293,294
Trading securities	694,575	—	—	—	—	694,575
Due from other banks	120,298	885	10,438	—	—	131,621
Loans and advances to customers	170,325	956,856	1,405,910	907,589	—	3,440,680
Investments	—	—	—	—	65,443	65,443
Other assets and receivables	97,553	47,146	5,539	14,113	21,258	185,609
Premises and equipment	—	—	—	—	149,721	149,721
Total assets	2,299,236	1,004,887	1,421,887	921,702	236,422	5,884,134
Liabilities						
Due to other banks	616,669	132,485	33,689	13,458	—	796,301
Customer accounts	1,751,938	1,322,406	286,524	39,538	—	3,400,406
Promissory notes issued	181,361	256,652	140,258	16,669	—	594,940
Other borrowed funds	—	59,452	90,746	173,719	—	323,917
Other liabilities and payables	158,853	37,149	1,017	4,498	—	201,517
Deferred tax liability	—	—	—	—	13,448	13,448
Total liabilities	2,708,821	1,808,144	552,234	247,882	13,448	5,330,529
Net liquidity gap as at 31 December 2003	(409,585)	(803,257)	869,653	673,820	222,974	553,605
Cumulative liquidity gap as at 31 December 2003	(409,585)	(1,212,842)	(343,189)	330,631	553,605	—
Cumulative liquidity gap as at 31 December 2002	(683,213)	(759,612)	(264,156)	184,306	434,671	—

Mandatory cash balances with the CBR and other local central banks are included within demand and less than one month as the majority of liabilities to which these balances relate is also included in this category. All trading securities are classified within demand and less than one month, as the nature of the portfolio is that of a trading portfolio and the management of Alfa Banking Group believes this is a fairer portrayal of its liquidity position.

The management of Alfa Banking Group also believes that, in spite of a substantial portion of customer accounts having maturity on demand and less than one month, diversification of these balances by number and type of customers, and the past experience of Alfa Banking Group indicates that these balances provide a long-term and stable source of funding for Alfa Banking Group.

Alfa Banking Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Alfa Banking Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions. The Executive Board of ABH Financial sets limits on the level of mismatch interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, Alfa Banking Group normally seeks to match its interest rate positions.

FUNDING AND LIQUIDITY

As at 31 December 2003, 95.1% of Alfa Banking Group's liabilities had a maturity of less than one year, while the percentage of assets with a maturity of less than one year was 80.3%. Loans with shorter or the same contractual maturity as corresponding funding sources help to provide flexibility and stability to Alfa Banking Group's funding.

In recent years, Alfa Banking Group has entered into a number of transactions with financial institutions, details of which are set out below.

In 1997 Alfa Banking Group raised U.S.$175.0 million of eurobonds on the capital markets under a Euro Medium Term Note Programme. The bonds were issued by Alfa-Russia Finance, guaranteed by Alfa Bank and were fully serviced throughout their three year tenure. The bonds matured in 2000 and were repaid together with accrued interest.

In the same year, Alfa Banking Group raised U.S.$77.0 million on the U.S. commercial paper market. Alfa Banking Group was unable to meet its obligations to repay the commercial paper and it was rescheduled in December 1998 when Alfa Banking Group signed a Framework Rescheduling Agreement and subsequent Reimbursement Agreement among the arranger, Bank of America, and the syndicate banks. The US Commercial Paper Notes matured and were repaid along with interest prior to 31 December 2002.

In addition, on 7 December 2001, Alfa Bank borrowed U.S.$20 million under a syndicated loan facility for a term of six months at a rate of LIBOR plus 375 basis points. Under the terms of the loan, the syndicate banks had the option to renew the loan for a period of a further six months. On 5 June 2002, the syndicate banks took up that option and renewed the loan to Alfa Bank for an amount of U.S.$18 million for a further six months at the same price as the original loan.

During 2001 in order to increase its capital base, ABH Financial received a cash capital contribution of U.S.$56.4 million from the shareholders of Alfa Banking Group.

On 14 June 2002 Alfa Banking Group issued Russian Rouble denominated bonds maturing in June 2007 at a nominal value of RUR908.8 million (U.S.$28.9 million at 30 June 2002). The bonds have a floating interest rate and the coupon is payable semi-annually. The first and second coupons were paid at an interest rate of 18% per annum, the third coupon was paid at 7.5% per annum while the fourth coupon is to be paid at 10.5% per annum. Alfa Banking Group issues semi-annually an irrevocable offer to redeem the bonds at par value along with accrued interest with the expiration on or near the date of coupon payments.

On 19 November 2002 Alfa Banking Group raised U.S.$171.1 million of eurobonds in the capital markets. The bonds have a nominal value of US$175.0 million, were issued by Alfa-Russia Finance and guaranteed by ABH Financial and Alfa Bank, mature on 19 November 2005 and have a fixed coupon at a rate of 10.75% per annum.

During 2002, in order to increase its capital base, ABH Financial received a cash capital contribution of U.S.$48.0 million from the shareholders of Alfa Banking Group.

In January 2003, Alfa Bank obtained a U.S.$50 million unsecured syndicated loan which was priced at 300 basis points over LIBOR and arranged by ABN AMRO and ING Bank N.V., London. The facility matures 364 days from the date of signing and can then be extended for a further two consecutive 180-day periods.

In November 2003, Alfa Bank obtained a syndicated loan of U.S.$82 million at a price of 240 basis points over LIBOR. JPMorgan, ABN AMRO and Commerzbank arranged this unsecured facility. The facility matures 364 days from the date of signing and can then be extended for a further 180-day period.

On 11 December 2003 Alfa Banking Group established a U.S.$200 million euro-commercial paper programme. The programme represents the first traditional euro-commercial paper programme out of Russia since the 1998 debt crisis. Alfa Banking Group made the first inaugural draw-downs under the euro-commercial paper programme on 22 December 2003 in an amount of U.S.$51.6 million. As at 1 June 2004, the outstanding nominal amount of euro-commercial paper issued was U.S.$122.0 million.

On 7 April 2004, Alfa Banking Group issued Russian Rouble denominated bonds maturing in April 2010 at a nominal value of RUR2,000.0 million (U.S.$70.1). The bonds have a floating interest rate and the coupon is payable semi-annually. The first and the second coupons are payable at an interest rate of 7.40% per annum.

Alfa Banking Group has issued an irrevocable offer (put option) to redeem the bonds at par value with expiration date 1 year after the issue date.

On 17 June 2004, Alfa Bank entered into a syndicated loan facility under which it may draw up to U.S.$120 million. The loan was priced at 200 basis points above LIBOR and was arranged by The Bank of Tokyo-Mitsubishi, Natexis Banques Populaire, SANPAOLO IMI and WestLB. The facility matures 364 days from the date of signing and upon maturity can be extended for a further 364 day period.

Alfa Banking Group may look to raise further funds over the near term in the international bank market which, together with the net proceeds of the Notes and the proceeds of its non-core asset disposition plan should further improve its medium term funding base.

The following table sets out certain liquidity ratios for Alfa Bank at the dates indicated:

	As at 31 December 2002	As at 31 December 2003
Loans to customers[(1)] as % of total assets	59.3	58.5
Loans to customers[(1)] as % of customer accounts	122.2	101.2
Loans to customers[(1)] as % of total shareholders' equity	566.0	629.0

Note:

(1) Net of provisions

FOREIGN CURRENCY MANAGEMENT

As at 31 December 2003, Alfa Banking Group had the following positions in currencies:

	31 December 2003 (U.S.$'000)				
	U.S.$	RUR	EURO	Other Currencies	Total
Assets					
Cash and cash equivalents	293,596	372,767	242,111	14,717	923,191
Mandatory cash balances with the CBR and other local central banks	—	278,976	13,623	695	293,294
Trading securities	566,228	101,528	23,973	2,846	694,575
Due from other banks	60,859	65,876	3,321	1,565	131,621
Loans and advances to customers	1,997,240	1,305,161	101,744	36,535	3,440,680
Investments	65,443	—	—	—	65,443
Other assets and receivables	105,656	44,356	10,863	24,734	185,609
Premises and equipment	—	136,356	985	12,380	149,721
Total assets	3,089,022	2,305,020	396,620	93,472	5,884,134
Liabilities					
Due to other banks	515,948	225,587	30,014	24,752	796,301
Customer accounts	1,652,194	1,453,457	275,640	19,115	3,400,406
Promissory notes issued	171,661	394,669	28,610	—	594,940
Other borrowed funds	307,214	16,703	—	—	323,917
Other liabilities and payables	164,390	22,523	7,345	7,259	201,517
Deferred tax liability	—	13,448	—	—	13,448
Total liabilities	2,811,407	2,126,387	341,609	51,126	5,330,529
Net balance sheet position	277,615	178,633	55,011	42,346	553,605
Off-balance sheet net notional position	(34,973)	(26,026)	70,659	374	10,034
Credit related commitments	541,296	93,694	60,531	784	696,305

Alfa Bank's net open position is monitored on a daily basis by the Treasury. The strategy and the limits for the foreign currency positions are set by ALCO. The Treasury meets with ALCO every two weeks in order to review strategy, limits and exposures.

TREASURY OPERATIONS

Alfa Banking Group engages in transactions with off-balance sheet financial instruments. Foreign exchange and other off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions (see Note 24 to the audited consolidated financial statements of ABH Financial for the year ended 31 December 2003).

Selected Statistical and Other Information

The following selected statistical and other financial information is derived from the audited consolidated financial statements of ABH Financial as well as from analysis of detailed accounting records.

ALFA BANKING GROUP'S LOAN PORTFOLIO

Alfa Banking Group lends to corporate and retail customers. U.S. dollar denominated loans to Russian customers represent a significant proportion of the loan portfolio. Loans advanced are typically short term. (See maturity structure table below.)

The rate of interest charged on a loan depends on the credit risk classification and the maturity. As at 31 December 2003, effective average interest rates were 11.9% for U.S. dollar denominated loans to customers and 16.1% for Rouble loans to customers.

Interest rates for new loans to customers are subject to bi-weekly review and adjustment by the Asset and Liability Committee.

The following table provides a breakdown of Alfa Banking Group's loan portfolio as at 31 December 2001, 2002 and 2003:

	As at 31 December 2001		As at 31 December 2002		As at 31 December 2003	
	Amount (U.S.$ million)	Percentage of loan portfolio	Amount (U.S.$ million)	Percentage of loan portfolio	Amount (U.S.$ million)	Percentage of loan portfolio
Loans to customers	1,530.5	92.4%	2,575.3	92.4%	3,616.4	96.5%
Due from other banks[1]	125.3	7.6%	211.4	7.6%	131.6	3.5%
Provision for loan impairment[2]	(97.0)	—	(135.0)	—	(175.7)	—
Total	1,558.8	100.0%	2,651.7	100.0%	3,572.3	100.0%

Note:

(1) *Not including mandatory cash balances with the CBR or other central banks and correspondent accounts and overnight placements with other banks.*

(2) *This provision for loan impairment relates to both loans to customers and balances due from other banks.*

At 31 December 2003, Alfa Banking Group had 16 borrowers with aggregated loan amounts equal to or above U.S.$50.0 million. The aggregate amount of these is U.S.$1,742.9 million or 48.2% of the gross loans to customers' portfolio. Loans to related parties comprised U.S.$104.5 million, around 2.9% of Alfa Banking Group's gross loans to customers (see "Related Party Transactions").

Customer Concentration

The following table shows Alfa Banking Group's ten principal non-bank customers (by gross exposure, i.e. total on and off balance sheet exposure) as at 31 December 2003 which together accounted for 40.4% of Alfa Banking Group's total gross non-bank exposure comprising of loans and advances to customers, guarantees issued and import letters of credit:

Customer	Loans	Guarantees	Letters of Credit	Total gross exposure (U.S.$ million)
RAO EES Group	317.7	—	—	317.7
Atomstroyexport	56.0	216.9	—	272.9
Gazprom Group	225.5	—	—	225.5
Svyazinvest Group	182.4	2.5	0.4	185.3
UGMK Group	159.3	—	—	159.3
TNK Group*	52.4	45.1	13.5	111.0
Kuzbassrasresugol Group	106.3	—	—	106.3
Rual Trade Limited	95.1	—	—	95.1
Rosenergoatom	91.7	—	—	91.7
Irkut	81.2	—	—	81.2
Total	1,367.6	264.5	13.9	1,646.0

* *These companies are related parties to Alfa Banking Group.*

The following table sets forth the structure of the customer loan portfolio by the size of exposures to individual customers of Alfa Banking Group:

	As at 31 December 2001		As at 31 December 2002		As at 31 December 2003	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Up to U.S.$5 million	350.5	22.9	546.5	21.2	761.0	21.0
U.S.$5 million up to U.S.$10 million	119.6	7.8	100.8	3.9	276.9	7.7
U.S.$10 million up to U.S.$20 million	243.2	15.9	120.1	4.7	234.5	6.5
U.S.$20 million up to U.S.$30 million	51.8	3.4	105.7	4.1	180.4	5.0
U.S.$30 million up to U.S.$40 million	32.4	2.1	176.0	6.8	285.5	7.9
U.S.$40 million up to U.S.$50 million	91.0	5.9	45.8	1.8	135.2	3.7
Over U.S.$50 million	642.0	42.0	1,480.4	57.5	1,742.9	48.2
Total loans outstanding gross	1,530.5	100.0	2,575.3	100.0	3,616.4	100.0
Provision for loan impairment	(96.3)		(134.9)		(175.7)	
Total loans outstanding net	1,434.2		2,440.4		3,440.7	

The following table sets forth the maturity structure of the customer loan portfolio of Alfa Banking Group:

	As at 31 December 2001		As at 31 December 2002		As at 31 December 2003	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Demand and less than one month	147.3	10.3	253.5	10.4	170.3	4.9
1-6 months	530.1	37.0	641.1	26.3	956.9	27.8
6-12 months	526.4	36.7	779.8	31.9	1,405.9	40.9
More than one year	198.5	13.8	738.9	30.3	907.6	26.4
No stated maturity/overdue	31.9	2.2	27.1	1.1	—	—
Total loans to customers	1,434.2	100.0	2,440.4	100.0	3,440.7	100.0

Note: Amounts net of provision

Sectoral and Regional Analysis

The structure of Alfa Banking Group's gross loans to customers portfolio by sector and geographical regions is set out in the following tables:

Sector	As at 31 December 2001 Amount (U.S.$ million)	Percentage (%) of loan portfolio	As at 31 December 2002 Amount (U.S.$ million)	Percentage (%) of loan portfolio	As at 31 December 2003 Amount (U.S.$ million)	Percentage (%) of loan portfolio
Manufacturing and construction	371.1	24.2	772.4	30.0	1,471.3	40.7
Energy and oil and gas	559.9	36.7	965.2	37.5	1,049.5	29.0
Trade and commerce	336.3	22.0	405.6	15.7	520.4	14.4
Telecommunications	211.8	13.8	246.1	9.6	205.5	5.7
Finance and investment companies	12.7	0.8	56.5	2.2	98.8	2.7
Individuals	3.9	0.3	18.0	0.7	49.9	1.4
Agriculture	28.3	1.8	29.3	1.1	13.6	0.4
Other	6.5	0.4	82.2	3.2	207.4	5.7
Total loans and advances to customers (aggregate amount)	1,530.5	100.0	2,575.3	100.0	3,616.4	100.0

Region	31 December 2003 Amount (U.S.$ million)	Percentage (%)
Russia	3,266.2	94.9
CIS (excluding Russia)	129.2	3.8
Europe	39.4	1.1
USA	5.9	0.2
Total	3,440.7	100.0

Currency Analysis

The loan portfolio comprises loans denominated in U.S. dollars, Roubles, Euro and other foreign currencies. The following table provides a breakdown of Alfa Banking Group's customer loan portfolio by currency as at 31 December 2001, 2002 and 2003:

	As at 31 December 2001 Amount (U.S.$ million)	Percentage of loan portfolio (%)	As at 31 December 2002 Amount (U.S.$ million)	Percentage of loan portfolio (%)	As at 31 December 2003 Amount (U.S.$ million)	Percentage of loan portfolio (%)
U.S. dollars	999.2	69.7	1,665.7	68.2	1,997.3	58.0
Roubles	397.5	27.7	749.0	30.7	1,305.2	37.9
Euro	27.8	1.9	4.6	0.2	101.7	3.0
Other Currency	9.7	0.7	21.1	0.9	36.5	1.1
Total	1,434.2	100.0	2,440.4	100.0	3,440.7	100.0

LENDING POLICIES AND PROCEDURES

Alfa Bank has well defined procedures for approving and monitoring loan quality and handling amendments, extensions and refinancing of existing loans. In addition, focused attention is paid to the extension and monitoring of loans to affiliated companies and loans on special terms. Key to the lending and approval process is the Credit Committee which comprises the Main Credit Committee and the Supplementary Credit Committee. Alfa Bank lends on the basis of a credit policy which is formally approved by the Board of Directors and the Main Credit Committee.

The creditworthiness of the borrower is assessed and monitored systematically. A thorough pre-approval loan grading process is in place. Loans and collateral are assessed separately by the local credit department. The grading is based on a scoring system with a maximum score of 100%. The credit application is then passed on to the legal department which reviews the legal documents as well as the collateral. For new clients, applications are validated in a second stage review by a special security department. Credit Risk Management provides an independent expert assessment of the credit application. The application is then submitted to the Credit Committee.

Lending limits for any given customer are determined by Alfa Bank's own method of credit risk assessment, a system of restrictions set by the Executive Board, and CBR loan concentration norms.

There is a special appraisal system for each branch to set up its maximum loan approval authority. There are three groups of branches with different thresholds. The approval of any loan above the relevant threshold has to be given by the Credit Committee. The creditworthiness of each client is assessed and monitored systematically. Branch and sector limits are reviewed by the Credit Committee on a quarterly basis.

Credit analysis and approval are being decentralised step-by-step, but systems are designed to enable headquarters-based senior credit officers to stay in control.

Final decisions on all loans over U.S.$6 million are made by the Main Credit Committee which comprises six board members and the heads of the Risk Management, Legal, Treasury, and Security Departments. The Supplementary Credit Committee makes the final decision on all loans up to U.S.$6 million. It is comprised of nine heads of relevant departments and one board member. The Credit Committees convene weekly, ensuring that all loan applications are dealt with swiftly.

When assessing the creditworthiness of an applicant, Alfa Bank looks at factors such as the management of the borrower, the main business activities of the borrower, the geographical location of the borrower, its suppliers and customers, information on previously received credits, the financial indices of the borrower including its financial stability and turnover and an economic appraisal of the likely return on the loan.

Alfa Bank evaluates its customers in accordance with their credit history, the quality of collateral offered, their financial condition (taking into account such matters as indebtedness ratios and cash flows) and Alfa Bank's own analysis of sector and regional risk. Points are then allocated to the credit under each of these criteria. For retail customers, Alfa Bank plans to implement a separate automated scoring system.

Any assessment of the risk of non-payment of customers' debt is problematic owing to the present economic conditions and legal climate in Russia. However, the financial statements of most of the major customers of Alfa Bank are prepared in accordance with IFRS or audited in accordance with International Standards on Auditing. It is difficult to reliably evaluate the financial condition of small and medium-sized customers, who do not report in accordance with IFRS.

Whether or not to extend the maturity of a loan is at Alfa Bank's discretion and any decision is reached after a review of the customer's overall credit quality. As a general rule, an extension of maturity is likely to be refused if the customer does not maintain active cash flow in its accounts or if there is an obvious deterioration in the customer's financial condition or a material risk of the customer becoming insolvent.

Related party loans are extended to companies in the Alfa Consortium at rates in accordance with the tariffs set by the Asset Liability Committee of Alfa Bank and are generally set on an arm's length basis and at market rates.

COLLATERAL

Depending on the circumstances, Alfa Bank aims to obtain collateral and/or guarantees to reduce credit risk. The main types of collateral include taking security interests over internationally rated securities, Russian government securities, promissory notes issued by Alfa Bank, shares in blue-chip companies, liquid promissory notes, real estate, goods, wares and merchandise and similar monetary valuables. Guarantees given in favour of Alfa Bank include guarantees from third parties, keep-well agreements and guarantees issued by Western and Russian banks. According to Alfa Bank's internal procedure, collateral should be provided (where it is required) to cover outstanding liabilities during the whole duration of a transaction.

The Credit, Legal and Collateral Departments are responsible for monitoring and registering the collateral taken. The frequency of a collateral review will depend on the type of collateral taken. Collateral taken over shares, for example, is reviewed daily. In normal circumstances, collateral can be realised within three months. However, the realisation of certain collateral, such as real property and industrial equipment, may take longer owing to lengthy legal procedures and other circumstances such as seasonal price fluctuations and demand.

ASSESSMENT OF PROVISION FOR LOAN IMPAIRMENT

A provision for loan impairment is established if there is objective evidence that Alfa Banking Group will not be able to collect the amounts due. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's interest rate at inception.

A loan impairment estimation exercise follows certain steps and procedures, as described below.

1. Identification of loans that are individually significant, i.e. those loans which if fully impaired would have a material impact on an expected average level of operating profit of Alfa Banking Group.

2. Determination of whether an individually significant loan shows objective evidence of impairment or not. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If Alfa Banking Group expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment exercise is performed. Other impairment indicators include, but are not limited to: any significant financial difficulty of the borrower; an actual breach of the loan contract; a high probability of bankruptcy or other financial reorganisation of the borrower; recognition of an impairment loss on that asset in a prior financial reporting period; or a historical pattern of collections of loans that indicates that the entire principal and interest amount of a loan portfolio will not be collected.

3. Review for impairment of individually significant loans which shows objective evidence of impairment. An impairment review requires an estimate of the expected timing and amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan is recorded.

4. All remaining loans that have not been identified as individually significant should be assessed on a portfolio basis if, and only if, there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans should be grouped in pools, based on similar credit risk characteristics. Such pools should be further assessed for impairment as if they were a single asset. Additionally, separate pools of loans may be identified that, for example, by virtue of belonging to a particular industry, have more chances of being impaired than other categories of loans.

Analysis of provision for loan impairment based on provisioning percentage is presented in the table below:

	31 December 2002			31 December 2003		
Impairment provision percentage group	Principal amount outstanding (U.S.$ million)	Impairment provision (U.S.$ million)	Effective provisioning rate (%)	Principal amount outstanding (U.S.$ million)	Impairment provision (U.S.$ million)	Effective provisioning rate (%)
0-5%	2,032.6	80.8	4.0	2,591.2	76.5	3.0
6-20%	527.1	38.5	7.3	994.0	68.0	6.8
21-50%	—	—	—	—	—	—
51-100%	15.6	15.6	100.0	31.2	31.2	100.0
Total	2,575.3	134.9	5.2	3,616.4	175.7	4.9

The following table sets out details of changes in the provision for loan impairment of loans to customers:

	Year ended		
	31 December 2001	31 December 2002	31 December 2003
	U.S.$ in million		
Balance at 1 January	69.6	96.3	134.9
Charge to provision for loan impairment during the year	26.0	38.6	42.1
Loans written off during the period as uncollectable	(0.6)	—	(1.3)
Acquisition of subsidiaries	1.3	—	—
Balance at end of the period	96.3	134.9	175.7
Total customer loans portfolio, gross	1,530.5	2,575.3	3,616.4
Effective provisioning level, %	6.3%	5.2%	4.9%

The overdue indebtedness of the Sibur Group to Alfa Bank was restructured on 23 September 2002 in the amount of U.S.$73.9 million for a two-year period with quarterly interest of 11% per annum. Gazprom, a shareholder of OJSC Sibur, provided a guarantee to Alfa Bank for the payments under the restructured loan. The restructured loan is being serviced in accordance with the repayment schedule and it is expected to be repaid in full by 23 September 2004.

The following table sets out the industry structure of overdue customer loans:

	As at 31 December 2001			As at 31 December 2002			As at 31 December 2003		
	Gross loans	Provision		Gross loans	Provision		Gross loans	Provision	
	U.S.$ million		%	U.S.$ million		%	U.S.$ million		%
Individuals	—	—	—	5.8	(5.8)	100	6.3	(6.3)	100
Construction	4.5	(1.3)	28	3.4	(3.4)	100	3.4	(3.4)	100
Trade	2.6	(0.5)	18	1.7	(1.7)	100	7.2	(7.2)	100
Food	—	—	—	1.5	(1.5)	100	0.3	(0.3)	100
Finance	0.1	(0.0)	1	1.6	(1.6)	100	1.1	(1.1)	100
Machine building	0.7	(0.0)	4	0.3	(0.3)	100	1.3	(1.3)	100
Agriculture	1.6	(0.1)	6	—	—	—	0.1	(0.1)	100
Other	0.7	(0.1)	16	1.2	(1.2)	100	11.5	(11.5)	100
Total	10.2	(2.0)	20	15.5	(15.5)	100	31.2	(31.2)	100

SECURITIES PORTFOLIO

The following table illustrates Alfa Banking Group's securities trading portfolio (debt and equity) as at 31 December 2002 and 31 December 2003:

	As at 31 December 2002		As at 31 December 2003	
Type	Value (U.S.$ million)	Percentage of portfolio (%)	Value (U.S.$ million)	Percentage of portfolio (%)
Russian Federation Eurobonds	156.7	37.6	305.8	44.0
Corporate Eurobonds	103.0	24.7	183.3	26.4
Corporate Bonds	62.4	15.0	72.7	10.5
Eurobonds of other states	20.2	4.9	52.6	7.6
Corporate shares	29.6	7.1	35.1	5.1
Promissory notes of Russian banks and enterprises	17.6	4.2	12.1	1.7
ADRs and GDRs	10.6	2.6	6.3	0.9
Other securities	16.2	3.9	26.7	3.8
Total	416.3	100.0	694.6	100.0

Related Party Transactions

Alfa Banking Group companies have traditionally been reliant (both for funding and revenues) on the Alfa Consortium, although management believes that the majority of its related party transactions are with leading Russian corporates. Since 1997, however, Alfa Banking Group has pursued a strategy of diversifying its customer base. Although Alfa Banking Group has successfully reduced the level of reliance on the Alfa Consortium, a portion of its gross exposure relates to the Alfa Consortium, a component of its earnings is derived from Alfa Consortium companies and Alfa Banking Group has significant funding from Alfa Consortium companies. A vast majority of all Alfa Banking Group's related party transactions in 2001, 2002 and 2003 were predominantly conducted at market rates.

LIMITS ON RELATED PARTY TRANSACTIONS

Alfa Banking Group regularly implements new (lower) limits on related party transactions. As at 1 January 2004, Alfa Banking Group has imposed a total limit on lending and credit related commitments to TNK of U.S.$125 million and a total limit on lending and credit related commitments to all related parties of U.S.$200 million. Management estimates that the effect of these limits will maintain Alfa Banking Group's related party lending and guarantees at approximately 5-6% of total lending and guarantees, compared with 21.9% as at 31 December 2002. As at 31 December 2003, related parties' guarantees issued by Alfa Banking Group amounted to U.S.$46.0 million compared to U.S.$218.7 million as at 31 December 2002. Similarly, as at 31 December 2003, related parties' loans amounted to U.S.$104.5 million as compared with U.S.$464.8 million as at 31 December 2002.

In related party transactions, depending on the circumstances, Alfa Banking Group aims to obtain collateral and/or guarantees to reduce credit risk.

The following tables break down related party transactions:

	As at 31 December 2002	% of total	As at 31 December 2003	% of total
	(U.S.$'000s except for percentages)			
Trading Securities	62,193	15	33,099	5
Loans to customers				
Gross loans outstanding at period end	464,811	18	104,482	3
Receivables	94,919	42	10,252	5
Customer accounts				
Outstanding balance at period end	182,149	9	562,981	17
Promissory notes issued	87,903	14	49,982	8
Payables	8,098	6	15,495	8
Off balance sheet				
Guarantees issued by Alfa Banking Group	218,723	41	46,004	12
Import letters of credit	—	—	13,536	18
Export letters of credit	2,321	1	—	—
Fee and commission income	22,843	25	24,347	18
Fee and commission expense	4,748	12	1,684	4
Interest income				
(Loans to customers)	51,994	14	37,909	8
Interest expense				
(Customer accounts)	10,461	6	7,953	3
Other income	218	N/A	2,126	N/A
Other expenses	719	N/A	6,108	N/A

For the year ended 31 December 2003, the total remuneration of members of the Executive Board, including pension contribution, and discretionary compensation amounted to U.S.$10.0 million (compared with U.S.$5.5 million for the year ended 31 December 2002).

The following table sets out information on loans and guarantees and on customer accounts with respect to related parties as at 31 December 2002 and 31 December 2003:

Loans	As at 31 December 2002 (U.S.$'000s)	As at 31 December 2003
TNK Group and affiliated companies	120,733	52,369
Perekriostok	16,570	31,584
Gum Holdings Limited	—	17,259
Alfa Eco Group	125,678	—
Alfa Telecom	192,559	—
Other	9,271	3,270
Total	464,811	104,482

Guarantees	As at 31 December 2002 (U.S.$'000s)	As at 31 December 2003
TNK Group and affiliated companies	218,223	45,119
Other	500	885
Total lending and guarantees	218,723	46,004

Customer accounts	As at 31 December 2002 (U.S.$'000s)	As at 31 December 2003
Alfa Petroleum Holdings Limited	—	250,625
TNK Group and affiliated companies	80,002	153,690
Alfa Eco Group	952	88,491
Alfa Finance Holdings S.A.	56,583	—
Vimplecom Group	21,502	22,186
Other	23,110	47,989
Total	182,149	562,981

In December 2002, Alfa Banking Group sold a construction company, Siracuse, an investment available for sale, to TNK, a significant associated company of Alfa Group Consortium for U.S.$39.3 million payable by instalments by the end of May 2003. Sale proceeds were received by Alfa Banking Group in full by the end of May 2003.

In November 2002, Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., granted to Alfa Banking Group for no consideration a call option (the "Option") representing the right of Alfa Banking Group to acquire an interest of up to 6% in Golden Telecom Inc, an associated company of Alfa Telecom Limited. The Option was exercisable in whole or in part at any time until 11 May 2004. In December 2003, Alfa Telecom Limited and Alfa Banking Group agreed to cancel the Option and Alfa Telecom Limited paid to Alfa Banking Group a cancellation fee of U.S.$25.0 million approximating the fair value of the Option as at the date of the Option cancellation. The gain received under the transaction was recorded directly in shareholders' equity as a contribution from the shareholder.

Since 31 December 2003, there has been no material change in the total amount of loans, guarantees, other credit related commitments and customer accounts with related parties.

Capital Adequacy

ALFA BANK

Alfa Bank is required to comply with a number of mandatory economic ratios set by the CBR. In particular, the CBR establishes capital adequacy and risk diversification ratios. As of 1 April 2004, the former system of mandatory economic ratios was replaced by the new requirements which include the following changes:

- daily basis control (previously, banks' compliance had been tested on a monthly basis);
- elimination of eight ratios from the list of the generally applicable ratios; and
- changes in ratio limits, such as reducing the N2 and N3 limits from 20% and 70% to 15% and 50%, respectively.

See "The Banking Sector and Banking Regulation in the Russian Federation — Regulation" for a more detailed discussion of these requirements.

For the purposes of calculating Alfa Bank's capital adequacy ratio, in accordance with the CBR requirements, the principal component of Alfa Bank's share capital and Alfa Bank's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the CBR is currently 10% for banks whose capital is EUR 5 million or more, and 11% for banks whose capital is less than EUR 5 million. Alfa Bank's capital adequacy ratio was 13.7% as at 1 January 2004.

The following table sets out Alfa Bank's mandatory economic ratios calculated in accordance with the requirements of the CBR as at 1 January 2002, 2003 and 2004 and based on RAR:

Mandatory Economic Ratios	CBR minimum/maximum ratio requirements (%)	Alfa Bank Ratios[1] (%) As at 1 January 2002	2003	2004
Capital adequacy ratio (N1)	N1 — Min 11	21.2	15.4	13.7
Bank liquidity ratios (N2, N3, N4 and N5)	N2 — Min 20	55.0	47.7	69.0
	N3 — Min 70	86.2	83.8	89.4
	N4 — Max 120	35.1	50.5	47.4
	N5 — Min 20	48.5	44.9	45.9
Maximum amount of risk per borrower or per group of related borrowers (N6)	N6 — Max 25	23.5	24.6	21.1
Maximum amount of large credit risks (N7)	N7 — Max 800	225.9	376.4	393.4
Maximum amount of risk per single creditor (depositor) (N8, N9 and N9.1)	N8 — Max 25	14.1	20.0	47.1
	N9 — Max 20	0	0	0
	N9.1 — Max 50	0	0	0
Maximum amount of credits and loans extended by the bank to its shareholders (participants) and insiders (N10 and N10.1)	N10 — Max 2	0	0	0.1
	N10.1 — Max 3	0	0	0.1
Maximum amount of bank deposits attracted from individuals (N11 and N11.1)	N11 — Max 100	63.2	108.5	139.8
	N11.1 — Max 400	32.8	70.5	116.2
Ratio for the use of the bank's own resources (capital) to acquire participation interests (shares) in other legal entities (N12)	N12 — Max 25	0	0	0
	N12.1 — Max 5	0	0	0
Maximum amount of the bank's bill-of-exchange liabilities (N13)	N13 — Max 100	43.1	86.9	70.1
Liquidity ratios under transactions with precious metals (N14)	N14 — Min 10	N/A	N/A	N/A

Note:

(1) During 2003, the CBR eased some of the above prudential requirements:

- *N5 ("general liquidity ratio"): in its Letter No. 44-T dated 26 March 2003, CBR recommends its territorial offices to use this ratio for the purposes of the analysis of the liquidity management quality in a bank, but not to apply sanctions if it is violated (unless the results of such analysis evidence deficiencies in the liquidity or its management);*
- *N8 ("maximum risk per single creditor (depositor)"), N9 ("maximum credit risk per single shareholder"), N11 ("maximum amount of bank deposits attracted from individuals"), N11.1 ("maximum liabilities to non-resident banks and non-resident financial organisations") and N14 ("liquidity ratio on precious metals operations"): in its Letter 121-T dated 20 August 2003 and its Statement dated 22 August 2003, the CBR recommends its territorial offices not to apply sanctions if these ratios are violated;*
- *N13 ("Maximum amount of a bank's liabilities under promissory notes"): in its Letter No. 124-T dated 21 August 2003 and its Statement dated 22 August 2003, the CBR recommends its territorial offices to use this ratio for the purposes of the analysis of the liquidity and use of promissory notes by a bank, but not to apply sanctions if it is violated.*

Alfa Bank currently prepares its financial statements in accordance with RAR. Following the proposed regulatory changes to the banking sector in Russia, Alfa Bank may be required to report its financial statements in accordance with IFRS. Since Alfa Bank operates as a part of Alfa Banking Group that carries its equity on the accounts of its off-shore subsidiaries, no assurances can be given that, without any appropriate remedial action, Alfa Bank's capital adequacy, based on IFRS financial statements, would satisfy the BIS Guidelines regarding solvency and capitalisation.

ALFA BANKING GROUP

Alfa Banking Group also meets international standards with respect to capital adequacy. Details of Alfa Banking Group's capital adequacy as at 31 December 2001, 2002 and 2003, calculated in accordance with the BIS Guidelines and based on the IFRS consolidated financial statements, are set out below:

	As at 31 December		
	2001	2002	2003
	(U.S.$ million — except percentages)		
Paid up share capital	112.8	160.8	160.8
Retained earnings	112.2	201.5	358.2
Tier I Capital	225.0	362.3	519.0
Tier II Capital[(1)]	34.6	36.0	14.7
Total Capital	259.6	398.3	533.7
Risk weighted assets	2,590.2	3,840.4	5,186.8
Capital adequacy ratios			
Tier 1 capital adequacy ratio (%)[(2)]	8.7	9.4	10.0
Total capital adequacy ratio (%)[(2)]	10.0	10.4	10.3

Notes:

(1) Revaluation reserve for premises and equipment plus adjusted fair value reserve for investments available for sale.

(2) Net available capital as a percentage of risk weighted assets.

Selected Financial and Other Ratios of Alfa Banking Group

	Year ended 31 December		
	2001	2002	2003
Combined Key Ratios			
Return on shareholding equity[(1)]	42.4%	29.5%	21.6%
Operating expenses/operating income before provision for loan impairment	79.4%	65.7%	65.9%
Provision for loan impairment for loans to customers/loans to customers	6.3%	5.2%	4.9%
Profitability Ratios			
Operating expenses/net interest income	206.9%	129.4%	130.0%
Profit after taxation/total assets	3.2%	2.5%	1.8%
Balance Sheet Ratios			
Customer accounts/total assets	52.7%	48.5%	57.8%
Total net loans to customers/total assets	52.6%	59.3%	58.5%
Total shareholders' equity/total assets	10.2%	10.5%	9.3%
Liquid assets[(2)]/customer accounts	51.0%	49.9%	51.1%
Liquid assets[(2)]/liabilities of up to one month	42.8%	44.2%	64.2%
Capital Adequacy Ratios[(3)]			
Total capital adequacy ratio	10.0%	10.4%	10.3%
Tier 1 capital adequacy ratio	8.7%	9.4%	10.0%
Credit quality ratios			
Overdue loans to customers/total loans to customers	0.7%	0.6%	0.9%
Provisions for loan impairment for loans to customers/overdue loans to customers	948.6%	872.6%	564.1%
Exchange rates — Roubles per U.S.$1			
Period end	30.14	31.7844	29.4545
Average for the period	29.17	31.347	30.6875
Inflation and growth rates (%)			
CPI	18.6%	15.1%	12.0%
GDP (% change)	5.0%	4.3%	7.3%

Notes:

(1) *Calculated as net profit/average shareholders' equity (calculated as sum of opening and closing balances divided by two).*

(2) *Liquid assets comprise cash and cash equivalents, due from other banks (with a maturity of less than one month) and trading securities.*

(3) *Calculated in accordance with the BIS Guidelines.*

The Banking Sector and Banking Regulation in the Russian Federation

ROLE OF THE CBR

The CBR is in many respects the successor to the former State Bank of the USSR, Gosbank. Until 2002, the CBR had been operating under the general terms of reference of the law "On the Central Bank of the Russian Federation (the Bank of Russia)" of 2 December 1990 as edited on 26 April 1995 with further amendment. In 2002 this law was superseded by the new law "On the Central Bank of the Russian Federation (Bank of Russia)" of 10 July 2002 (the "Central Bank Law"). According to the Central Bank Law, the State is not liable for the CBR's obligations, nor is the CBR liable for the State's obligations unless the relevant liability has been undertaken or is required under other Russian laws. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises the Moscow Head office, a number of regional branches in constitutive subjects of the Russian Federation (in some of the Russian republics the CBR regional branches are called National Banks) and local branches. The Chairman of the CBR Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development and Trade have the right to participate in meetings of the CBR Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law and the laws "On Banks and Banking" (the "Banking Law") and "On Currency Regulation and Currency Control" (the "Currency Control Law") the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Under current legislation the CBR has the following major functions:

Function	Summary
Issue of money and regulation of circulation	The CBR is prohibited from the issue of money and from extending credits to the Government for the purposes of budget deficit financing.
Financing/Monetary policy	Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and other mandatory economic ratio requirements for banks.
Transactions and deals with banks	Rendering decisions on the state registration of banks: registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in roubles; providing banks with guarantees; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in the charter capital of banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget accounts administration.
Exchange control	Regulation of dealing and settlements in roubles; regulation of foreign currency operations; administration of the gold and currency reserves;

establishment of regimes for rouble and foreign currency accounts of residents and non-residents in Russia.

Licensing — Issuance, suspension and revocation of banking licences to banks; issuance of licences/permits with respect to "movement of capital" transactions (until 18 June 2004, when a new currency control regime is expected to be introduced).

Control and supervision — Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 5%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).

REGULATION

Banking activities in Russia are broadly governed by the Banking Law and the Currency Control Law. The CBR supervises banks in various aspects (as outlined below). Generally, other institutions have only indirect influence over banks. The newly established Federal Service for the Financial Market will issue licences to banking institutions acting as professional participants of the Russian securities market. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 15 June 2004, 626 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various technical support to its members and lobbies the interests of banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia:

1. Licensing — A licence must be obtained from the CBR for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for the state registration with an attached feasibility report and detailed information on the suitability of the management together with certain other information. Under the CBR regulations a bank can be created in the form of a joint-stock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. A licence may be denied if the legal documents are not in order, if the financial or banking records of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet the qualification requirements.

2. Mandatory Economic Ratios — The CBR is authorised to introduce various capital adequacy and liquidity requirements applicable to banks and, as the case may be, to banking groups. Such requirements currently exist in the form of the relevant mandatory economic ratios described in Instruction No. 110-i of the CBR "On the Banks' Mandatory Economic Ratios". Set out below is the system of the mandatory economic ratios which banks are required to observe on a daily basis.

Mandatory Economic Ratios	Description of Mandatory Economic Ratios	CBR Maximum/Minimum Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit and market risks. It is formulated as a ratio of the size of the bank's capital base to the amount of its risk-weighted assets.	Minimum 11% (where a bank's capital base is below EUR5 million) and minimum 10% (where a bank's capital base is equal or more than EUR5 million)
Instant liquidity ratio (N2)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within one operational day. It is formulated as the minimum ratio of a bank's highly-liquid assets to the amount of the bank's liabilities payable on demand.	Minimum 15% (minimum 17% for the banks participating in the system of mandatory insurance of private deposits)
Current liquidity ratio (N3)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank's liquid assets to the amount of the bank's liabilities with terms of up to 30 calendar days.	Minimum 50% (minimum 55% for the banks participating in the system of mandatory insurance of private deposits)
Long-term liquidity ratio (N4)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into long-term assets. It is formulated as the maximum permitted ratio of the bank's credit claims maturing in more than one year, to the bank's capital base and liabilities maturing in more than one year.	Maximum 120%
General liquidity ratio (N5)	This ratio is intended to limit the general risk of loss by a bank of its liquidity. It is formulated as the minimum ratio of liquid assets to the bank's total assets. In its Letter No. 44-T dated 26 March 2003, the CBR recommended its territorial offices to use N5 for the purposes of the analysis of the liquidity management quality in a bank, but not to apply sanctions to banks for the breach of this ratio (unless the results of such analysis evidence deficiencies in the liquidity or its management).	Minimum 20%
Maximum exposure to single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. It is formulated as the maximum ratio of the aggregate amount of the bank's claims to a borrower or a group of related borrowers to the bank's capital base.	Maximum 25%
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks. It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of the bank's capital base.	Maximum 800%

Mandatory Economic Ratios	Description of Mandatory Economic Ratios	CBR Maximum/Minimum Mandatory Economic Ratio Requirements
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base.	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (i.e., individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interest) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments into shares (participation interests) of other legal entities. It is formulated as the maximum ratio of the bank's investments into shares (participation interest) of other legal entities, to the bank's capital base.	Maximum 25%

The capital base of a bank is defined in CBR regulations as the aggregate amount of its fixed capital (including, *inter alia*, its charter and paid-in capital and certain reserve funds and approved profits) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and preferred shares) decreased by certain mandatory reserves and some other amounts.

Also, banks issuing mortgage-backed bonds are required to additionally comply with the following mandatory economic ratios: (i) a minimum ratio of issued mortgage loans to a bank's capital base (N17, minimum 10%); (ii) a minimum ratio of the amount of the "mortgage coverage" to the amount of issued mortgage-backed bonds (N18, minimum 100%), (iii) a maximum ratio of the aggregate amount of a bank's liabilities to creditors having a priority right to satisfy their claims, to the bank's capital base (N19, maximum 50%). In addition, such banks should observe a higher capital adequacy ratio (N1) of minimum 14% (as opposed to the general 10% requirement) and apply different rules for the calculation of the general liquidity ratio (N5).

3. Charter Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Under Directive of the CBR No. 1346-u of 1 December 2003, the minimum capital requirement is set at €5 million for each newly founded bank. Those banks whose charter capital exceeds their capital base, are required to adjust their capital base (or, if impossible, their charter capital) accordingly. A new procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by Directive of the CBR No. 1260-u of 10 May 2003.

4. Reporting Requirements

Banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. Banks must also inform the CBR about providing large loans (exceeding 5% of a bank's capital). Banking groups (i.e. alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) and consolidated groups (i.e. alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other legal entities and non-lending organisations within such alliances) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licenced auditing company.

5. Reserve Requirements

To cover possible loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of various types of mandatory reserves. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. Banks are currently required to form the following key reserves:

- Mandatory reserves to be held on non-interest bearing accounts with the CBR (7% in respect of funds in roubles and foreign currency attracted from legal entities and individuals);
- Mandatory reserves for potential losses in the amount of up to 100% held on the bank's balance sheet accounts;
- Mandatory reserves for potential loan losses in the amount of up to 100% held on the bank's balance sheet accounts; and
- Mandatory reserves for operations with residents of off-shore areas in the amount of up to 100% held on the bank's balance sheet accounts.

The CBR is currently in the process of revising the standards applicable to the formation of mandatory reserves by Russian banks. A new CBR regulation will come into force in July 2004 setting out new procedures for the formation of mandatory non-interest bearing reserves with the CBR. Another regulation adopted by the CBR (to be effective from 1 August 2004) will introduce a new procedure for the calculation and a new classification of mandatory reserves. Under this regulation, loans will be divided into the following five categories: standard (0% reserve), substandard (1-20% reserve), doubtful (21-50% reserve), problem (51-100% reserve) and bad (100%).

6. Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accountancy in accordance with the Directive of the CBR No. 1375-u "On the Rules for the Preparation and Submission of Reports to the CBR by Credit Organisations" dated 16 January 2004. Despite certain differences, such financial statements represent a close approximation to IFRS.

As of 1 January 2004, all credit organisations are required to prepare their accounting reports in accordance with IFRS. The first IFRS financial statements are to be prepared for the period ending 30 September 2004. Credit organisations will continue the preparation of their financials under RAR until 1 January 2006, when only IFRS financials will need to be prepared.

HISTORY OF THE RUSSIAN BANKING SECTOR

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between RUR500,000 and RUR300 million. By the start of 1992, 1,500 licences had been granted to banks.

In 1991, three of the specialised state dependent banks were transformed into joint-stock companies. Some regional branches became independent from head offices through management buy-outs.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

BANKING STATISTICS

The number of commercial banks in Russia increased from about 358 in 1990 to 2,538 in 1996. Since the 1998 financial crisis (referred to below) the number of banks operating in Russia has fallen to 1,274 as at 1 June 2004.

The 1998 financial crisis revealed the lack of proper controls in the banking sector, and strengthened concerns of the public over the integrity of the banking system, with misleading advertising, laundering, corruption, and criminal contacts all being concerns.

Currently, the banking sector mostly offers services related to short-term and mid-term financing, because of the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted out of a fear that they may overwhelm the nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank. The aggregate participation of foreign capital in the Russian banking system is determined by federal law proposed by the Government in conjunction with the CBR. No such law is currently in force.

On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations ("ARCO"). Due to the further stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of these credit organisations was withdrawn from ARCO's administration.

BANKING AND OTHER RELEVANT REFORMS

Following the 1998 financial crisis, Russian banks undertook important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by substantial growth in the volume of private deposits in Russian banks between 2001 and 2003.

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the development of a more efficient system of mandatory economic ratios, (iii) the introduction of amendments to the Civil Code preventing the early withdrawal of funds held on deposit accounts opened for a certain term, (iv) the acceptance of IFRS by all Russian banks starting from 1 January 2004 and (v) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks.

The targets of the Russian banking reform are also set out in the programme for the social and economic development of the Russian Federation for the years 2003 to 2005 adopted by the Russian Government in August 2003. According to this programme, banking reform remains one of the priority tasks for the period until 2005. The programme contemplates, among other things, simplification of procedures for banks' reorganisation and the introduction of regulation of syndicated lending, affiliated parties' financing, credit bureaux and pledge of monies held in a bank account. A new strategy for the development of the Russian banking sector for the period from 2004 to 2008 has been prepared and is currently being considered by the Russian Government.

The system of the insurance of private deposits was introduced late in 2003. According to the new law "On the Insurance of Individuals' Deposits held in the Russian Federation", banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals' accounts are required to qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies for the attraction of deposits and opening accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from the attraction of deposits and opening accounts for individuals.

Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to a newly established insurance fund in the amount of up to 0.3% of the average account balances calculated under the new law.

In addition to the Federal Law "On Mortgage-Backed Securities" of November 2003, a number of new legislative proposals are under discussion now, which, among others, include amendments to the Civil Code, Tax Code, Federal Laws "On Mortgage" and "On Mortgage-Backed Securities", and a new law "On Credit Bureaux". It is expected that these proposals will be considered by the State Duma in June 2004. It is understood that Russian legislators intend to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another purpose of the new legislative proposals is to provide improved regulation of mortgage-backed securities in order to make them more attractive for investors.

On 10 December 2003, President Putin signed the Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") which is to replace the existing Currency Control Law. Most of the provisions of the New Currency Control Law are expected to come into force on 18 June 2004. The New Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the placement of mandatory deposits with the CBR and the use of special accounts).

With respect to certain operations, the mandatory deposit requirement may be imposed on residents or non-residents in the amount of either up to 100% of the amount of the operation for a period of up to 60 days or up to 20% for a period of up to one year (excluding export/import operations for which special rules are established). In addition, the CBR will have the power to require residents and non-residents to carry out certain operations through special accounts which may also be accompanied by the above mandatory deposit requirements. In particular, settlements between residents and non-residents in relation to foreign currency and rouble loans, settlements in relation to securities, non-banking operations of banks and conversion operations may be restricted in various combinations by such special account and mandatory reserve requirements (however, conversion restrictions may not be imposed on authorised banks).

Pursuant to the New Currency Control Law, the new restrictive measures should be applied by the CBR and/or the Russian Government on a case-by-case basis in order to prevent a substantial reduction in the gold and foreign exchange reserves, to neutralise the currency rate swings and secure a stable balance of payments of the Russian Federation. This implies that these restrictions should not be applied unless the Russian economy is in danger. At the same time, the criteria for the introduction of these restrictive measures are vague enough to allow the CBR and the Russian Government to apply those at their discretion and on a long-term basis.

Russian Federation — A General Overview

The following information has been extracted from publicly available sources. It has not been independently verified by the Issuers or the Guarantors. None of the Issuers, the Guarantors or the Dealers accept any responsibility for the accuracy or completeness of this information.

GENERAL

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of over 80 sub-federal political units with different status (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous oblast) (the "Federation Subjects"). It is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometres. Russia covers one-tenth of the world's land surface, making it the largest country in the world, almost twice the size of the United States of America.

Of the population of approximately 145 million, approximately 82% is ethnic Russian and a high percentage (approximately 73%) live in cities and towns. The two largest cities are Moscow, with approximately 10.1 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

INTERNATIONAL RELATIONS

Russia is a member of the United Nations (and a permanent member of the Security Council), the IMF, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development. Russia succeeded to the former Soviet Union's "observer status" to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and in June 1993 made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia's admission to the World Trade Organisation started in 1995 and are still ongoing. Russia has also been awarded Most Favoured Nation status by several members of the Organisation for Economic Co-operation and Development ("OECD"). Russia has been granted observer status in a number of OECD committees and formally applied for membership in May 1996.

POLITICAL STRUCTURE AND RECENT POLITICAL DEVELOPMENTS

Federal Structure

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the CIS. The CIS was subsequently joined by another 9 former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their territories, and the Constitution of Russia (the "Constitution") and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its Subjects. See "Certain Risk Factors — Risks relating to the Russian Federation — Political and Social Risks".

In general, disputes between the federal authorities and Federation Subjects have been resolved peacefully through a political process. The military confrontation in the Chechen Republic has been the exception. There was military confrontation in the Chechen Republic between December 1994 and August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. Russian security forces have not been able to fully subdue the separatist insurgency in the Chechen Republic. The presidential elections held in the republic in October 2003 have not stabilised the situation. Hardline rebel groups did not accept the Moscow-backed leadership of Akhmad Kadyrov, which resulted in his assassination in May 2004. The suicide bombings in Moscow and other regions underline the high risk of terrorist attacks against civilians in Russia.

Constitution

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

Executive, Legislative and Judicial Branches

The Executive branch consists of the President and the Government of Russia.

The President of Russia has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Council of Federation and has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for the Chairman of the CBR Board of Directors (for appointment by the Duma) and the Prosecutor General (for appointment by the Council of Federation) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Council of Federation).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of health, in which case the Prime Minister fulfils the responsibilities of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of Russia comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. A major reform of the Government is currently in progress, which is to streamline its structure by reducing the number of ministries from 30 to 17. The Government is automatically dissolved after each presidential election, in order to permit the President to form a new Government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Russian Parliament, which consists of a lower chamber, the State Duma and an upper chamber, the Council of Federation.

The State Duma consists of 450 members, elected by a mixed system of majority vote and proportional representation. Half of the members are elected by majority vote in individual electoral districts. The other half are chosen from "party lists" on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than 5% of the votes qualify for these "party list" seats. "Party list" members are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma member and hold a position in the Government.

The Council of Federation represents the Federation Subjects. Each Federation Subject has two representatives on the Council of Federation, one representing its legislative body and the other representing its executive branch.

The Judicial branch is represented by the Constitutional Court, the Supreme Court and the Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

The premature resignation of President Yeltsin on 31 December 1999 brought the elections scheduled for the summer of 2000 forward to March 2000. At the time of Yeltsin's resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections and secured over 52% of the votes cast with a turnout of 68.74% (more than 50% of the votes cast is required in order to be elected). His nearest challenger was the Communist candidate Gennady Zyuganov, who received almost 30% of votes.

The Government was appointed between May and July 2000. It has embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Federation Subjects.

In May 2000, President Putin reformed the structure of Presidential representatives in the regions. The Federation Subjects were divided into seven "federal areas" and authorised representatives with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Federation Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The latest State Duma elections were held on 7 December 2003. The distribution of seats in the new State Duma is as follows. The pro-presidential party, United Russia, came first: together with its single-mandate deputies, it has 222 seats (nearly half of the State Duma). The Communist Party won 53 seats, which is barely half what they had after the last 1999 election. The ultra-nationalist Liberal Democrats (LDPR) nearly doubled their vote over the 1999 results, taking 38 seats. Motherland, a Kremlin-backed party, won 37 seats. The social-democratic Yabloko and the pro-business Union of Right Forces (SPS) were wiped out of the new State Duma: both fell short of the 5 per cent. required to get their "party list" candidates into the State Duma, leaving them with 4 and 2 seats, respectively, each from the single-mandate districts. A splinter of United Russia, the People's Party, together with other parties and independent candidates took the rest of the seats (94) in the State Duma.

In February 2004, the Government was dismissed in its entirety, and in March 2004, President Putin announced the appointment of Mikhail Fradkov as Prime Minister and the other members of his new cabinet.

The new Presidential elections took place on 14 March 2004 with Putin winning the absolute majority of votes.

ECONOMIC CONDITIONS AND RECENT ECONOMIC DEVELOPMENTS

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial productions and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures deigned to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to the market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restriction on foreign trade and launched a broad privatisation effort.

Russia's financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp fall in world prices for oil and other commodities adversely affected the Government's ability to continue to finance its budget deficits and to maintain the value of the Rouble against the U.S. dollar. On 17 August 1998, the Government and the CBR announced a three-pan programme intended to address these pressures. First, the Rouble trading corridor was revised from 5.25-7.15 Roubles for one U.S. dollar to 6.00-9.5 Roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issues prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign currency operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August 1998 led to:

- a severe devaluation of the Rouble;
- a sharp increase in the rate of inflation;
- the near collapse of the country's banking system;
- significant defaults by Russian public and private borrowers on their foreign currency obligations;
- dramatic declines in the prices of Russian debt and equity securities (including Russian eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999-2003 witnessed several positive developments. These included:

- a slow-down in the depreciation, and then a stabilisation, in the value of the Rouble against the U.S. dollar (and appreciation of the value of the Rouble against the U.S. dollar in real and, most recently, in nominal, terms);
- a decline in consumer price inflation;
- an increase in real industrial output, resulting in part from the devaluation of the Rouble;
- an improved balance of trade, resulting in part from the devaluation of the Rouble and a significant increase in oil prices;
- improved tax collection, resulting in a significant primary fiscal surplus;
- increasing prices for Russian debt and equity securities;
- a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets; and
- the restructuring of a significant portion of Russia's Rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's Government has announced plans for substantial economic reforms (including the tax reform, the pension reform, the housing and utilities reform) and has begun the process of implementing some of those reforms.

Privatisation

Russia commenced its privatisation programme in early 1992. About 15,000 medium and large-scale enterprises employing more than 70% of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50% of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership. The transfer of assets from state to private control continued in 1995 through a loans for share programme, cash auctions and investment tenders. As at 1 June 2003, there were 1399 joint stock companies which were 25% to 50% state owned and 718 joint stock companies which were more than 50% state owned.

In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law was passed. In December 2001, the new Federal Law "On Privatisation of State and Municipal Property" was passed and entered into force on 26 April 2002. This law introduces, *inter alia*, methods of state property privatisation.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders. The Government has announced its intention to return to some of its privatisation plans. Thus, in August 2003, the Government issued a plan for the privatisation of federal property in 2004 and guidelines for the privatisation of federal property up to 2006.

Combating money laundering

In order to build up the effective domestic system for combating money laundering, in July 2001, Russia adopted the Federal Law "On Combating of the Legalisation of Illegal Earnings (Money Laundering)" and subsequently passed certain legislation to implement this law. As a result of the implementation of recent reform to its anti-money laundering system, in October 2002 Russia was removed from the "black list" of non-cooperative countries and territories in the fight against money laundering maintained by the Financial Action Task Force on Money Laundering. The CBR monitors Russian banks' compliance with the anti-money laundering requirements by way of issuing respective regulations and inspecting the banks' activities. In line with the development of the anti-money laundering system, the CBR introduced certain restrictions relating to the banks' operations involving foreign entities and individuals registered (residing) in off-shore areas. The CBR compiled a list of such off-shore areas. In particular, the CBR restrictions apply to the establishment by Russian banks of correspondent relationships with foreign banks registered in the off-shore areas. Also, subject to certain exceptions, Russian banks will be required to maintain specific reserve funds for the purposes of carrying out operations with the residents of the off-shore areas. The amount of such reserve funds depends on the category of the off-shore area in question and varies from 0% up to 100%.

Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1996 to 2003:

	1996	1997	1998	1999	2000	2001	2002	2003
Nominal GDP (RUR billions)	2,007.8	2,342.5	2,629.6	4,823.2	7,305.6	8,943.6	10,834.2	13,285.2
Nominal GDP per capita (RUR)	13,649.2	15,968.0	17,974.0	33,126.4	50,453.0	62,108.3	74,615.7	92,130.4
Consumer Price Index[(1)] (%)	121.8	111.0	184.4	136.5	120.2	118.6	115.1	112.0
Total population, millions (end of period)	147.1	146.7	146.3	145.6	144.8	144.0	145.2	144.2

Notes:

(1) *As at December of relevant year compared to December of the previous year (source: Goskomstat's notifications).*

Source: Goskomstat's Russian Annual Statistics, Goskomstat's website, 16 June 2004. Certain data presented in this table differs from the previously published due to revisions by Goskomstat.

Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the Goskomstat estimate (based on the methodology of the International Labour Organisation), the total number of unemployed as at the end of April 2004 was 6.1 million (8.3% of the labour force) as compared to 6.3 million (8.8% of the labour force) at the end of 2002 and 6.2 million (8.7% of the labour force) at the end of 2001.

Source: Goskomstat website, 21 May 2004.

Balance of Payments

The following table sets forth Russia's balance of payments for the years 1996 to 2003:

	Balance of Payments[1]							
	1996	1997	1998	1999	2000	2001	2002	2003
	(U.S.$ million)							
Current account	10,847	(80)	219	24,616	46,839	33,935	29,116	35,905
Goods and services	16,209	8,967	12,346	31,730	53,506	38,990	36,449	49,400
Goods	21,592	14,913	16,429	36,014	60,172	48,121	46,335	60,493
Services	(5,383)	(5,945)	(4,083)	(4,284)	(6,665)	(9,131)	(9,886)	(11,092)
Investment of employees income and compensation	(5,434)	(8,692)	(11,790)	(7,716)	(6,736)	(4,238)	(6,583)	(13,132)
Current transfers	72	(356)	(337)	601	69	(817)	(750)	(363)
Capital and financial account	(3,139)	8,888	9,598	(16,058)	(37,683)	(24,454)	(22,615)	(28,7065)
Capital account	(463)	(797)	(382)	(328)	10,955	(9,356)	(12,388)	(993)
Financial account	(2,676)	9,685	9,981	(15,730)	(48,638)	(15,098)	(10,227)	(27,7132)
Direct investments	1,656	1,681	1,492	1,102	(463)	216	(72)	(2,989)
Portfolio investments, net	4,410	45,775	8,618	(946)	(10,334)	(653)	2,960	(4,880)
Other investment	(11,584)	(35,834)	(5,434)	(14,108)	(21,831)	(6,449)	(1,754)	5,882
Reserve assets	2,841	(1,936)	5,305	(1,778)	(16,010)	(8,212)	(11,375)	(26,365)
Errors and omissions, net	(7,708)	(8,808)	(9,817)	(8,558)	(9,156)	(9,481)	(6,501)	(7,199)

Notes:

(1) *Certain data presented in this table differs from the previously published data due to revisions made by the CBR.*

The information contained in this table is taken from the CBR website and it may include estimates, approximations or rounding up. This data is less complete or researched than those of Western countries, and the Issuers and Guarantors have no way of checking or researching the reliability and accuracy of such information.

Source: CBR website, 16 June 2004

Official International Reserves

The following table sets forth information with respect to official international reserves as at 1 January for the years 1997 to 2004:

	Official International Reserves							
	1 January 1997	1 January 1998[1]	1 January 1999[2]	1 January 2000	1 January 2001	1 January 2002	1 January 2003[4]	1 January 2004
	(U.S.$ million)							
Gold and foreign exchange reserves	15,324	17,784	12,223	12,456	27,972	36,622	47,793	76,938
Foreign exchange reserves	11,276	12,895	7,801	8,457	24,264	32,542	44,054	73,175
Foreign exchange	11,271	12,771	7,800	8,455	26,263	32,538	44,051	73,172
SDRs	5	122	0	1	1	3	1	1
Reserve position on IMF	1	1	1	1	1	1	2	2
Gold[3]	4,047	4,889	4,422	3,998	3,708	4,080	3,739	3,763

Notes:

(1) *From 1 August 1998, deposited gold is included in foreign currency assets.*

(2) *From 1 September 1999, the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the CBR, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.*

(3) *Valuing gold at U.S.$300 per fine troy ounce.*

(4) *From August 2002, the amount of international reserves excludes the amount of short term obligations of the CBR in freely convertible currencies.*

Source: CBR website, 16 June 2004

Monetary and exchange rate policy

The decrease of the budget deficit between 1992 and 1997 and the emergence of fiscal surplus from 2000 till now, and the increased access of the Government to financing from sources other than the CBR, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability had helped the CBR to reduce inflation from over 2000% in 1992 to 11% in 1997.

In 1998, however, inflation rose sharply again, primarily because of severe devaluation of the Rouble. After the crisis, the Government and the CBR changed their policy towards the Rouble, allowing for a floating exchange rate regime, and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic Rouble debt. Also, tight budget policy was announced as one of the key measures to overcome the crisis: non-interest expenditures for the 1999 federal budget were set low to insure a zero-deficit budget, and efforts were made to achieve better tax collection. Consumer price inflation was reduced to 15.8% in 2002 and 12% in 2003 (as compared to 18.6% for the year 2001, 20.2% for the year 2000 and 36.5% for the year 1999).

The CBR introduced a currency intervention band in July 1995. Another two "half-year" currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the CBR introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was supposed to help sustain the decline in inflation and domestic interest rates. However, in 1998 due to sharply decreased energy prices and increased capital outflows the Government and the CBR were no longer able to maintain this policy and dropped the currency trading band and allowed the Rouble to float freely. By the end of 1999, the Rouble had stabilised at around 25 Roubles to the U.S.$ dollar. Since then, the CBR has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and keep the Rouble under control. The Government and the CBR plan to maintain the value of the Rouble within an upper limit of RUR 34 to the U.S. dollar in 2004.

The Rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

External Debt

On 1 January 2004, the state external debt of Russia amounted to U.S.$182.1 billion (including indebtedness of the former USSR accepted by Russia). A significant proportion of that debt (U.S.$42.7 billion) is owed to the Paris Club of sovereign creditors. During the period 2000 to 2002, after the Government had succeeded in restructuring the London Club debt, inherited from the former USSR, the Government made efforts to restructure this Paris Club debt and reschedule payments in order to postpone the substantial debt payments due in 2003. These efforts have not so far been successful. However, Russia has been making payments in accordance with the repayment schedule.

External Debt of the Russian Federation in 2003
(vis-à-vis Non-Residents)

	1 January 2003	1 April 2003	1 July 2003 (U.S.$ billion)	1 October 2003	1 January 2004
Total	153.2	155.4	160.1	166.7	182.1
General Government	97.7	96.2	95.1	94.4	99.2
Federal Government	96.7	95.1	94.0	93.3	97.9
New Russian Debt	41.0	39.9	38.0	37.9	39.8
Multilateral creditors*	6.8	6.7	6.7	6.6	6.6
IBRD	6.6	6.5	6.4	6.3	6.3
Other	0.2	0.2	0.2	0.2	0.3
Other creditors (including Paris Club credits)	5.7	5.3	5.1	5.0	4.9
Foreign currency bonds	26.7	26.0	24.5	24.6	26.8
Eurobonds, issued by public subscription	7.1	7.1	5.7	5.4	5.7
Bonds related to GKO restructuring	1.4	1.3	1.3	1.4	2.0
Bonds related to London Club second debt restructuring	16.3	15.9	15.8	16.0	16.8
MinFin Foreign Currency Bonds (Series VI, VII and 1999)	1.8	1.6	1.7	1.8	2.4
GKO-OFZs	0.5	0.5	0.4	0.3	0.1
Other	1.3	1.3	1.4	1.3	1.4
Debt of the former USSR	55.7	55.2	56.0	55.5	58.1
Paris Club	39.2	39.3	41.0	40.2	42.7
Debt owed to former socialist countries	4.2	3.9	3.8	3.6	3.6
MinFin Foreign Currency Bonds (Series III, IV and V)	2.2	2.0	0.9	1.3	1.4
Other	10.2	10.1	10.2	10.3	10.4
Local Government	1.1	1.1	1.1	1.1	1.2
Loans	0.9	0.9	1.0	0.9	1.0
Foreign currency bonds	0.1	0.1	0.1	0.1	0.1
Eurobonds	0.1	0.1	0.1	0.1	0.1
Rouble denominated Bonds	0.0	0.0	0.0	0.1	0.2
Monetary Authorities**	7.5	7.9	7.6	8.2	7.8
Loans	7.3	7.6	7.3	7.9	7.5
Loans from the IMF	6.5	6.1	5.8	5.3	5.1
Other	0.8	1.5	1.5	2.5	2.4
National currency in cash and deposits	0.2	0.3	0.3	0.3	0.4
Banks (excluding equity capital)***	14.2	13.9	16.8	18.7	24.8
Debt liabilities to direct investors	0.1	0.1	0.1	0.1	0.1
Loans	5.3	5.7	7.1	7.9	12.9
Deposits	6.0	5.9	7.1	8.7	9.6
Debt securities	1.8	1.3	1.6	1.0	1.2
Other	1.1	0.9	0.9	1.0	0.9
Non-financial enterprises (excluding equity capital)	33.8	37.5	40.6	45.4	50.3
Intercompany loans	6.0	6.8	7.1	7.4	7.7
Financial leases	1.3	1.3	1.3	1.3	1.3
Debt securities	1.6	1.2	0.9	0.7	0.7
Other loans	24.8	28.2	31.3	36.0	40.5

Notes:

External debt in both Roubles and foreign currency is reported. Only non-resident holdings of government securities are reported and presented at face value.

* *Loans from the IMF are recorded under the Monetary Authorities.*

** *The Monetary Authorities covers the CBR and the Government (with respect to the indebtedness of the latter resulting from transactions with the IMF).*

*** *Data includes liabilities of credit institutions (including Vnescheconombank). Foreign debt, on which Vnesheconombank is an agent of the Government of the Russian Federation, is recorded under the General Government.*

Source: CBR Website, 16 June 2004 (last updated on 22 April 2004).

SOCIAL CONDITIONS

The Russian standard of living declined with the beginning of economic reforms amid the country's severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today, imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing. However, the records of the State Statistics Committee show that the real monetary income per capita in Russia has gradually been increasing since 2000.

LEGAL ENVIRONMENT

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, Banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law represent further important progress in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Some business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia. Business-related legislation is also susceptible to revision in reaction to political influences and the pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework, with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification is yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

EXCHANGE CONTROLS AND REPATRIATION

Russian currency exchange legislation limits the exchangeability of Roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert Rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for Roubles in Russia, but the exchange of Roubles for foreign currency in Russia is restricted and Roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into Roubles, but may only do so through Rouble accounts which are subject to strict CBR regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and Rouble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital".

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency, generally require a licence from the CBR subject to exemptions enacted by the CBR. The prevailing view is that the licence is only required for Russian residents involved in such "movement of capital" transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75% of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the CBR in increasing its foreign currency reserves. The mandatory requirement has been recently reduced to 25% of export revenues.

In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a CBR licence provided that certain conditions are met.

NEW CURRENCY CONTROL LAW

Russia had fundamentally the same currency control regime for almost all of its post-Soviet existence. However, in December 2003 a new Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") was enacted, which is one of the most significant legal developments in Russia of recent years.

The majority of the provisions of the New Currency Control Law came into force on 18 June 2004, and the former Currency Control Law (except for its several provisions) then lost its force. In June 2005, the New Currency Control Law will replace the former Currency Control Law in its entirety.

The New Currency Control Law is intended to gradually liberalise Russian currency control regulations by way of limiting the authority of regulatory bodies and reducing administrative barriers to currency operations. In particular, the New Currency Control Law abolishes the requirement to obtain transaction-specific CBR permits and instead introduces other forms of regulation (such as the formation of mandatory reserves and the use of special accounts) (see "Certain Risks Factors — Risks Relating to the Change in Currency Control Legislation"). The New Currency Control Law will also loosen restrictions on the purchase of foreign currency and opening of accounts by Russian residents.

Enforceability of Civil Liabilities in the Russian Federation

Each Issuer and each Guarantor are corporations organised under the laws of that Issuer's and Guarantor's jurisdiction of incorporation, as set out on the front cover of this Offering Circular. None of the directors and executive officers of any Issuer or either Guarantor is a resident of England, and all or a substantial portion of the assets of the Issuers and the Guarantors and such persons are located outside England. As a result, it may not be possible for investors to effect service of process within England upon either Issuer or either Guarantor or such persons or to enforce against any of them court judgments obtained in English courts. Russian courts will not enforce any judgment obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing for reciprocal recognition and enforcement of court judgments. No such treaty exists between Russia and the United Kingdom. Even if there is such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. Furthermore, Russian legislation may be further changed by way of adopting new grounds preventing foreign court judgments from being recognised and enforced in Russia.

The Programme Agreement provides that any dispute between the parties thereto may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules, with the seat of such arbitration being in London, England. The United Kingdom and the Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Consequently, an arbitral award from an arbitral tribunal in London, England should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to qualifications set out therein and in compliance with applicable Russian legislation. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors. This could introduce delay and unpredictability into the process of enforcing such awards by Russian courts.

Taxation

The following is a general description of certain Cypriot, British Virgin Islands and Russian Federation tax considerations relating to Notes issued under the Programme. It does not purport to be a complete analysis of all tax considerations relating to Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

CYPRUS

The following is a general description of certain tax aspects of any Notes issued by either Alfa Issuance or Alfa Markets under Cypriot law as at the date of this Offering Circular and does not purport to be a comprehensive description of all tax aspects relating to any such Notes. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of any Notes. References in this section to "Notes" are to Notes issued by either Alfa Issuance or Alfa Markets.

Income Tax

With effect from 1 January 2003, amendments were introduced to the tax system in Cyprus pursuant to which the basis of the taxation is now one of tax on worldwide income on the basis of residency. For the purposes of establishing residency under the provisions of the Income Tax Law, Law 118(I)/2002 (the "Income Tax Law") a person is resident for tax purposes in Cyprus where in the case of a natural person that person is present in Cyprus for a period or periods exceeding in aggregate 183 days in the tax year and in the case of a company its management and control is exercised in Cyprus. The tax year for the purpose of the Income Tax Law coincides with the calendar year.

Under the provisions of the Income Tax Law, an individual who is a tax resident in Cyprus and who receives or is credited with interest, is exempt from income tax, but he is subject to 10% withholding pursuant to the provisions of the Special Contribution for the Defence Fund to the Republic Laws, Law 117(I)/2002.

A resident company which receives or is credited with interest from the ordinary carrying on of its business or receives interest closely connected with the carrying on of its business is subject to corporation tax on the interest received and not subject to the special contribution for the defence fund. A resident company, which receives or is credited with interest and the interest is not considered to be received from the ordinary carrying on of its business or is not closely connected with the carrying on of its business, includes in its taxable income subject to corporation tax only 50% of interest received or credited, whilst the remaining 50% is exempt from corporation tax and in addition the whole amount of the interest is subject to 10% withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Laws.

A Cypriot international business company, which is entitled to and elects to be taxed at the corporate tax rate of 4.25% for the years 2003, 2004 and 2005 and which receives or is credited with interest, is not subject to the provisions of the Special Contribution for the Defence Fund of the Republic Law, but instead it includes interest received or credited in its other income which is taxed at the rate of 4.25%.

Persons (natural and legal) who are not resident for tax purposes pursuant to the provisions of the Income Tax Law will not be liable to any charge to income tax, subject to any withholding or the special contribution for the defence of the Republic.

Following Cyprus's accession to the European Union on 1 May 2004, Cyprus will be obliged to implement the provisions of EU Directive 2003/48/EC relating to the taxation of savings by no later than 1 January 2005. Whilst no legislation has been introduced, Cyprus has confirmed that it will do so prior to the deadline for implementation.

Stamp Duty

Following the enactment of the Stamp Duty (Amendment) (No. 2) Law 2002, section 4 of the Stamp Duty Law, Law 19/1963 as amended provides that:

"(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefore respectively if it relates to any asset situated in the Republic or to matter or things which shall be performed or done in the Republic irrespective of the place where the document is made."

In accordance with a recent ruling of the Commissioner of Stamp Duty, the issue of Notes by either Alfa Issuance or Alfa Markets will not be liable to stamp duty where the proceeds of the issue will remain outside Cyprus, will be utilised for purposes outside Cyprus and the obligation under such Notes will be repaid outside Cyprus.

The transfers of the Notes effected outside of Cyprus between non-residents of Cyprus do not attract stamp duty in Cyprus, provided that the transferor and the transferee are not residents of Cyprus.

BRITISH VIRGIN ISLANDS

The following is a general description of certain British Virgin Islands tax considerations relating to any Notes. It does not purport to be a complete analysis of all tax considerations relating to any Notes. Prospective purchasers of any Note should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the British Virgin Islands of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under any Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

As ABH Financial is incorporated pursuant to the International Business Act CAP 291 of the British Virgin Islands, (i) no withholding tax will be required to be deducted by ABH Financial on any payments made to any holder of a Note under the ABH Financial Guarantee; and (ii) Notes will not be subject to stamp duty in the British Virgin Islands. Gains derived from the sale or exchange of Notes by persons who are not otherwise liable to British Virgin Islands income tax will not be subject to British Virgin Islands income tax. The British Virgin Islands currently has no capital gains tax, estate duty, inheritance tax or gift tax.

Holders of Notes who are not resident in the British Virgin Islands, and who do not engage in trade or business through a permanent establishment in the British Virgin Islands, will not be subject to the British Virgin Islands taxes or duties on gains realised on the sale or redemption of such Notes. No holder of a Note will be deemed to be resident or domiciled in the British Virgin Islands simply by virtue of holding a Note.

RUSSIAN FEDERATION

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of Notes. The summary is based on the laws of the Russian Federation in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates.

For the purposes of this summary, a "non-resident holder" means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or a legal person or organisation in each case not organised under Russian law which holds and disposes of Notes otherwise than through its permanent establishment in Russia.

Taxation of Gains from Disposal of Notes

Non-Resident Holders

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposition of Notes outside of Russia, provided that the proceeds from such disposition are not received from a source within Russia.

Non-resident Legal Persons and Organisations

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the sale, exchange, or the disposition of Notes even if payment is received from within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20%. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of Notes.

A non-resident holder which is a legal person or organisation should take independent tax advice with respect to this possibility.

Withholding tax on interest may be reduced or eliminated in accordance with the provisions of any applicable double tax treaty. Advance treaty relief should be available subject to the requirements of the laws of Russia.

Non-resident individuals

A non-resident Noteholder who is an individual will not be subject to Russian taxation on income or capital gains if disposal of their holding takes place outside the Russian Federation. If Notes are disposed of to a resident of Russia and payment is made within or from Russia, the proceeds of such disposal are likely to be regarded, for personal income tax purposes, as income from a source within Russia and subject to tax at the rate of 30% from the gross proceeds less available cost deductions (which include the purchase price of Notes).

The tax may be withheld at the source of payment or, if the tax is not withheld, then the non-resident individual may be liable to pay the tax. It also may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

There is some uncertainty regarding the treatment of the portion of proceeds attributable to accrued interest. Subject to reduction or elimination pursuant to the provisions of an applicable tax treaty relating to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss.

In order to obtain double tax treaty relief an individual should provide appropriate documentary proof of tax payments made outside of Russia on income in respect of which relief under double tax treaty is claimed. As a result of uncertainties concerning the form and procedure for providing such documentary proof, individuals in practice may not be able to obtain advance relief on receipt of proceeds from a source within Russia as well as the obtaining of refund may prove complicated. Non-resident holders who are individuals should take independent tax advice with respect to tax consequences of receipt of proceeds from a source within Russia in respect of a disposal of the Notes.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of Notes, the currency of sale and Roubles.

Resident Holders

A holder of Notes who is a physical or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Payment under the Alfa Bank Guarantee

Russian tax legislation in respect of withholding tax on guarantee payments to non-residents is complex and unclear.

Non-Resident Holders

Non-Resident Legal Persons and Organisations

In general, guarantee payments to a non-resident legal entity should not be subject to Russian withholding tax to the extent that such payments do not represent payments of interest on Notes. Payments representing interest on Notes made by Alfa Bank under the Alfa Bank Guarantee to a non-resident legal entity are likely to be characterised as Russian source income subject to withholding tax. If the Russian tax authorities took such a position, those payments would be subject to Russian withholding tax at the source at the rate of 20%. This tax may be reduced or eliminated under any applicable double tax treaty.

Non-Resident Individuals
If guarantee payments are made within or from the Russian Federation, such payments may be recognised for personal income tax purposes as income from a source within Russia. If so, the payments are subject to Russian withholding tax at the rate of 30% from the gross proceeds less available cost deductions (which includes the purchase price of Notes). The withholding (income) tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

Availability of Double Tax Treaty Relief
Payments under the Alfa Bank Guarantee made by Alfa Bank in favour of Noteholders are unlikely to benefit from the provisions of any applicable double tax treaty. Therefore, there is a significant risk that the part of the guarantee payments related to interest on any Notes and even potentially, the whole amount of payments, may be subject to Russian withholding tax at the rate of 20%, where the relevant Noteholders are legal entities and 30%, if the relevant Noteholders are individuals.

VAT on Payments under the Alfa Bank Guarantee
Any payment under the Alfa Bank Guarantee made by Alfa Bank should not be subject to Russian value added tax.

EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Selling Restrictions

1. GENERAL

The Dealers have, in a Programme Agreement (the "Programme Agreement") dated 22 June 2004, agreed with the Issuers and the Guarantors a basis upon which they or any of them may from time to time agree to purchase Notes. No action has been or will be taken in any jurisdiction that would permit a public offering of any Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. All applicable laws and regulations must be observed in any jurisdiction in which Notes may be offered, sold or delivered. No person may directly or indirectly offer, sell, resell, reoffer or deliver Notes or distribute any document, circular, advertisement or other offering material in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations.

2. CYPRUS

Each Dealer is required to represent and agree that:

(a) in relation to the Notes, it will not provide from within Cyprus all or any "Investment Services" and "Non-Core Services" (as such terms are defined in the Investment Firms Law, Act No. 148(I) of 2002, as amended (the "IFL")) or otherwise provide Investment Services and Non-Core Services from outside Cyprus to residents or persons domiciled in Cyprus or otherwise conclude in Cyprus any transaction relating to such Investment Services and Non-Core Services in contravention of the IFL and the regulations made pursuant to or in relation thereto; and

(b) it will not issue an offer or invitation to subscribe or purchase or otherwise procure subscribers or purchasers for the Notes within or in Cyprus.

3. BRITISH VIRGIN ISLANDS

Each Dealer is required to represent and agree that it has not offered or sold, and will not offer or sell, directly or indirectly any Notes to residents in the British Virgin Islands.

4. RUSSIAN FEDERATION

Each Dealer is required to represent, warrant and agree that it will not offer, transfer or sell any Notes as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted by Russian law.

5. ITALY

No notes may be offered, sold or delivered (including in the secondary market) except to professional investors (*Operatori Qualificati*) as defined in article 31, second paragraph, of CONSOB regulation n. 11522 of 1st July 1998 (as amended from time to time) excluding individuals.

6. JAPAN

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements and otherwise in compliance with the Securities and Exchange Law and any other applicable laws and regulations of Japan.

7. THE NETHERLANDS

The Notes may not be offered, sold or transferred directly or indirectly anywhere in the world, as part of their initial distribution or at any time thereafter other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, security firms (including dealers and brokers), investment institutions, insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities) (the "Professionals") provided it must be made clear upon making the offer and in the applicable Pricing Supplement and in any other documents or advertisements in which such an offer of the Notes is made or such a forthcoming offer is announced (whether electronically or otherwise) that such offer is exclusively made and addressed to such Professionals, unless each Note has a denomination equal to or in excess of Euro 50,000 or its equivalent value in another currency or unless one of the other exemptions from or exceptions to the prohibition contained in article 3 of the Dutch securities transactions supervision Act 1995 ("*Wet toezicht effectenverkeer 1995*") is applicable or a dispensation has been granted by the Netherlands Authority for the Financial Markets and the conditions attached to such exemption, exception or dispensation are complied with (the "Exempted Offer"), provided in all cases that non-interest bearing Notes in definitive bearer form may not be offered, sold or transferred directly or indirectly, within or from The Netherlands except in conformity with the requirements of The Dutch Savings Certificates Act of 21 May 1985 (*Wet inzake Spaarbewijzen*) ("SCA").

Accordingly, each Dealer will represent and agree that it (i) has not offered, sold and transferred and will not offer, sell or transfer any Notes, directly or indirectly, anywhere in the world other than to Professionals or as an Exempted Offer, and (ii) has mentioned and will mention the relevant selling restriction in all offers, offer advertisements, publications and other documents or advertisements in which such an offer of the Notes is made or such a forthcoming offer is announced (whether electronically or otherwise), and (iii) will not offer, sell or transfer or cause non-interest bearing Notes in definitive bearer form, to be offered, sold or transferred directly or indirectly, within or from The Netherlands, except in conformity with the requirements of the SCA.

8. THE UNITED KINGDOM

In relation to each issue of Notes, the Dealer purchasing such Notes has represented, warranted and undertaken to the relevant Issuer that:

(a) *No offer to public:* in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) *No deposit-taking:* in relation to any Notes which have a maturity of less than one year:

  (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

  (ii) it has not offered or sold and will not offer or sell any such Notes other than to persons:

    (1) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

    (2) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

  where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;

(c) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer; and

(d) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

9. THE UNITED STATES OF AMERICA

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has agreed that it has offered and sold, and will offer and sell, Notes only outside the United States to non-U.S. persons in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to any Notes, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has also agreed that, at or prior to confirmation of sale of any Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it, a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

General Information

AUTHORISATION

The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Board of Directors of Alfa Issuance dated 10 June 2004, a resolution of the Board of Directors of Alfa Markets dated 10 June 2004 and the giving of the ABH Financial Guarantee has been duly authorised by a resolution of the Board of Directors of ABH Financial dated 9 June 2004. Under existing Russian law, Alfa Bank is not required to approve its entry into any agreement relating to the Programme, including the giving of the Alfa Bank Guarantee. However, the giving of the Alfa Bank Guarantee by Alfa Bank has been authorised by a resolution of the shareholders of Alfa Finance Holdings S.A. as the ultimate shareholder of Alfa Bank dated 26 January 2004.

ADMISSION OF NOTES TO THE OFFICIAL LIST AND TO TRADING ON THE LONDON STOCK EXCHANGE'S MARKET FOR LISTED SECURITIES

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each tranche of Notes which is to be admitted for listing on the Official List and to trading on the London Stock Exchange's market for listed securities will be admitted separately as and when issued, subject only to the issue of the global Note representing the Notes of that tranche. The listing of the Programme in respect of such Notes is expected to be granted on 22 June 2004.

DOCUMENTS AVAILABLE

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of Alfa Bank and from the specified offices of the Principal Paying Agent:

(i) the constitutional documents of each of Alfa Issuance, Alfa Markets, ABH Financial and Alfa Bank (in each case, where relevant, with an English translation thereof);

(ii) the audited consolidated annual financial statements of ABH Financial and the audited non-consolidated financial statements of Alfa Bank, each for the years ended 31 December 2001, 2002 and 2003;

(iii) the most recently published audited annual financial statements of Alfa Issuance, Alfa Markets, ABH Financial and Alfa Bank and the most recently published interim financial statements (if any) of Alfa Issuance, Alfa Markets, ABH Financial and Alfa Bank (in each case, where relevant, with an English translation thereof). No financial statements will be available with respect to either Alfa Issuance or Alfa Markets for any period prior to 31 December 2003;

(iv) the Programme Agreement, the Issue and Paying Agency Agreement, the Trust Deed, the Alfa Bank Guarantee and the Notes in definitive form;

(v) a copy of this Offering Circular;

(vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Principal Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(vii) a copy of each of the auditors' consent letters given by ZAO PricewaterhouseCoopers Audit and ZAO BDO Unicon given for the purposes of article 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

Alfa Issuance and Alfa Markets do not publish interim financial statements. ABH Financial publishes six-monthly audited consolidated interim financial statements. ABH Financial does not publish any non-consolidated financial statements. Alfa Bank does not produce financial statements prepared in accordance with IFRS. Alfa Bank publishes audited annual non-consolidated financial statements, all based on RAR. Alfa Bank does not publish any consolidated financial statements. In addition, in accordance with RAR, Alfa Bank is not required to and does not publish notes to any of its financial statements.

CLEARING SYSTEMS

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

SIGNIFICANT OR MATERIAL CHANGE

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of ABH Financial, Alfa Bank or the Alfa Banking Group since 31 December 2003, and there has been no material adverse change in the financial position or prospects of ABH Financial, Alfa Bank or the Alfa Banking Group since 31 December 2003. Since the date of their incorporation, there has been no significant change in the financial or trading position and there has been no material adverse change in the financial position or prospects of either Alfa Issuance or Alfa Markets.

LITIGATION

Save as disclosed in this Offering Circular on pages 84 and 85 ("Litigation — Norex"), none of Alfa Issuance, Alfa Markets, ABH Financial or Alfa Bank nor any other member of the Alfa Banking Group is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which Alfa Issuance, Alfa Markets, ABH Financial or Alfa Bank are aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of Alfa Issuance, Alfa Markets, ABH Financial or Alfa Bank or the Alfa Banking Group.

AUDITORS

The Boards of Directors of Alfa Issuance and Alfa Markets intend to appoint PricewaterhouseCoopers, Cyprus, independent auditors, to audit their financial statements in accordance with International Standards on Auditing.

The auditors of ABH Financial are ZAO PricewaterhouseCoopers Audit, independent auditors, who have audited ABH Financial's consolidated financial statements, without qualification, in accordance with International Standards on Auditing for each of the three financial years ended on 31 December 2001, 2002 and 2003.

The auditors of Alfa Bank are ZAO BDO Unicon, independent auditors, who have audited Alfa Bank's accounts without qualification, in accordance with the RAR for each of the three financial years ended on 1 January 2002, 2003 and 2004.

AUDITORS' CONSENT

ZAO PricewaterhouseCoopers Audit has given and not withdrawn its consent to the inclusion in this Offering Circular of its report dated 20 April 2004 relating to the financial statements of ABH Financial for the year ended 31 December 2003 as set out on page F – 2 hereof in the form and context in which it is included and has authorised the contents of those parts of the Listing Particulars comprising its report for the purposes of article 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 (as amended).

ZAO BDO Unicon has given and not withdrawn its consent to the inclusion in this Offering Circular of its report dated 5 April 2002, its report dated 18 April 2002 and its report dated 31 March 2004 relating to the financial statements of Alfa Bank for the years ended 31 December 2001, 31 December 2002 and 31 December 2003, each as set out on pages F – 77, F – 61 and F – 51, respectively, hereof in the form and context in which they are included and has authorised the contents of those parts of the Listing Particulars comprising its reports for the purposes of article 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 (as amended).

Summary of Significant Differences between IFRS and RAR

The following is a summary of significant differences between IFRS and RAR applicable to banks as at 31 December 2003. The organisations that promulgate IFRS and RAR have ongoing projects which could have a significant impact on future comparison between IFRS and RAR.

Subject	IFRS	RAR
Presentation and disclosure of financial statements	IFRS financial statements contain: • balance sheet; • income statement; • cash flow statement; • statement of changes in equity; and • accounting policy and notes to the financial statements. The information in the financial statements should be based on the following concepts: • going concern; • consistency of presentation; • accrual basis of accounting; • substance over form; • true and fair presentation; • materiality and aggregation; and • corresponding information. Also, banks must adhere to comprehensive disclosures required by IAS 30 "Disclosure in Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments Disclosure and Presentation". These include, but are not limited to, the following: • loan loss provisioning disclosures; • liquidity analysis; • currency analysis; • interest rate risk disclosures; • concentration risk disclosures; and • fair value disclosures.	Financial statements of the banks for publication include only a balance sheet, an income statement, a cash flow statement, and certain other information (levels of provisioning and capital adequacy ratio) (with comparative information). In practice, banks are guided by specific regulatory documents of the Bank of Russia in respect of accounting of certain transactions. A number of instructions by the Bank of Russia contradict some of the basic IFRS principles (prudence, substance over form). The accounting rules for banks prescribe a cash basis of accounting for income and expenses.
	The choice of measurement and/or presentation currency, for both a consolidated group and individual entities, under IFRS, is based on the criteria of SIC 19 "Reporting Currency — Measurement and Presentation of Financial Statements under IAS 21 and IAS 29", SIC 30 "Reporting Currency — Translation from Measurement Currency in Presentation Currency" and IAS 21 "The Effects of Changes in Foreign Exchange Rates".	RAR prescribes the measurement and reporting currency of banks to be only Russian Roubles.

Subject	IFRS	RAR
Financial instruments	IAS 39 prescribes the following accounting treatment for four main groups of financial assets: • financial assets that are held for trading are carried at fair value with unrealised gains and losses recognised in the income statement; • investments held to maturity are carried at amortised cost less provision for impairment; • originated loans and receivables are carried at amortised cost less provision for impairment; and • financial assets available for sale are carried at fair value with unrealised gains and losses recognised either in the income statement or directly in equity. The provision for impairment of financial assets is determined as the difference between their carrying amount and their recoverable amount, which is calculated as the net present value of estimated future cashflows including liquidation of collateral. All regular way sales and purchases of financial assets belonging to the same category are recognised either on trade date or on settlement date. The majority of financial liabilities are carried at amortised cost. Derivative financial instruments are carried in the balance sheet at fair value as trading assets or liabilities. The loans originated at non-market interest rates are initially recognised at fair value, and subsequently are carried at amortised cost. IAS 39 contains detailed rules on hedge accounting and accounting for embedded derivatives.	Under RAR, all loans are carried at cost less provision for loan losses, which is generally determined using formalised criteria (such as debt status, collateral, and the number of rollovers). Securities are divided into three portfolios: • trading securities with active market quotations are carried at market value; • investment securities with market quotations are carried at cost less provision for possible losses; and • unquoted trading and investment securities are carried at cost less provision for possible losses. The provision for possible losses is determined by management judgement. All sales and purchases of securities are recognised on settlement date. All financial liabilities are carried at cost. Derivative financial instruments are carried off-balance sheet up until their settlement date, when the gains and losses from these instruments are recognised. RAR do not contain rules on hedge accounting and accounting for embedded derivatives.

Subject	IFRS	RAR
Business combinations	Business combinations are accounted for either by the acquisition method, or by uniting of interests method.	RAR prescribe the use of the acquisition method for business combinations.
Consolidated financial statements. Accounting for investments in subsidiaries	Under the acquisition method, starring from the date of the acquisition the acquirer should: • Include results of the acquired enterprise's activities in the income statement; and • Recognise the acquired enterprise's assets and liabilities in the balance sheet at fair value, including goodwill (both negative and positive), arising on the acquisition.	The basic consolidation rules are generally similar to the procedures prescribed by the IFRS. However, RAR does not allow to exclude from consolidation enterprises acquired with a view of a subsequent sale, in the nearest future, i.e. available for sale assets under IAS 39. Consolidated financial statements of the banks for publication include only a balance sheet, an income statement, and certain other information (levels of provisioning and capital adequacy ratio) (with comparative information). Moreover, the publication of consolidated financial statements is optional for the banks that do not have banking subsidiaries.
Segments	IFRS requires disclosure of primary and secondary segments and certain segmental information (revenues, assets, liabilities, net results, capital expenditure, etc.). A segment is a distinguishable component of Alfa Banking 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.	RAR do not contain requirements for the disclosure of segments.
Income taxes	Temporary differences between the accounting bases and the tax bases of the assets and liabilities result in the arising of deferred income tax liabilities or deferred income tax assets. Adjustments are made in correspondence with the income tax expenses in the income statement. The amount of the deferred income tax asset or liability is calculated as a product of the nominal tax rate and the difference between the accounting base and the tax base of an asset or a liability.	Russian legislation and the accounting rules for banks do not cover deferred tax accounting.

Subject	IFRS	RAR
Related party transactions	Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The following information about transactions with related parties should be disclosed in the financial statements: • related parties relationships where control exists, irrespective of whether there have been transactions between the related parties; • if there have been transactions between related parties; • nature of transactions between related parties; • types of transactions; and • elements of transactions including: • the volume of transactions (either as an amount or as an appropriate proportion); • amounts or appropriate proportions of outstanding items; and • pricing policy.	RAR do not contain requirements for disclosure of related party transactions.
Financial reporting in hyperinflationary economies	The financial statements of an enterprise that reports in the currency of a hyperinflationary economy should be expressed in terms of measuring units at the balance sheet date. For these purposes the financial statements are adjusted in accordance with the changes in the general price index. A gain/loss from recognising the purchasing value of a monetary unit is reflected in the income statement. This gain/loss is calculated as the difference resulting from the restatement of non-monetary assets, shareholders' equity and profit and loss account items. Rates of inflation in Russia, based on the consumer price index as published by the Russian State Statistics Committee, were 20.1%, 18.8% and 15.1% for 2000, 2001 and 2002, respectively. Based on these statistics and certain other considerations required by IAS 29, enterprises reporting in Roubles have applied IAS 29 to their IFRS financial statements for all years ending prior to or on 31 December 2002. With effect from 1 January 2003, enterprises reporting in Roubles ceased applying IAS 29 on the basis that the Russian economy is no longer hyperinflationary.	RAR do not contain requirements for restatement of financial statements prepared in the currency of a hyperinflationary economy for changes in the general price index.

Index to Auditors' Reports and Financial Information

ABH Financial Limited

AUDITORS' REPORT — APRIL 2004

The following is the text of the report issued by ZAO PricewaterhouseCoopers Audit, the auditors of ABH Financial, in respect of the consolidated annual financial statements of ABH Financial for the three years ended 31 December 2003:

"To the Shareholders and Board of Directors of ABH Financial Limited:

1. We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2003 and 31 December 2002, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003 and 31 December 2002 and the consolidated results of its operations and its cash flows for the years ended 31 December 2003 and 31 December 2002 in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
20 April 2004"

CONSOLIDATED ANNUAL FINANCIAL INFORMATION OF ABH FINANCIAL LIMITED for the years ended 31 December 2003, 2002 and 2001

The financial information for the years ended 31 December 2003, 2002 and 2001, included on pages F – 4 to F – 50, was extracted without material adjustment from the audited consolidated annual financial statements of ABH Financial Limited for the three years ended 31 December 2003. The original page numbers of these financial statements and the page number references have been changed to conform to this Offering Circular.

(expressed in thousands of US dollars - Note 3)

	Note	2003	2002	2001
Assets				
Cash and cash equivalents	5	923 191	382 234	458 774
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		293 294	214 252	142 053
Trading securities	6	694 575	416 238	157 128
Due from other banks	7	131 621	211 342	124 697
Loans and advances to customers	8	3 440 680	2 440 366	1 434 174
Investments	9	65 443	95 776	137 180
Other assets and receivables	10	185 609	222 054	158 345
Premises and equipment	11	149 721	135 928	113 283
Total assets		**5 884 134**	**4 118 190**	**2 725 634**
Liabilities				
Due to other banks	12	796 301	672 120	340 525
Customer accounts	13	3 400 406	1 997 416	1 436 794
Promissory notes issued		594 940	644 976	451 499
Other borrowed funds	14	323 917	212 684	51 331
Other liabilities and payables	15	201 517	146 011	154 671
Deferred tax liability	21	13 448	10 312	9 192
Total liabilities		**5 330 529**	**3 683 519**	**2 444 012**
Minority interest		**6 635**	**3 485**	**3 598**
Shareholders' equity				
Share capital	16	160 800	160 800	112 800
Fair value reserve for investments available for sale	9	22 798	62 657	45 678
Revaluation reserve for premises and equipment	11	5 195	6 267	7 339
Retained earnings		358 177	201 462	112 207
Total shareholders' equity		**546 970**	**431 186**	**278 024**
Total liabilities and shareholders' equity		**5 884 134**	**4 118 190**	**2 725 634**

Approved for issue by the Board of Directors and signed on its behalf on 20 April 2004

Mr. Oleg Tumanov	Mr. Teijo Pankko
Deputy Chief Executive Officer	Chief Financial Officer

The notes set out on pages F-8 to F-50 form an integral part of these consolidated financial statements.

ABH Financial Limited
Consolidated Statement of Income for the Year Ended 31 December 2003
(expressed in thousands of US dollars - Note 3)

	Note	2003	2002	2001
Interest income	17	477 475	367 125	219 311
Interest expense	17	(242 490)	(177 132)	(108 215)
Net interest income		**234 985**	**189 993**	**111 096**
Provision for loan impairment	7, 8	(42 069)	(38 021)	(25 120)
Net interest income after provision for loan impairment		**192 916**	**151 972**	**85 976**
Fee and commission income	18	135 818	91 300	103 183
Fee and commission expense	18	(41 150)	(39 800)	(28 698)
Gains less losses arising from trading securities		18 987	19 742	30 764
Gains less losses arising from investments available for sale	9	31 054	43 684	5 158
Gains less losses arising from trading in foreign currencies		38 908	26 638	36 091
Foreign exchange translation gains less losses		(15 968)	854	(22 785)
Other provisions	9, 10, 24	(4 450)	(3 978)	2 167
Other operating income	19	65 244	46 150	52 410
Operating income		**421 359**	**336 562**	**264 266**
Operating expenses	20	(305 553)	(245 945)	(229 912)
Monetary gain		-	17 582	47 876
Profit from operations		**115 806**	**108 199**	**82 230**
Share of results of associated company after tax		920	-	-
Profit before tax		**116 726**	**108 199**	**82 230**
Income tax (expense)/credit	21	(11 011)	(3 573)	3 818
Profit after tax		**105 715**	**104 626**	**86 048**
Minority interest		(96)	(36)	(631)
Net profit		**105 619**	**104 590**	**85 417**

The notes set out on pages F-8 to F-50 form an integral part of these consolidated financial statements.

(expressed in thousands of US dollars - Note 3)

	2003	2002	2001
Cash flows from operating activities			
Interest received	495 426	340 437	205 426
Interest paid	(222 764)	(156 590)	(105 978)
Fees and commissions received	138 417	88 701	98 783
Fees and commissions paid	(39 011)	(39 800)	(28 698)
Income received from trading in securities	24 566	15 573	44 118
Income received from trading in foreign currencies	36 595	26 091	36 091
Other operating income received	37 246	39 465	18 695
Operating expenses paid	(272 190)	(230 236)	(206 431)
Income tax paid	(6 162)	(2 453)	(1 357)
Cash flows from operating activities before changes in operating assets and liabilities	**192 123**	**81 188**	**60 649**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks	(59 818)	(84 526)	(57 837)
Net increase in trading securities	(288 031)	(267 041)	(52 075)
Net decrease/(increase) in due from other banks	85 985	(93 190)	(107 809)
Net increase in loans and advances to customers	(961 752)	(1 092 620)	(540 084)
Net (increase)/decrease in other assets and receivables	(27 303)	(15 536)	226 217
Net increase in due to other banks	102 211	356 639	194 832
Net increase in customer accounts	1 302 254	623 786	576 700
Net (decrease)/increase in promissory notes issued	(94 326)	202 956	98 176
Net increase/(decrease) in other liabilities and payables	17 090	(18 345)	(157 372)
Net cash from/(used in) operating activities	**268 433**	**(306 689)**	**241 397**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale	87 487	48 634	9 148
Acquisition of investments available for sale	(2 047)	(3 469)	(8 957)
Additional acquisition of investment in associated company	(8 210)	-	-
Acquisition of premises and equipment, net	(24 917)	(30 714)	(27 318)
Proceeds from disposal of subsidiary, net	4 000	-	-
Dividend income received	1 486	1 862	2 520
Acquisition of subsidiaries	-	-	14 358
Net cash from/(used in) investing activities	**57 799**	**16 313**	**(10 249)**
Cash flows from financing activities			
Contribution from shareholder	73 000	56 400	-
Proceeds from other borrowed funds	132 318	200 625	-
Repayment of other borrowed funds	(24 034)	(40 533)	(20 629)
Net cash from/(used in) financing activities	**181 284**	**216 492**	**(20 629)**
Effect of exchange rate changes on cash and cash equivalents	**33 441**	**59 817**	**53 818**
Effect of inflation on cash and cash equivalents	**-**	**(62 473)**	**(64 479)**
Net increase/(decrease) in cash and cash equivalents	**540 957**	**(76 540)**	**199 858**
Cash and cash equivalents as at the beginning of the year	382 234	458 774	258 916
Cash and cash equivalents as at the end of the year	**923 191**	**382 234**	**458 774**

The notes set out on pages F-8 to F-50 form an integral part of these consolidated financial statements.

(expressed in thousands of US dollars - Note 3)

	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises and equipment	Retained earnings	Total shareholders' equity
Balance as at 1 January 2001	**56 400**	**11 398**	**8 153**	**60 438**	**136 389**
Net fair value gains arising on investments available for sale (Note 9)	-	38 284	-	-	38 284
Transfer of net fair value gains arising on investments available for sale to net profit	-	(4 004)	-	-	(4 004)
Revaluation of premises and equipment, net of taxation (Note 11)	-	-	189	-	189
Translation movement	-	-	-	(34 651)	(34 651)
Transfer of realised revaluation of premises and equipment	-	-	(1 003)	1 003	-
Net profit	-	-	-	85 417	85 417
Share issue (Note 16)	56 400	-	-	-	56 400
Balance as at 31 December 2001	**112 800**	**45 678**	**7 339**	**112 207**	**278 024**
Net fair value gains arising on investments available for sale (Note 9)	-	34 947	-	-	34 947
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(17 968)	-	-	(17 968)
Translation movement	-	-	-	(16 407)	(16 407)
Transfer of realised revaluation of premises and equipment	-	-	(1 072)	1 072	-
Net profit	-	-	-	104 590	104 590
Share issue (Note 16)	48 000	-	-	-	48 000
Balance as at 31 December 2002	**160 800**	**62 657**	**6 267**	**201 462**	**431 186**
Net fair value gains arising on investments available for sale (Note 9)	-	7 104	-	-	7 104
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(12 503)	-	-	(12 503)
Effect of change in accounting treatment of investment in associated company (Note 9)	-	(34 460)	-	-	(34 460)
Translation movement	-	-	-	25 024	25 024
Transfer of realised revaluation of premises and equipment	-	-	(1 072)	1 072	-
Net profit	-	-	-	105 619	105 619
Contribution from the shareholder (Note 26)	-	-	-	25 000	25 000
Balance as at 31 December 2003	**160 800**	**22 798**	**5 195**	**358 177**	**546 970**

The notes set out on pages F-8 to F-50 form an integral part of these consolidated financial statements.

1 Principal Activities of ABH Financial Limited

ABH Financial Limited and its subsidiaries (the "Group" or "Alfa Bank Group") comprise two main business segments, commercial banking and investment banking. The commercial banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank and its subsidiaries and the investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. A substantial part of the Group's activities are carried out in Russia.

ABH Financial Limited is wholly owned by Alfa Finance Holdings S.A., which is a subsidiary within the Alfa Group Consortium (the "Consortium"). The Consortium operates in the following business segments: oil and gas, financial services, telecommunications, domestic commodities and retail trade. Refer to Note 28 for information on the planned restructuring of the ownership and control over ABH Financial Limited.

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a listing of principal subsidiaries. The number of employees of the Group as at 31 December 2003 was 6 256. ABH Financial Limited is registered at PO Box 3339, Geneva Place, 333 Waterfront Drive, Road Town, Tortola, British Virgin Islands.

Commercial Banking. Open Joint Stock Company Alfa Bank (the "Bank") is a wholly owned subsidiary of ABH Financial Limited. 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 ("CBRF") since 1991. The Bank operates in all sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and bond trading. In addition, a complete range of banking services is provided in Russian Roubles and foreign currencies to its clients.

As at 31 December 2003 the Bank had 32 branches within the Russian Federation. The Bank's major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Limited and Alfa Capital Markets.

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

Investment banking. ABH Financial Limited is also the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking segment of the Group including proprietary trading and brokerage activities, investment and merchant banking and asset management with a primary emphasis on securities within the Russian Federation and Ukraine. Alfa Capital Holdings (Cyprus) Limited is regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002 by which it is licensed to offer financial services to members of the Group, banking or credit institutions and other experienced or professional investors outside the Group.

2 Operating Environment of the Group

The majority of the Group's operations are tied to the Russian market and accordingly the operating environment present in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group's assets and liabilities as at 31 December 2003 are denominated and settled in US Dollars.

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in economic trends, 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.

2 Operating Environment of the Group (Continued)

The banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments which would be determined in an efficient, active market. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Preparation

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Bank maintains its accounting records in accordance with Russian banking regulations in the national currency of the Russian Federation, the Russian Rouble (“RR”). Certain other members of the Group (Alfa Leasing and Alfa Capital Asset Management) maintain their accounting records in compliance with Russian Accounting Regulations Other companies maintain their accounting records in compliance with the applicable companies’ law in their respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with IFRS.

The predominant measurement currency of the Group is US Dollar (“USD”). A significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars. Moreover, the Group’s (and the Bank’s) assets and liabilities are largely denominated and settled in US Dollars (refer to Note 23). The US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Group and the Group’s cash flows are primarily denominated in US Dollars. Also, the US Dollar is the currency in which Management of the Group manages business risks and exposures, and measures the performance of its business.

The accounting records of the Group are maintained such that original US Dollar and other currency amounts can be determined. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the “Foreign Currency Translation” section of this note.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Group adopted IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) in 2001. The financial effects of adopting IAS 39 are reported in previous year’s consolidated financial statements.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. Accrued interest income and accrued interest expense previously disclosed along with other assets and other liabilities, respectively, are presented within the related balance sheet items in these consolidated financial statements.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which power to control is transferred to the Group and are removed from consolidation from the date the power to control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3 Basis of Preparation (Continued)

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

Foreign currency translation. The Group determines the appropriate measurement currency for each subsidiary. Monetary assets and liabilities originally denominated in US Dollars are stated at their original US Dollar amounts. Monetary assets and liabilities in other currencies have been translated to US Dollars using the exchange rate in effect as at the balance sheet date. Non-monetary assets and liabilities (excluding those expressed in currencies of countries with hyperinflationary economies), whose values are denominated in currencies other than the US Dollar, have been translated at the exchange rates in effect as at the date of transaction. Income and expenses, which were earned and incurred in other currencies, have been translated into US Dollars using a basis that approximates the rate of exchange in effect as at the date of transaction. Gains and losses arising from translation of assets and liabilities are recorded in the consolidated statement of income as foreign exchange translation gains less losses. Translation differences on non-monetary items, such as equity securities held for trading or available for sale, are recorded as part of the fair value gain or loss.

As the Bank and certain other Group companies operate independently of the Group and, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", these entities are considered foreign entities (operations not integral to those of the parent) with respect to the Group. Balance sheets of the foreign entities are translated into the Group's measurement currency at the exchange rates in effect as at the balance sheet date and the related statements of income and of cash flows are translated at the average exchange rates for the period. Exchange differences arising from the translation of the net investment in foreign entities are recorded as the translation movement in the consolidated statement of changes in shareholders' equity.

Prior to 1 January 2003 the Bank and other Russian companies of the Group applied the provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") and their financial information had been adjusted for hyperinflation and then translated into US Dollars at the exchange rates in effect as at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group have no longer applied the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed below.

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 into US Dollars at the exchange rate in effect as at the balance sheet date.

As at 31 December 2003 the principal exchange rate used for translating foreign currency balances was USD 1 = RR 29.4545 (2002: USD 1 = RR 31.7844; 2001: USD 1 = RR 30.14) and the average exchange rate for the year ended 31 December 2003 was USD 1 = RR 30.6875 (2002: USD 1 = 31.3470; 2001: USD 1 = RR 29.17). During the year ended 31 December 2003 the devaluation of the US Dollar against the Russian Rouble was 7.3% (2002: appreciation of 5.5%; 2001: appreciation of 7.0%).

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

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

(expressed in thousands of US dollars - Note 3)

3 Basis of Preparation (Continued)

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

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

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

The main guidelines followed in restating the corresponding figures were:

- All amounts were stated in terms of the measuring unit current as at the balance sheet date;
- Monetary assets and liabilities were not restated because they were already expressed in terms of the monetary unit current as at the balance sheet date;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as at the balance sheet date) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item was originated to the balance sheet date;
- Amounts included in the consolidated statement of income have been indexed by the change in the CPI based on following assumptions:
  - Inflation occurred evenly over the year; and
  - Income and expenditures have accrued evenly over the year except for charges against profit for aggregate movements in:
    - provision for loan impairment;
    - provision for impairment of receivables;
    - provision for impairment of investments available for sale; and
    - provision for losses on credit related commitments.

All such movements have been treated, for the purposes of this calculation, as occurring at the year end.

- Gains and losses that arose as result of holding monetary assets and liabilities during the year were included in the consolidated statement of income.

4 Significant Accounting Policies

The following accounting policies have been used by the Group in preparing these consolidated financial statements.

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 the Central Bank of the Russian Federation and other local central banks. Mandatory balances with the Central Bank of the Russian Federation and other local central banks represent mandatory reserve deposits, 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 a one to three month period.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on trading securities and is recognised on an effective yield basis. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities 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 purchase or sell the asset. Otherwise, such transactions are treated as derivative instruments until settlement occurs.

Originated loans and provisions for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying value of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio as at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

4 Significant Accounting Policies (Continued)

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

Purchased loans and receivables. Purchased loans and receivables are categorised as held to maturity, available for sale or trading assets depending on the Management's intent. Purchased loans and receivables with a fixed maturity where Management has both the intent and the ability to hold to maturity are classified as held to maturity assets. Purchased loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates are classified as available for sale assets. Purchased loans and receivables that were acquired principally for the purpose of generating a short-term profit are classified as trading assets.

Purchased loans and receivables are initially recorded at cost (which includes transaction costs). Purchased loans and receivables classified as available for sale or trading assets are subsequently remeasured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of available for sale assets are recorded in the consolidated statement of changes in shareholders' equity. When the available for sale assets are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income. Impairment and reversal of impairment of available for sale assets is recorded through the consolidated statement of income. Realised and unrealised gains and losses arising from changes in the fair value of trading assets are included in the consolidated statement of income in the period in which they arise. Purchased loans and receivables classified as held to maturity assets are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding purchased loans and receivables is recorded in the consolidated statement of income as interest income. All regular way purchases and sales of purchased loans and receivables are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivative instruments until settlement occurs.

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

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

Investments available for sale. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of investments at the time of purchase.

Investments available for sale are initially recorded at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recorded in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale. Impairment and reversal of impairment of investments available for sale is recorded through the consolidated statement of income. An investment available for sale is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Dividends received are included in dividend income within other operating income.

4 Significant Accounting Policies (Continued)

All regular way purchases and sales of investments available for sale are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recorded as derivative forward transactions until settlement.

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

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

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

Originated receivables from customers. Originated receivables from customers represent receivables for the sale of trading securities and investments available for sale, advances made for purchases of trading securities and investments available for sale, and other receivables and advances. Receivables are carried at amortised cost less provision for impairment. A receivable is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the receivable. Provisions made during the period are included in the consolidated statement of income.

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

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises and equipment included in shareholders' equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, 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, 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.

4 Significant Accounting Policies (Continued)

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 net selling price 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. 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 assets recoverable amount".

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

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

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

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

Finance leases. Where the Group is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within other assets. Lease income is recorded over the term of the lease using the effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction.

Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in the lease.

Finance income from leases is recorded within other operating income in the consolidated statement of income.

When impaired, a provision against net investment in lease is recorded. A financial lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the finance lease receivable.

Promissory notes issued. Promissory notes issued by the Group carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Promissory notes issued by the Group are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method.

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.

Borrowings. Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

4 Significant Accounting Policies (Continued)

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying value of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

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

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Dividends. Dividends are recorded in equity in the period in which they are ratified by the Directors of ABH Financial Limited. Dividends declared after the balance sheet date are disclosed in the subsequent events note.

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

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recorded 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 measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual Group companies of the Group.

Deferred income tax relating to the fair value remeasurement of investments available for sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the consolidated statement of income when the gain or loss on the investments is realised.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes accrued coupon, discount and premium earned on fixed income instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans, which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. 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 and portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody fees are recorded ratably over the period the service is provided.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or using the spot rate as at the balance sheet date as the basis as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currency, gains less losses arising from trading securities and gains less losses from trading in precious metals within other operating income, depending on the related contracts.

The Group does not apply hedge accounting.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not recorded on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

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

Staff costs and related contributions. The Group's contributions to the Russian Federation state pension and social insurance funds in respect of its employees are expensed as incurred and included into 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 customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

5 Cash and Cash Equivalents

	2003	**2002**	**2001**
Cash on hand	169 099	105 819	74 070
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	227 528	72 460	208 620
Correspondent accounts with other banks			
- Russian Federation	33 014	13 399	12 385
- Other countries	168 827	89 793	50 702
Overnight placements with other banks			
- Russian Federation	45 262	48 090	23 781
- Other countries	279 461	52 673	89 216
Total cash and cash equivalents	**923 191**	**382 234**	**458 774**

Currency and interest rates analyses of cash and cash equivalents are disclosed in Note 23.

(expressed in thousands of US dollars - Note 3)

6 Trading Securities

	2003	2002	2001
Russian Federation Eurobonds	305 759	156 669	28 723
Corporate Eurobonds	183 300	102 980	44 356
Corporate bonds	72 698	62 393	29 506
Eurobonds of other states	52 644	20 213	2 652
Corporate shares	35 119	29 588	19 767
Promissory notes	12 138	17 604	22 419
ADRs and GDRs	6 297	10 582	878
Other	26 620	16 209	8 827
Total trading securities	**694 575**	**416 238**	**157 128**

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from June 2007 to March 2030, coupon rates of approximately 5.0% to 12.8% in 2003 and yields to maturity from 6.7% to 7.4% as at 31 December 2003, depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from February 2004 to February 2033, coupon rates of approximately 5.8% to 12.8% during in 2003 and yields to maturity from 5.0% to 11.7% as at 31 December 2003, depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. These bonds have maturity dates ranging from February 2004 to July 2009, coupon rates of approximately 7.8% to 20.5% in 2003 and yields to maturity from 7.0% to 16.0% as at 31 December 2003, depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in US Dollars, issued by governmental bodies of other states, and are freely tradable internationally. These bonds have maturity dates ranging from March 2004 to January 2033, coupon rates of approximately 7.4% to 14.5% in 2003 and yields to maturity from 4.3% to 9.9% as at 31 December 2003, depending on the type of bond issue.

Corporate shares are shares of Russian and Ukrainian companies.

Promissory notes are securities denominated in Russian Roubles, issued at a discount by large Russian companies, and freely tradable in the Russian Federation. These notes have maturity dates ranging from January 2004 to July 2005 and yields to maturity from 9.4% to 13.0% as at 31 December 2003, depending on the type of note issue.

Trading securities with a fair value of USD 319 126 thousand (2002: USD 136 772 thousand; 2001: USD 14 841 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

The Bank is licensed by the Federal Commission on Securities Market for trading in securities.

Currency and interest rates analyses of trading securities are disclosed in Note 23. The information on trading securities issued by related parties and owned by the Group is disclosed in Note 26.

(expressed in thousands of US dollars - Note 3)

7 Due from Other Banks

	2003	2002	2001
Term placements with other banks	91 552	110 911	95 197
Reverse sale and repurchase agreements with other banks	40 069	100 481	30 130
Less: Provision for loan impairment	-	(50)	(630)
Total due from other banks	**131 621**	**211 342**	**124 697**

Movements in the provision for loan impairment are as follows:

	2003	2002	2001
Provision for impairment as at 1 January	**50**	**630**	**1 524**
Release of provision for loan impairment during the year	(50)	(580)	(894)
Provision for impairment as at 31 December	**-**	**50**	**630**

As at 31 December 2003 fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 45 626 thousand (2002: USD 120 750 thousand; 2001: USD 38 683 thousand).

As at 31 December 2002 balances due from other banks in the amount of USD 1 825 thousand were of a restricted nature (2001: USD 4 245 thousand).

As at 31 December 2003 the estimated fair value of due from other banks was USD 131 621 thousand (2002: USD 211 342 thousand; 2001: USD 124 697 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23.

8 Loans and Advances to Customers

	2003	2002	2001
Current loans	3 585 253	2 559 825	1 520 340
Overdue loans	31 150	15 462	10 154
Less: Provision for loan impairment	(175 723)	(134 921)	(96 320)
Total loans and advances to customers	**3 440 680**	**2 440 366**	**1 434 174**

Movements in the provision for loan impairment are as follows:

	2003	2002	2001
Provision for loan impairment as at 1 January	**134 921**	**96 320**	**69 549**
Provision for loan impairment during the year	42 119	38 601	26 014
Loans and advances written off during the year as uncollectable	(1 317)	-	(568)
Acquisition of subsidiaries	-	-	1 325
Provision for loan impairment as at 31 December	**175 723**	**134 921**	**96 320**

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers (Continued)

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

	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
Manufacturing and construction	1 471 294	41	772 419	30	371 052	24
Energy and oil and gas	1 049 572	29	965 195	37	559 932	37
Trade and commerce	520 365	14	405 628	16	336 273	22
Telecommunications	205 547	6	246 147	10	211 838	14
Finance and investment companies	98 775	3	56 477	2	12 701	1
Individuals	49 858	1	17 954	1	3 894	-
Agriculture	13 570	-	29 284	1	28 253	2
Other	207 422	6	82 183	3	6 551	-
Total loans and advances to customers (aggregate amount)	**3 616 403**	**100**	**2 575 287**	**100**	**1 530 494**	**100**

As at 31 December 2003 the Group had 16 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of these loans is USD 1 742 925 thousand or 48.2% of the gross loans and advances to customers. As at 31 December 2002 the Group had 13 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of those loans was USD 1 480 366 thousand or 57.5% of the gross loans and advances to customers. As at 31 December 2001 the Group had 10 borrowers with aggregated loan amounts above USD 30 000 thousand. The aggregate amount of these loans was USD 765 360 thousand or 50.0% of the gross loan portfolio.

As at 31 December 2002 loans and advances to customers included USD 33 078 thousand (2001: USD 11 720 thousand) of interest income accrued on a loan to Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings, S.A., in the amount of USD 110 000 thousand issued in May 2001 with an initial maturity in May 2004 and carrying a nominal interest rate of 20% p.a., payable at maturity. In June 2003 the parties agreed to change the maturity of the loan to 1 September 2003. On 1 September 2003 the loan was fully repaid along with the interest income accrued to date.

As at 31 December 2003 the estimated fair value of loans and advances to customers was USD 3 454 249 thousand (2002: USD 2 438 552 thousand; 2001: USD 1 434 174 thousand). Refer to Note 25.

As at 31 December 2003 loans in the amount of USD 23 765 thousand (2002: nil; 2001: nil) have been pledged to third parties as collateral with respect to due to other banks. Refer to Note 12.

As at 31 December 2002 loans in the amount of USD 50 000 thousand (2001:USD 115 000 thousand) have been pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organizations. Refer to Note 14.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

9 Investments

	2003	2002	2001
Investments available for sale	45 885	95 776	137 180
Investment in associated company	19 558	-	-
Total investments	**65 443**	**95 776**	**137 180**

(expressed in thousands of US dollars - Note 3)

9 Investments (Continued)

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

	2003	2002	2001
As at 1 January	**95 776**	**137 180**	**99 600**
Net fair value gains arising on investments available for sale	7 104	34 947	38 284
Acquisition of investments available for sale	2 047	3 469	8 957
Disposal of investments available for sale	(35 483)	(104 876)	(9 148)
Effect of change in accounting treatment of investment in STS	(42 110)	-	-
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in shareholders' equity	18 551	25 716	1 154
Impairment of investments available for sale	-	(660)	(1 667)
Total investments available for sale as at 31 December	**45 885**	**95 776**	**137 180**

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

			Fair value		
Name	**Nature of business**	**Country of registration**	**2003**	**2002**	**2001**
Akrikhin	Pharmaceutical	Russia	38 630	30 540	32 885
STS	Television	Russia	-	42 110	13 438
Borskoe Steklo	Manufacturing	Russia	-	9 000	1 921
Svet	Manufacturing	Russia	-	5 500	5 510
TV Service	Television	Russia	-	-	25 000
UIF Alfa Capital	Investment	Russia	-	-	21 082
Siracuse	Construction	Russia	-	-	17 279
New Channel	Television	Ukraine	-	-	9 698
Other			7 255	8 626	10 367
Total			**45 885**	**95 776**	**137 180**

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

As at 31 December 2002 investments available for sale with a fair value of USD 5 227 thousand (2001: USD 5 704 thousand) have been pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organisations. Refer to Note 14.

Investment in associated company. As at 31 December 2003 an investment in an associated company in the amount of USD 19 558 thousand represents a 25% interest in Story First Communications Inc. ("SFC"), a Delaware corporation primarily investing in television and radio ventures.

In 1999 the Group acquired a 25% plus 2 shares as an investment in the STS Network ("STS"), a national television network in Russia and a 75% owned subsidiary of SFC, with an intention to sell it within a short period after purchase. The investment in STS was carried on the consolidated balance sheet at fair value within investments available for sale. As at 31 December 2002 the fair value of the investment in STS was USD 42 110 thousand.

In August 2003 the Group restructured its entire interest in STS into 25% interest in SFC. In the course of restructuring the Group forgave indebtedness of STS to the Group in amount of USD 10 428 thousand and paid USD 8 210 thousand to STS and one of the shareholders of SFC.

(expressed in thousands of US dollars - Note 3)

9 Investments (Continued)

Following the restructuring the Group classified its investment in SFC as an investment in associated company accounted for by the equity method of accounting. The carrying value of the investment in STS as at the date of restructuring was recalculated using the equity method of accounting retrospectively from the date of its acquisition for the purposes of determination of the cost of acquisition of the investment in SFC.

Fair value gains in the amount of USD 34 460 thousand previously recorded directly in shareholders' equity in relation to the investment in STS were reversed in the consolidated statement of changes in shareholders' equity for the year ended 31 December 2003.

10 Other Assets and Receivables

	2003	**2002**	**2001**
Receivables on operations with securities	41 663	62 966	24 872
Net investment in lease	26 328	12 243	10 189
Trade debtors and prepayments	26 287	10 065	14 471
Plastic card debtors and other settlements with clients	25 959	13 882	10 618
Precious metals	21 258	121	11 752
Conversion operations and derivative financial instruments	17 723	5 971	11 855
Receivables from related parties	10 252	94 919	64 990
Prepaid taxes	6 212	7 713	2 669
Settlement on disposal of subsidiary	3 000	-	-
Other	14 679	16 049	11 011
	193 361	**223 929**	**162 427**
Less: Provision for impairment of receivables	(7 752)	(1 875)	(4 082)
Total other assets and receivables	**185 609**	**222 054**	**158 345**

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

	Note	**2003**	**2002**	**2001**
Provision for impairment of receivables as at 1 January		**1 875**	**4 082**	**11 024**
Provision/(recovery of provision) for impairment of receivables during the year		6 130	(2 207)	1 174
Disposal of subsidiary	27	(253)	-	
Receivables written off during the year as uncollectible		-	-	(8 116)
Provision for impairment of receivables as at 31 December		**7 752**	**1 875**	**4 082**

As at 31 December 2003 precious metals include gold with a carrying value of USD 19 943 thousand (2002: nil; 2001: nil) that has been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

As at 31 December 2002 receivables from related parties included USD 48 000 thousand receivable from Alfa Finance Holdings S.A. with respect to a share capital contribution. This amount was fully paid to ABH Financial Limited in April 2003. Refer to Notes 13 and 16.

As at 31 December 2001 receivables from related parties included USD 56 400 thousand receivable from Alfa Finance Holdings S.A. with respect to a share capital contribution. This amount was fully paid in to ABH Financial Limited in March 2002. Refer to Notes 13 and 16.

Currency and maturity analyses of other assets and receivables are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

(expressed in thousands of US dollars - Note 3)

11 Premises and Equipment

	Premises	Leasehold improvements	Office and computer equipment	Intangible assets	Construction in progress	Total
Net book amount as at 31 December 2001	**42 869**	**7 204**	**41 971**	**16 863**	**4 376**	**113 283**
Cost or valuation						
Opening balance	47 866	7 798	70 889	21 913	4 376	152 842
Additions and transfers	5 935	831	15 653	9 402	3 579	35 400
Disposals	(686)	(2)	(7 315)	(277)	(2 757)	(11 037)
Translation movement	4 073	715	5 554	687	149	11 178
Closing balance	**57 188**	**9 342**	**84 781**	**31 725**	**5 347**	**188 383**
Accumulated depreciation						
Opening balance	4 997	594	28 918	5 050	-	39 559
Depreciation charge	1 419	679	9 462	2 847	-	14 407
Disposals	(4)	-	(4 446)	(97)	-	(4 547)
Translation movement	440	45	2 307	244	-	3 036
Closing balance	**6 852**	**1 318**	**36 241**	**8 044**	**-**	**52 455**
Net book amount as at 31 December 2002	**50 336**	**8 024**	**48 540**	**23 681**	**5 347**	**135 928**
Cost or valuation						
Opening balance	57 188	9 342	84 781	31 725	5 347	188 383
Additions and transfers	512	2 880	11 063	13 701	4 791	32 947
Disposals	(3 015)	(1 083)	(6 377)	(364)	-	(10 839)
Translation movement	4 082	739	5 884	854	325	11 884
Closing balance	**58 767**	**11 878**	**95 351**	**45 916**	**10 463**	**222 375**
Accumulated depreciation						
Opening balance	6 852	1 318	36 241	8 044	-	52 455
Depreciation charge	1 262	225	12 496	5 417	-	19 400
Disposals	(24)	(66)	(2 709)	(10)	-	(2 809)
Translation movement	556	57	2 671	324	-	3 608
Closing balance	**8 646**	**1 534**	**48 699**	**13 775**	**-**	**72 654**
Net book amount as at 31 December 2003	**50 121**	**10 344**	**46 652**	**32 141**	**10 463**	**149 721**

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

(expressed in thousands of US dollars - Note 3)

11 Premises and Equipment (Continued)

As at 31 December 2003 no premises and equipment were pledged to third parties. As at 31 December 2002 premises and equipment with the carrying value of USD 3 571 thousand (2001: USD 2 972 thousand) were pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organizations. Refer to Note 14.

12 Due to Other Banks

	2003	2002	2001
Term placements of other banks	369 465	280 815	65 642
Sale and repurchase agreements with other banks	289 341	164 434	36 133
Correspondent accounts of other banks			
- Russian Federation	70 725	158 405	181 226
- Other countries	66 770	68 466	57 524
Total due to other banks	**796 301**	**672 120**	**340 525**

Trading securities with a fair value of USD 319 126 thousand (2002: USD 136 772 thousand; 2001: USD 14 841 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

In addition, as at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 thousand (2002: USD 61 811 thousand; 2001: USD 32 932 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

Gold with a carrying value of USD 19 943 thousand (2002: nil; 2001: nil) has been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 10.

As at 31 December 2003 loans in the amount of USD 23 765 thousand (2002: nil; 2001: nil) have been pledged to third parties as collateral with respect to due to other banks. Refer to Note 8.

As at 31 December 2003 the estimated fair value of due to other banks was USD 796 301 thousand (2002: USD 672 120 thousand; 2001: USD 340 525 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23.

13 Customer Accounts

	2003	2002	2001
Commercial organisations			
- Current/settlement accounts	944 284	848 927	829 416
- Term deposits	1 076 782	268 846	51 145
Individuals			
- Current/demand accounts	331 236	233 529	179 186
- Term deposits	961 926	558 092	309 782
State and public organisations			
- Current/settlement accounts	7 817	53 585	61 520
- Term deposits	78 361	34 437	5 745
Total customer accounts	**3 400 406**	**1 997 416**	**1 436 794**

(expressed in thousands of US dollars - Note 3)

13 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2003		2002		2001	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Individuals	1 293 162	38	791 621	40	488 968	35
Energy and oil and gas	832 203	24	436 579	22	275 829	19
Manufacturing and construction	337 220	10	156 520	8	184 254	13
Trade and commerce	258 047	8	146 261	7	48 624	3
Finance and investment companies	173 278	5	229 432	11	248 990	17
State and public organisations	86 178	3	88 022	5	67 265	5
Mass media and telecommunications	70 447	2	80 995	4	93 345	6
Science	61 341	2	20 925	1	-	-
Other	288 530	8	47 061	2	29 519	2
Total customer accounts	**3 400 406**	**100**	**1 997 416**	**100**	**1 436 794**	**100**

As at 31 December 2003 the Group had 5 customers with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 906 962 thousand or 26.7% of the total customer accounts.

As at 31 December 2002 customer accounts included a balance of Alfa Finance Holdings S.A. in an amount of USD 55 760 thousand (2001: USD 97 880 thousand). As at 31 December 2002 a balance of USD 48 000 thousand (2001: USD 56 400 thousand) was blocked with respect to a contribution to share capital of the Group. Refer to Notes 10 and 16.

Included in customer accounts are balances in amount of USD 45 337 thousand (2002: USD 10 463 thousand; 2001: USD 7 897 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 31 December 2003 the estimated fair value of customer accounts was USD 3 400 406 thousand (2002: USD 1 997 416 thousand; 2001: 1 436 794 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

14 Other Borrowed Funds

	2003	2002	2001
Eurobonds	174 535	173 390	-
Syndicated loan	82 237	-	-
Euro-Commercial Papers	50 442	-	-
Russian Rouble denominated bonds	16 703	22 780	-
Loan from the Agency for Restructuring of Credit Organisations	-	15 930	30 687
US Commercial Paper Notes	-	-	20 644
Other	-	584	-
Total other borrowed funds	**323 917**	**212 684**	**51 331**

On 19 November 2002 the Group issued US Dollar denominated Eurobonds with a nominal value of USD 175 000 thousand. The bonds carry a fixed coupon at a rate of 10.75% per annum payable semi-annually and mature on 19 November 2005. The bonds have been issued at a discount of 0.5% to the nominal value and issue costs amounted to USD 3 032 thousand. Thus, net issue proceeds amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

(expressed in thousands of US dollars - Note 3)

14 Other Borrowed Funds (Continued)

On 5 December 2003 the Group received a syndicated loan in amount of USD 82 000 thousand from a consortium of large international banks. The loan matures on 24 November 2004 and bears a floating interest rate equal to LIBOR plus 2.4% per annum. As at 31 December 2003 the interest rate was 4.0% per annum.

On 11 December 2003 the Group established a Euro - Commercial Paper Programme (the "Programme"). The aggregate principal amount of outstanding notes issued under the Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more from 365 days. By 31 December 2003 the Group issued four tranches of US Dollar denominated notes with a total nominal amount of USD 51 550 thousand. The issued notes mature from March 2004 to June 2004 and carry a fixed coupon rate ranging from 4.2% to 5.0% per annum payable at maturity. The notes were issued at a discount to the nominal value ranging from 1.0% to 2.5%. Thus, net issue proceeds amounted to USD 50 318 thousand and the average effective interest rate at origination was 10.5%.

On 14 June 2002 the Group issued Russian Rouble denominated bonds maturing in June 2007 at a nominal value of RR 908 758 thousand. The bonds have a floating interest rate and the coupon is payable semi-annually. As at 31 December 2003 coupon was to be paid at an interest rate of 7.5% per annum. The Bank has issued an irrevocable offer to redeem the bonds at nominal value along with accrued interest on 11 June 2004.

As at 31 December 2003 the estimated fair value of other borrowed funds was USD 335 978 thousand (2002: USD 215 338 thousand; 2001: USD 52 607 thousand). Refer to Note 25

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 23.

15 Other Liabilities and Payables

	Note	2003	2002	2001
Payable on operations with securities		51 393	41 414	38 002
Accrued staff compensation expenses		49 254	43 160	41 058
Trade payables		29 796	12 479	4 699
Plastic card payables		15 568	13 079	7 934
Settlements with clients		9 738	518	34 833
Payable to related parties		9 499	7 298	4 874
Provision for losses on credit related commitments	24	7 782	9 462	3 937
Conversion operations and derivative financial instruments		7 005	2 708	8 782
Taxation payable		4 968	407	955
Other		16 514	15 486	9 597
Total other liabilities and payables		**201 517**	**146 011**	**154 671**

Currency and maturity analyses of other liabilities are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

16 Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

	2003		2002		2001	
	Number of shares	Nominal amount	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	160 800 000	160 800	160 800 000	160 800	112 800 000	112 800
Total share capital	**160 800 000**	**160 800**	**160 800 000**	**160 800**	**112 800 000**	**112 800**

(expressed in thousands of US dollars - Note 3)

16 Share Capital (Continued)

All shares have nominal value of USD 1 per share, rank equally and carry one vote.

The increase in share capital of USD 48 000 thousand during 2002 was authorised by the shareholders of ABH Financial Limited on 30 December 2002. As at 31 December 2002 this amount was blocked on the account of Alfa Finance Holdings S.A. with the Group in respect to the contribution (refer to Notes 10 and 13). This amount was fully paid to ABH Financial Limited in April 2003.

The increase in share capital of USD 56 400 thousand during 2001 was authorised by the shareholders of ABH Financial Limited on 30 December 2001. As at 31 December 2001 this amount was blocked on the account of Alfa Finance Holdings S.A. with the Group in respect to the contribution (refer to Notes 10 and 13). This amount was fully paid to ABH Financial Limited in March 2002.

17 Interest Income and Expense

	2003	2002	2001
Interest income			
Loans and advances to customers	403 393	311 824	188 773
Trading securities	55 713	24 202	14 806
Due from other banks	18 369	31 099	15 732
Total interest income	**477 475**	**367 125**	**219 311**
Interest expense			
Term deposits of individuals	57 899	41 174	16 886
Promissory notes issued	52 736	55 653	35 418
Term deposits of legal entities	45 952	4 318	15 285
Due to other banks	38 592	44 322	7 854
Other borrowed funds	24 249	8 253	7 626
Current/settlement accounts	23 062	23 412	25 146
Total interest expense	**242 490**	**177 132**	**108 215**
Net interest income	**234 985**	**189 993**	**111 096**

Refer to Note 26 for details of related party transactions.

(expressed in thousands of US dollars - Note 3)

18 Fee and Commission Income and Expense

	2003	2002	2001
Fee and commission income			
Commission on settlement transactions	51 595	40 058	40 897
Commission on cash and foreign exchange transactions	24 134	15 719	14 628
Commission for consulting services	12 537	3 175	4 409
Commission income from Alfa Eco Group	10 430	-	12 547
Commission on guarantees issued	9 916	13 846	9 603
Commission on transactions with securities	9 225	5 803	2 997
Commission income in relation to formation of TNK-BP Limited	4 015	-	-
Commission income from Golden Telecom	-	3 297	-
Commission income from the TNK Group	-	-	11 069
Commission income from Alfa Telecom Limited	-	-	4 400
Other	13 966	9 402	2 633
Total fee and commission income	**135 818**	**91 300**	**103 183**
Fee and commission expense			
Commission for consulting services	24 480	27 013	15 844
Commission on settlement transactions	5 162	8 518	8 193
Commission on cash and foreign exchange transactions	4 752	908	1 261
Commission on transactions with securities	3 672	933	1 312
Other	3 084	2 428	2 088
Total fee and commission expense	**41 150**	**39 800**	**28 698**
Net fee and commission income	**94 668**	**51 500**	**74 485**

During 2003 commission income in the amount of USD 10 430 thousand from Alfa Eco Group, a party related to the Group, represented fees in relation to significant investment transactions of Alfa Eco Group.

During 2003 commission income in relation to formation of TNK-BP Limited was received from a company jointly controlled by the Consortium and its joint venture partner, Access/Renova Group.

Commission income in 2001 from Alfa Eco Group, TNK Group and Alfa Telecom Limited relates mainly to advisory and other services provided by the Group to these related parties in assisting them with their acquisition of significant subsidiaries and associates. In 2002 commission income from these related parties was earned in the normal course of business and is reflected in the respective captions.

Refer to Note 26 for details of related party transactions.

(expressed in thousands of US dollars - Note 3)

19 Other Operating Income

	Note	2003	2002	2001
Structured debt operations		36 161	6 938	27 118
Leasing and other income on premises and equipment		6 825	5 719	1 647
Gains less losses from trading in precious metals		4 618	(2 285)	648
Gains from disposal of subsidiary	27	4 617	-	-
Income from insurance operations		4 001	4 468	5 249
Late charges on loans and other penalties		3 466	17 640	4 389
Dividend income		1 486	1 862	2 520
Negative goodwill amortisation		-	-	2 934
Other		4 070	11 808	7 905
Total other operating income		**65 244**	**46 150**	**52 410**

Structured debt operations represent operations with debts of other companies, which were acquired at a discount, and then settled at a higher value resulting in a gain for the Group. Gains from the structured debt operations for 2003 included a gain in the amount of USD 20 863 thousand from the restructuring of a debt of a large telecommunication company.

20 Operating Expenses

	2003	2002	2001
Staff costs	142 315	122 172	107 854
Depreciation and other expenses related to premises and equipment	26 932	17 850	23 911
Rent, heat and utilities	22 151	13 025	11 059
Taxes	20 770	22 620	7 510
Advertising and marketing	19 906	11 602	9 597
Maintenance	18 798	8 508	11 404
Consulting and professional services	13 462	19 551	13 057
Computer and telecommunications expenses	13 422	20 292	23 777
Travel expenses	3 608	4 217	2 721
Other	24 189	6 108	19 022
Total operating expenses	**305 553**	**245 945**	**229 912**

21 Income Taxes

Income tax expense comprises the following:

	2003	2002	2001
Current tax charge	7 875	2 453	1 357
Deferred taxation movement due to:			
- Origination and reversal of temporary differences	3 136	1 120	(12 452)
- Effect of reduction in tax rate	-	-	7 277
Income tax expense/(credit) for the year	**11 011**	**3 573**	**(3 818)**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

The statutory income tax rate applicable to the majority of the Bank's income is 24% (2002: 24%; 2001: 43%). Effective 1 January 2001, the statutory income tax rate was increased from 38% to 43%. A 24% statutory income tax rate was enacted in August 2001 and became effective starting from 1 January 2002. The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 5% (2002: from 0% to 5%; 2001: from 0% to 5%). A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002	2001
IFRS profit before tax	**116 726**	**108 199**	**82 230**
Theoretical tax charge at the applicable statutory rate (2003:24%, 2002: 24%; 2001: 43%)	28 014	25 968	35 359
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Difference in provisions in accordance with IFRS and statutory rules	(15 459)	(42 673)	(49 089)
- Non deductible expenses	5 943	13 091	22 491
- Income which is exempt from taxation	(2 211)	(62 141)	(34 660)
- (Gain)/Loss earned in tax free jurisdictions	(7 560)	21 481	18 095
- Negative taxable base which has no future income tax benefit	-	10 494	6 865
- Effect of change in statutory taxation legislation	-	41 304	-
- Other IFRS adjustments	8 607	(4 522)	2 601
Tax effect of loss used during 2003	(1 648)	-	-
Tax effect of loss carry forward	(4 675)	571	1 797
Effect of the change in tax rate	-	-	(7 277)
Income tax expense/(credit) for the year	**11 011**	**3 573**	**(3 818)**

Differences between IFRS and Russian and other countries' statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement of these temporary differences is recorded mainly at the rate of 24% (2002: 24%; 2001: 43%), except for income on state securities that is taxed at 15% (2002:15%; 2001: 15%).

	2002	Movement	2003
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	7 777	2 045	9 822
Tax loss carry forward	2 283	3 207	5 490
Accruals	876	3 034	3 910
Other	(257)	1 618	1 361
Gross deferred tax asset	**10 679**	**9 904**	**20 583**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(16 010)	(1 282)	(17 292)
Provision for loan impairment	(4 857)	5 310	453
Accruals	(124)	(9 802)	(9 926)
Other	-	(7 266)	(7 266)
Gross deferred tax liability	**(20 991)**	**(13 040)**	**(34 031)**
Total net deferred tax liability	**(10 312)**	**(3 136)**	**(13 448)**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

	2001	Movement	2002
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	6 080	1 697	7 777
Tax loss carry forward	3 009	(726)	2 283
Accruals	4 262	(3 386)	876
Other	1 775	(2 032)	(257)
Gross deferred tax asset	**15 126**	**(4 447)**	**10 679**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(12 826)	(3 184)	(16 010)
Provision for loan impairment	(9 453)	4 596	(4 857)
Accruals	(2 039)	1 915	(124)
Gross deferred tax liability	**(24 318)**	**3 327**	**(20 991)**
Total net deferred tax liability	**(9 192)**	**(1 120)**	**(10 312)**

	2000	Movement	2001
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	6 008	72	6 080
Tax loss carry forward	7 188	(4 179)	3 009
Accruals	6 335	(2 073)	4 262
Other	1 586	189	1 775
Gross deferred tax asset	**21 117**	**(5 991)**	**15 126**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(13 501)	675	(12 826)
Provision for loan impairment	(19 928)	10 475	(9 453)
Accruals	(2 055)	16	(2 039)
Gross deferred tax liability	**(35 484)**	**11 166**	**(24 318)**
Total net deferred tax liability	**(14 367)**	**5 175**	**(9 192)**

Deferred income tax assets are recorded for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

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

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

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment

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 two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

Funds are ordinarily reallocated between segments free of charge. There are no material items of income or expense between the business segments.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2003, 31 December 2002 and 31 December 2001 is set out below:

2003	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**554 123**	**213 363**	**-**	**767 486**
Segment results	**219 605**	**201 754**	**-**	**421 359**
Unallocated costs				(305 553)
Share of results of associated company after tax				920
Profit before tax				**116 726**
Income tax expense				(11 011)
Profit after tax				**105 715**
Minority interest				(96)
Net profit				**105 619**
Total assets	**4 911 911**	**1 179 505**	**(207 282)**	**5 884 134**
Total liabilities	**5 103 637**	**434 174**	**(207 282)**	**5 330 529**
Other segment items				
Capital expenditure	(30 500)	(2 447)	-	(32 947)
Depreciation expense	(17 959)	(1 441)	-	(19 400)
Other non-cash income/(expenses)	(43 919)	(2 600)	-	(46 519)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	7 104	-	7 104
Effect of change in accounting treatment of investment in associated company	-	(34 460)	-	(34 460)

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

2002	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**474 327**	**120 312**	**-**	**594 639**
Segment results	**227 295**	**109 267**	**-**	**336 562**
Unallocated costs				(245 945)
Monetary gain				17 582
Profit before tax				**108 199**
Income tax expense				(3 573)
Profit after tax				**104 626**
Minority interest				(36)
Net profit				**104 590**
Total assets	**3 375 167**	**865 397**	**(122 374)**	**4 118 190**
Total liabilities	**3 555 751**	**250 142**	**(122 374)**	**3 683 519**
Other segment items				
Capital expenditure	(31 860)	(3 540)	-	(35 400)
Depreciation expense	(12 966)	(1 441)	-	(14 407)
Other non-cash income/(expenses)	(42 105)	106	-	(41 999)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	34 947	-	34 947

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

2001	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**359 450**	**87 467**	**-**	**446 917**
Segment results	**186 104**	**78 162**	**-**	**264 266**
Unallocated costs				(229 912)
Monetary gain				47 876
Profit before tax				**82 230**
Income tax credit				3 818
Profit after tax				**86 048**
Minority interest				(631)
Net profit				**85 417**
Total assets	**2 286 756**	**549 033**	**(110 155)**	**2 725 634**
Total liabilities	**2 473 789**	**80 378**	**(110 155)**	**2 444 012**
Other segment items				
Capital expenditure	(31 112)	(3 457)	-	(34 569)
Depreciation expense	(9 052)	(1 006)	-	(10 058)
Other non-cash income/(expenses)	(17 328)	(16 180)	-	(33 508)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	38 284	-	38 284

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2003, 31 December 2002 and 31 December 2001.

2003	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	460 975	289 833	19 045	152 527	811	923 191
Mandatory cash balances with the CBRF and other local central banks	278 976	13 623	695	-	-	293 294
Trading securities	626 495	15 213	8 689	4 136	40 042	694 575
Due from other banks	94 149	19 408	14 895	3 169	-	131 621
Loans and advances to customers	3 266 180	39 371	129 238	5 891	-	3 440 680
Investments	65 443	-	-	-	-	65 443
Other assets and receivables	134 117	43 424	7 087	-	981	185 609
Premises and equipment	136 356	985	12 380	-	-	149 721
Total assets	**5 062 691**	**421 857**	**192 029**	**165 723**	**41 834**	**5 884 134**
Liabilities						
Due to other banks	273 496	423 786	95 919	87	3 013	796 301
Customer accounts	3 216 110	97 450	86 711	135	-	3 400 406
Promissory notes issued	585 726	-	9 214	-	-	594 940
Other borrowed funds	16 703	307 214	-	-	-	323 917
Other liabilities and payables	130 028	51 505	11 959	-	8 025	201 517
Deferred tax liability	13 448	-	-	-	-	13 448
Total liabilities	**4 235 511**	**879 955**	**203 803**	**222**	**11 038**	**5 330 529**
Net balance sheet position as at 31 December 2003	**827 180**	**(458 098)**	**(11 774)**	**165 501**	**30 796**	**553 605**

2002	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	229 193	87 018	5 847	59 719	457	382 234
Mandatory cash balances with the CBRF and other local central banks	213 524	226	502	-	-	214 252
Trading securities	369 977	4 335	26 075	-	15 851	416 238
Due from other banks	171 414	31 516	5 974	2 438	-	211 342
Loans and advances to customers	2 325 323	5 724	95 605	735	12 979	2 440 366
Investments available for sale	94 776	-	1 000	-	-	95 776
Other assets and receivables	160 083	32 690	29 231	-	50	222 054
Premises and equipment	126 206	670	9 052	-	-	135 928
Total assets	**3 690 496**	**162 179**	**173 286**	**62 892**	**29 337**	**4 118 190**
Liabilities						
Due to other banks	318 473	200 304	103 342	12 286	37 715	672 120
Customer accounts	1 809 623	55 214	58 747	31 667	42 165	1 997 416
Promissory notes	638 489	-	6 487	-	-	644 976
Other borrowed funds	39 457	173 227	-	-	-	212 684
Other liabilities and payables	82 643	56 250	6 698	-	420	146 011
Deferred tax liability	10 312	-	-	-	-	10 312
Total liabilities	**2 898 997**	**484 995**	**175 274**	**43 953**	**80 300**	**3 683 519**
Net balance sheet position as at 31 December 2002	**791 499**	**(322 816)**	**(1 988)**	**18 939**	**(50 963)**	**434 671**

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

2001	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	304 109	38 090	28 855	86 696	1 024	458 774
Mandatory cash balances with the CBRF and other local central banks	140 288	226	1 539	-	-	142 053
Trading securities	149 294	-	4 601	-	3 233	157 128
Due from other banks	38 530	84 781	1 386	-	-	124 697
Loans and advances to customers	1 304 775	1 364	63 810	15 057	49 168	1 434 174
Investments available for sale	126 319	-	10 861	0	-	137 180
Other assets and receivables	114 220	20 777	2 401	19 494	1 453	158 345
Premises and equipment	105 574	557	7 152	-	-	113 283
Total assets	**2 283 109**	**145 795**	**120 605**	**121 247**	**54 878**	**2 725 634**
Liabilities						
Due to other banks	198 426	93 805	48 007	287	-	340 525
Customer accounts	1 326 003	57 814	28 054	805	24 118	1 436 794
Promissory notes	385 994	60 904	4 601	-	-	451 499
Other borrowed funds	30 687	20 644	-	-	-	51 331
Other liabilities and payables	93 439	59 573	1 659	-	-	154 671
Deferred tax liability	9 192	-	-	-	-	9 192
Total liabilities	**2 043 741**	**292 740**	**82 321**	**1 092**	**24 118**	**2 444 012**
Net balance sheet position as at 31 December 2001	**239 368**	**(146 945)**	**38 284**	**120 155**	**30 760**	**281 622**

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies as at 31 December 2003, 31 December 2002 and 31 December 2001.

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

The majority of the Group’s revenues are generated from counterparties that are of Russian origin.

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

23 Financial Risk Management

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

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

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

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

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

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

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

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

Geographical risk. Refer to Note 22 for the geographical analysis of the Groups' assets and liabilities.

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values. As at 31 December 2003 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	293 596	372 767	242 111	14 717	923 191
Mandatory cash balances with the CBRF and other local central banks	-	278 976	13 623	695	293 294
Trading securities	566 228	101 528	23 973	2 846	694 575
Due from other banks	60 859	65 876	3 321	1 565	131 621
Loans and advances to customers	1 997 240	1 305 161	101 744	36 535	3 440 680
Investments	65 443	-	-	-	65 443
Other assets and receivables	105 656	44 356	10 863	24 734	185 609
Premises and equipment	-	136 356	985	12 380	149 721
Total assets	**3 089 022**	**2 305 020**	**396 620**	**93 472**	**5 884 134**
Liabilities					
Due to other banks	515 948	225 587	30 014	24 752	796 301
Customer accounts	1 652 194	1 453 457	275 640	19 115	3 400 406
Promissory notes issued	171 661	394 669	28 610	-	594 940
Other borrowed funds	307 214	16 703	-	-	323 917
Other liabilities and payables	164 390	22 523	7 345	7 259	201 517
Deferred tax liability	-	13 448	-	-	13 448
Total liabilities	**2 811 407**	**2 126 387**	**341 609**	**51 126**	**5 330 529**
Net balance sheet position	**277 615**	**178 633**	**55 011**	**42 346**	**553 605**
Off-balance sheet net notional position (Note 24)	**(34 973)**	**(26 026)**	**70 659**	**374**	**10 034**
Credit related commitments (Note 24)	**541 296**	**93 694**	**60 531**	**784**	**696 305**

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

As at 31 December 2002 the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
Net balance sheet position	**464 681**	**14 423**	**(22 022)**	**(22 411)**	**434 671**
Off-balance sheet net notional position	**(13 814)**	**6 254**	**(484)**	**9 366**	**1 322**
Credit related commitments (Note 24)	**713 032**	**14 095**	**23 072**	**1 342**	**751 541**

As at 31 December 2001, the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
Net balance sheet position	**207 007**	**22 975**	**18 626**	**33 014**	**281 622**
Off-balance sheet net notional position	**20 485**	**(82 690)**	**3 120**	**63 706**	**4 621**
Credit related commitments (Note 24)	**759 457**	**4 213**	**24 599**	**2 156**	**790 425**

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

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

The table below shows assets and liabilities as at 31 December 2003 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	923 191	-	-	-	-	923 191
Mandatory cash balances with the CBRF and other local central banks	293 294	-	-	-	-	293 294
Trading securities	694 575	-	-	-	-	694 575
Due from other banks	120 298	885	10 438	-	-	131 621
Loans and advances to customers	170 325	956 856	1 405 910	907 589	-	3 440 680
Investments	-	-	-	-	65 443	65 443
Other assets and receivables	97 553	47 146	5 539	14 113	21 258	185 609
Premises and equipment	-	-	-	-	149 721	149 721
Total assets	**2 299 236**	**1 004 887**	**1 421 887**	**921 702**	**236 422**	**5 884 134**
Liabilities						
Due to other banks	616 669	132 485	33 689	13 458	-	796 301
Customer accounts	1 751 938	1 322 406	286 524	39 538	-	3 400 406
Promissory notes issued	181 361	256 652	140 258	16 669	-	594 940
Other borrowed funds	-	59 452	90 746	173 719	-	323 917
Other liabilities and payables	158 853	37 149	1 017	4 498	-	201 517
Deferred tax liability	-	-	-	-	13 448	13 448
Total liabilities	**2 708 821**	**1 808 144**	**552 234**	**247 882**	**13 448**	**5 330 529**
Net liquidity gap as at 31 December 2003	**(409 585)**	**(803 257)**	**869 653**	**673 820**	**222 974**	**553 605**
Cumulative liquidity gap as at 31 December 2003	**(409 585)**	**(1 212 842)**	**(343 189)**	**330 631**	**553 605**	
Cumulative liquidity gap as at 31 December 2002	**(683 213)**	**(759 612)**	**(264 156)**	**184 306**	**434 671**	
Cumulative liquidity gap as at 31 December 2001	**(647 286)**	**(506 492)**	**(135 828)**	**4 291**	**281 622**	

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

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

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

23 Financial Risk Management (Continued)

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.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Executive Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	923 191	-	-	-	-	923 191
Mandatory cash balances with the CBRF and other local central banks	293 294	-	-	-	-	293 294
Trading securities	653 159	-	-	-	41 416	694 575
Due from other banks	120 298	885	10 438	-	-	131 621
Loans and advances to customers	170 325	956 856	1 405 910	907 589	-	3 440 680
Investments	-	-	-	-	65 443	65 443
Other assets and receivables	97 553	47 146	5 539	14 113	21 258	185 609
Premises and equipment	-	-	-	-	149 721	149 721
Total assets	**2 257 820**	**1 004 887**	**1 421 887**	**921 702**	**277 838**	**5 884 134**
Liabilities						
Due to other banks	616 669	132 485	33 689	13 458	-	796 301
Customer accounts	1 751 938	1 322 406	286 524	39 538	-	3 400 406
Promissory notes issued	181 361	256 652	140 258	16 669	-	594 940
Other borrowed funds	-	158 392	8 509	157 016	-	323 917
Other liabilities and payables	158 853	37 149	1 017	4 498	-	201 517
Deferred tax liability	-	-	-	-	13 448	13 448
Total liabilities	**2 708 821**	**1 907 084**	**469 997**	**231 179**	**13 448**	**5 330 529**
Net sensitivity gap as at 31 December 2003	**(451 001)**	**(902 197)**	**951 890**	**690 523**	**264 390**	**553 605**
Cumulative sensitivity gap as at 31 December 2003	**(451 001)**	**(1 353 198)**	**(401 308)**	**289 215**	**553 605**	
Cumulative sensitivity gap as at 31 December 2002	**(743 712)**	**(821 236)**	**(318 909)**	**153 597**	**434 671**	

As at 31 December 2001 the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities did not differ significantly from the maturity analysis as at 31 December 2001 presented in these consolidated financial statements.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

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

	2003			
	USD	RR	Euro	Other currencies
Assets				
Correspondent accounts and overnight placements with other banks	4.0%	2.3%	2.3%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%
Debt trading securities	7.5%	11.1%	5.7%	5.1%
Due from other banks	3.7%	4.3%	6.5%	5.0%
Loans and advances to customers	11.9%	16.1%	9.6%	14.2%
Liabilities				
Due to other banks	3.2%	7.1%	3.8%	1.0%
Customer accounts				
- current and settlement accounts	1.8%	0.5%	0.2%	0.0%
- term deposits	3.9%	6.2%	3.3%	4.8%
Promissory notes issued	4.0%	12.5%	2.7%	-
Other borrowed funds	9.6%	7.5%	-	-

	2002			
	USD	RR	Euro	Other currencies
Assets				
Correspondent accounts and overnight placements with other banks	5.9%	16.2%	0.0%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%
Debt trading securities	8.8%	14.1%	-	-
Due from other banks	4.3%	14.5%	3.1%	14.5%
Loans and advances to customers	13.2%	20.1%	11.4%	14.0%
Liabilities				
Due to other banks	3.3%	12.3%	5.4%	5.0%
Customer accounts				
- current and settlement accounts	2.1%	2.3%	2.1%	2.3%
- term deposits	6.1%	10.2%	6.1%	10.2%
Promissory notes issued	6.1%	15.6%	3.0%	15.6%
Other borrowed funds	12.0%	17.6%	-	17.0%

	2001			
	USD	RR	Euro	Other currencies
Assets				
Correspondent accounts and overnight placements with other banks	5.5%	23.0%	7.0%	6.8%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%
Debt trading securities	10.8%	22.7%	-	-
Due from other banks	2.0%	13.0%	8.0%	6.8%
Loans and advances to customers	15.2%	21.1%	12.5%	14.0%
Liabilities				
Due to other banks	6.0%	9.6%	5.2%	7.3%
Customer accounts				
- current and settlement accounts	2.1%	2.4%	2.1%	-
- term deposits	9.5%	13.2%	6.2%	10.0%
Promissory notes	10.5%	11.6%	5.8%	-
Other borrowed funds	6.3%	17.0%	-	-

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

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. In February 2002, Norex Petroleum Limited, a Cypriot company, filed a lawsuit against the Bank, Alfa Capital Markets (USA) and certain other defendants related to the Group in the United States District Court for the Southern District of New York over the ownership of a company which is currently owned by TNK Industrial Holdings Limited. The Group believes that it has substantial defences to jurisdiction and venue in the United States, and it has filed a comprehensive motion to dismiss the complaint. Also, the Group believes that the allegations in the complaint are without merit and intends to vigorously defend this action. Management does not expect to incur any material future losses in relation to this lawsuit. Refer to Note 28.

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

The Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2003 no provision for potential tax liabilities had been recorded (2002: no provision; 2001: no provision).

Capital commitments. As at 31 December 2003 the Group had capital commitments in respect of new computer systems in the amount of USD 6 687 thousand (2002: USD 13 287 thousand; 2001: USD 8 600 thousand)) and new retail business in the amount of USD 5 169 thousand (2002: nil; 2001: nil). In addition, other capital commitments amounted to USD 6 793 thousand (2002: USD 4 434 thousand; 2001: nil). The Group's Management has already allocated the necessary resources in respect of these commitments. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

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

	2003	**2002**	**2001**
Not later than 1 year	11 700	10 876	8 568
Later than 1 year and not later than 5 years	31 614	15 965	-
Later than 5 years	11 025	5 210	-
Total operating lease commitments	**54 339**	**32 051**	**8 568**

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (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 are as follows:

	Note	2003	2002	2001
Guarantees issued		387 073	538 946	620 298
Export letters of credit		241 843	191 712	149 283
Import letters of credit	13	75 171	30 345	24 781
Less: provision for losses on credit related commitments	15	(7 782)	(9 462)	(3 937)
Total credit related commitments		**696 305**	**751 541**	**790 425**

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.

In May 2001 the Group entered into a performance guarantee in which it partially guaranteed TNK's payment of USD 510 000 thousand in respect of TNK's acquisition of 40% of Sidanko. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. As at 31 December 2001 25% of the Bank's statutory capital amounted to approximately USD 184 780 thousand. This amount was included within total guarantees issued as at 31 December 2001. Payments, that were guaranteed by the Group, were completed by TNK by the end of February 2002. No payments were made by the Group with respect to this guarantee.

In August 2001, with respect to an additional acquisition of 44% of Sidanko by TNK, the Group partially guaranteed TNK's payment of USD 726 000 thousand. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. As at 31 December 2002 25% of the Bank's statutory capital was approximately USD 173 936 thousand (2001: USD 184 780 thousand). Respective amounts were included within total guarantees issued as at 31 December 2002 and 31 December 2001. Payments, which were guaranteed by the Group, were completed by TNK during 2003. No payments were made by the Group with respect to this guarantee.

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

	2003	2002	2001
Provision for losses on credit related commitments as at 1 January	**9 462**	**3 937**	**8 945**
(Release of provision)/Provision for losses on credit related commitments during the year	(1 680)	5 525	(5 008)
Provision for losses on credit related commitments as at 31 December	**7 782**	**9 462**	**3 937**

Derivative financial instruments. Foreign exchange and other off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2003. These contracts were entered mainly into in December 2003 and are short term in nature.

	Domestic			**Foreign**		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	112 594	(170)	63	287 804	(187)	141
- purchase of foreign currency	134 164	(68)	305	253 781	(19)	2 238
Securities						
- sale of securities	369 447	(1 592)	6 380	119 172	(1 460)	907
- purchase of securities	48 645	-	1 542	9 847	-	499
Precious metals						
- sale of precious metals	-	-	-	1 161	-	4
- purchase of precious metals	-	-	-	20 393	(86)	1 008
Spot						
Foreign currency						
- sale of foreign currency	129 805	(408)	356	80 493	(6)	247
- purchase of foreign currency	237 241	(425)	795	38 905	(37)	7
Total		**(2 663)**	**9 441**		**(1 795)**	**5 051**

For these deals the Group has recorded a net gain of USD 2 832 thousand which is included within gains less losses arising from trading in foreign currency, a net gain of USD 6 276 thousand which is included within gains less losses arising from trading securities and a net gain of USD 926 thousand which is included within gains less losses arising from trading in precious metals within other operating income.

Deliverable forward positions in securities as at 31 December 2003 are summarized below. As at 31 December 2003 respective securities long balance sheet positions of the Group exceeded respective securities short deliverable forward positions. Refer to Note 6.

	2003	
	Sale Fair value	**Purchase Fair value**
Eurobonds of RF	263 548	-
Corporate Eurobonds	149 388	48 645
Eurobonds of other states	33 867	9 847
Corporate bonds	29 841	-
Municipal bonds	7 691	-
Other	4 284	-
Total	**488 619**	**58 492**

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Refer to Note 26 for information on a call option received by the Group from a related party.

In addition, the Group has some outstanding forward foreign exchange contracts which were entered into prior to 17 August 1998 and matured during 1998 but have not yet been settled. The Group has been able to settle outstanding contracts with a few counterparties and any resultant gains or losses have been recorded in the consolidated statement of income. The Group has calculated the exposure on the outstanding contracts using the exchange rates ruling on the maturity dates of the contracts as the Group has historically settled domestic derivatives in Russian Roubles. Principal or agreed amount of contracts for which the date of maturity is past due and no settlement had been completed as of 31 December 2001 amounted to USD 163 300 thousand for purchase of foreign currency with total gains of USD 30 991 thousand and USD 158 000 thousand for sale of foreign currency with total losses of USD 35 592 thousand. The Group's net loss after fully providing for receivables as at 31 December 2001 with respect of contracts entered into during 1998 is equal to USD 30 942 thousand.

The Civil Code of the Russian Federation stipulates a three year period for commencing action to enforce contracts. This period expired during 2001. On the basis of independent external legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, Management is of the opinion that these contracts with domestic banks are no longer legally enforceable, and that therefore no losses will arise for the Bank as a result of these contracts. Management of the Bank has therefore not recorded any liabilities in respect of these contracts in the financial statements of the Bank for the years ended 31 December 2002 and 31 December 2001. Previously recorded liabilities under these contracts, amounting to USD 2 000 thousand as at 31 December 2000 have been derecognised.

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

	2003 Nominal value	2002 Nominal value	2001 Nominal value
Shares in companies held in custody	225 694	212 879	98 768
Corporate bonds held in custody	153 355	64 574	-
Promissory notes of companies held in custody	103 425	275 294	-
Eurobonds	43 151	135 450	14 700
OVGVZ held on account with Vneshtorgbank	31 162	40 343	50 988
Client OFZ securities held on an account with NDC	15 131	18 521	28 091
Other	200	2 842	400

Assets pledged. As at 31 December 2003 the Group has the following assets pledges as collateral:

	Notes	2003	2002	2001
Trading securities	6, 12	319 126	136 772	14 841
Loans and advances to customers	8, 12, 14	23 765	50 000	115 000
Precious metals	10, 12	19 943	-	-
Investments	9, 14	-	5 227	5 704
Premises and equipment	11, 14	-	3 571	2 972
Total		**362 834**	**195 570**	**138 517**

As at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 thousand (2002: USD 61 811 thousand; 2001: USD 32 932 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 293 294 thousand (2002: USD 214 252 thousand; 2001: USD 142 053 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

As at 31 December 2002 and 31 December 2001 25% of the Bank's shares were pledged to the Agency for Restructuring of Credit Organizations in relation to a loan from this organization (refer to Note 14). The pledge gave the creditor voting rights, but not an economic interest in the Bank. This loan was repaid during 2003.

25 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 a quoted market price.

The estimated fair values of financial instruments have been determined by Management 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. As described in more detail in Note 2, the economy of the Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used the best available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investments available for sale are carried on the consolidated balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investments available for sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Loans originated carried at amortised cost less provision for impairment. 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. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortized cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively. As at 31 December 2003 the estimated fair value of promissory notes issued was USD 596 068 thousand (2002: USD 643 462 thousand; 2001: USD 451 499 thousand).

Derivative financial instruments. All derivative financial instruments are carried at fair value as asset when the fair value is positive and as a liability when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 24.

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions

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

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

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

	2003			2002		
	TNK	**Alfa Group Consortium (Note 1)**	**Other**	**TNK**	**Alfa Group Consortium (Note 1)**	**Other**
Trading securities as at the year end	7 180	25 919	-	29 635	32 558	-
Loans and advances to customers as at the year end	**52 369**	**48 843**	**3 270**	**120 733**	**343 639**	**439**
USD, effective contractual rate of 10.7% - 12.5%	2 200	45 093	2 964	-	3 569	-
USD, effective contractual rate of 12.6-14.0%	-	-	-	77 651	13 000	-
USD, effective contractual rate of 14.1%-18.0%	-	2 500	-	2 181	316 702	-
RUR, effective contractual rate of 2.5% - 6.5%	48 328	-	-	40 901	-	-
RUR, effective contractual rate of 13.0% - 19.0%	1 229	-	306	-	-	-
RUR, effective contractual rate of 23.0%-25.0%	-	-	-	-	10 359	439
RUR, effective contractual rate of 30.0%	-	-	-	-	9	-
EUR, effective contractual rate of 10.8%	612	1 250	-	-	-	-
Interest income for the year (based on effective contractual interest rates)	5 894	31 618	397	12 660	39 229	105
Receivables as at the year end	-	10 252	-	39 480	55 439	-
Customer accounts						
Current/settlement accounts as at the year end	**117 031**	**108 820**	**9 825**	**77 019**	**41 033**	**4 097**
RUR, effective contractual rate of 0.0-2.0%	97 847	34 226	6 766	35 474	9 427	3 736
USD, effective contractual rate of 0.0-2.0%	5 803	74 518	3 059	39 804	31 597	361
EUR, effective contractual rate of 0.0-2.0%	13 381	76	-	1 741	9	-
Term deposits as at the year end	**36 659**	**290 646**	**-**	**2 983**	**57 003**	**14**
RUR, effective contractual rate of 5.0% - 12.5%	4 295	34	-	2 983	55	14
USD, effective contractual rate of 2.5% - 4.3%	32 364	290 612	-	-	11	-
USD, effective contractual rate of 7.0%	-	-	-	-	56 937	-
Interest expense for the year (based on effective contractual interest rates)	3 822	4 131	-	8 868	1 593	-

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions (Continued)

	2003			2002		
	TNK	Alfa Group Consortium (Note 1)	Other	TNK	Alfa Group Consortium (Note 1)	Other
Promissory notes issued as at the year end	**5 694**	**44 288**	**-**	**52 625**	**35 278**	**-**
RUR, effective contractual interest rate of 0.0%	3 019	83	-	-	-	-
RUR, effective contractual interest rate of 5.0% - 11.0%	1 732	422	-	-	-	-
RUR, effective contractual interest rate of 12.0% - 19.0%	943	-	-	5	-	-
USD, effective contractual interest rate of 4.1%-7.7%	-	43 783	-	52 620	35 278	-
Payables as at the year end	-	7 154	8 341	2 055	4 424	1 619
Guarantees issued by the Group as at the year end	45 119	-	885	218 223	500	-
Import letters of credit as at the year end	13 536	-	-	-	-	-
Export letters of credit as at the year end	-	-	-	-	2 321	-
Fee and commission income for the year	6 591	13 741	4 015	15 087	7 756	-
Fee and commission expense for the year	997	687	-	1 062	3 686	-
Other income for the year	775	1 351	-	-	218	-
Other expenses for the year	-	5 788	320	-	719	-

The information concerning related party transactions for the year ended 31 December 2001 is set out below:

	2001
Loan to customers	
Loans outstanding as at the year end	388 397
Interest income	29 215
Receivables	64 990
Customer accounts	
Balance outstanding as at the year end	169 464
Interest expense	6 522
Promissory notes	22 918
Payables	4 874
Guarantees issued by the Group as at the year end	433 263
Letters of credit as at the year end	4 674
Fee and commission income for the year	30 632
Fee and commission expense for the year	2 372
Other income	5 185
Other expenses	121

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions (Continued)

In December 2002 the Group sold a construction company, Siracuse, an investment available for sale, to TNK, a significant associated company of Alfa Group Consortium for USD 39 345 thousand payable by instalments by the end of May 2003. Sale proceeds were received by the Group in full by the end of May 2003.

In November 2002 Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., granted to the Group for no consideration a call option (the "Option") representing the right of the Group to acquire an interest of up to 6% in Golden Telecom Inc, an associated company of Alfa Telecom Limited. The Option was exercisable in whole or in part at any time until 11 May 2004. In December 2003 Alfa Telecom Limited and the Group agreed to cancel the Option and Alfa Telecom Limited paid to the Group a cancellation fee of USD 25 000 thousand approximating the fair value of the Option as at the date of the Option cancellation. The gain received under the transaction was recorder directly in shareholders' equity as a contribution from the shareholder.

For the year ended 31 December 2003 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 9 987 thousand (2002: USD 5 504 thousand; 2001: USD 5 746 thousand). Accrued remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 5 996 thousand (2002: USD 800 thousand; 2001: nil).

27 Principal Consolidated Subsidiaries

Russian Federation and CIS	Rest of the World
Alfa Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Bank Ukraine	Alfa-Russia Finance B.V. (Netherlands)
Alfa Capital Asset Management	Alfa Securities Limited (UK)
Alfa Leasing	Amsterdam Trade Bank (Netherlands)
Ostra Kiev Insurance Company (Ukraine) (disposed in December 2003)	Manwood Limited (Isle of Man)
	Tormead Marketing Limited (Isle of Man)
	Westlaw Incorporated (Nevis, West Indies)

As at 31 December 2003 all principal consolidated subsidiaries of the Group, except for Alfa Bank Ukraine (94.7% owned and controlled), were wholly owned and controlled by the Group.

In December 2003 the Group disposed for USD 7 000 thousand its entire interest in Ostra Kiev Insurance Company and recorded a gain of USD 4 617 thousand on this transaction.

In March 2001 the Group purchased a 100% stake in Amsterdam Trade Bank N.V. The acquisition cost, including new capital injection, was USD 10 100 thousand. This transaction was accounted for by the purchase method.

28 Subsequent Events

Norex litigation. On 18 February 2004 the Group received a ruling from the United States District Court for the Southern District of New York dismissing the litigation on the basis of "forum non convenience".

ABH Financial Limited ownership and control restructuring. On 1 March 2004 the Supervisory Board of the Consortium decided to restructure ownership and control over ABH Financial Limited to comply with the new Russian Federation Federal Law on Deposit Insurance which establishes specific requirements for the ownership structure of banking institutions wishing to participate in the Russian Federation deposit insurance program. The restructuring is to be completed during 2004.

AUDITORS' REPORT — MARCH 2004

The following is the text of a report (translated into English) received by the Shareholders of Alfa Bank in respect of the financial year ended 31 December 2003, prepared by the Auditors of Alfa Bank:

"AUDIT REPORT"

ON THE FAIRNESS OF THE BOOKS (FINANCIAL STATEMENTS) OF OPEN JOINT-STOCK COMPANY "ALFA-BANK" BASED ON THE OPERATING RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003.

The audit of the books (financial statements) of Open Joint Stock Company "Alfa-Bank" (hereinafter, "OAO ALFA-BANK") for 2003 has been performed by ZAO BDO Unicon, legal successor to ZAO "BDO UniconRuf" (state registration certificate of amendments to the constituent documents of a legal entity, series 77, No. 006871546, dated 17 September 2003), pursuant to contract No. 10102-05-440/03 dated 22 December 2003 made with ZAO "BDO UniconRuf", based on the resolution of the annual general meeting of shareholders of OAO ALFA-BANK to approve ZAO "BDO UniconRuf" as the official auditor (minutes No. 04-2003 dated 30 June 2002).

The audit was conducted from 22 December 2003 to 31 March 2004.

Brief information on ZAO BDO Unicon

The BDO Unicon is registered with Moscow City Southern Administrative District Inspectorate No. 26 of the Ministry for Taxes and Collections of the Russian Federation.

Certificate of entry in the Unified State Register of Legal Entities, series 77, No. 006871546, dated 17 September 2003, principal state registration number 1037739271701.

Mailing Address: 125 Varshavskoye shosse, Moscow 117545

Telephone: (095) 319 4656, 319 6636

Telephone/Fax: (095) 319 5909

E-mail: reception@bdo.ru

Web: www.bdo.ru

General Director: Andrey Yurievich Dubinskiy

ZAO BDO Unicon holds licence No. E 000547 dated 25 June 2002 to engage in audit activities issued by the Finance Ministry of the Russian Federation, valid until 24 June 2007.

ZAO BDO Unicon is an independent national audit and consulting company forming part of the BDO international network and using exclusive rights to provide services to clients under the BDO trademark.

ZAO BDO Unicon is a full member of the Institute of Professional Auditors (IPAR), a professional association of auditors accredited with the Finance Ministry of the Russian Federation pursuant to order No. 145 dated 16 July 2002.

The authorised signatory of this audit report shall be Andrey Vladimirovich Tamarin, Deputy General Director, pursuant to power of attorney No. 1 dated 13 January 2004.

The audit of OAO ALFA-BANK was supervised by the auditor Vladimir Mikhailovich Volkov, Audit Director.

The following members of staff of ZAO BDO Unicon took part in the audit:

Petr Nikolayevich Romanov — Qualification Certificate No. K 00744 to engage in bank audits, issued pursuant to a resolution of the Central Certification and Licencing Audit Commission of the Central Bank of the Russian Federation (minutes No. 4 dated 26 July 1999) issued for an indefinite term by way of exchange as at 26 August 2002;

Andrey Alexandrovich Kotovsky — Qualification Certificate No. K 007492 to engage in bank audits, issued pursuant to a resolution of the Central Certification and Licencing Audit Commission of the Central Bank of the Russian Federation (minutes No. 5 dated 30 July 1997) issued for an indefinite term by way of exchange as at 5 September 2003

Brief information on OAO ALFA-BANK

Full name of the lending organisation: Open Joint-Stock Company "ALFA-BANK".

Abbreviated name of the lending organisation: ALFA-BANK.

OAO ALFA-BANK is registered by the Central Bank of the Russian Federation in the form of an open joint stock company on 29 January 1998, registration number 1326.

OAO ALFA-BANK is entered into the Unified State Register of Legal Entities, certificate issued by the Ministry for Taxes and Collections of the Russian Federation, series 77, No. 007893219, dated 17 September 2003. The principal state registration number is 1027700067328.

OAO ALFA-BANK operates pursuant to the charter of Open Joint-Stock Company "ALFA-BANK", approved by the General Meeting of Shareholders (minutes No. 02-2002 dated 27 June 2002). The charter was approved by MGTU of the Central Bank of the Russian Federation on 28 June 2002.

In 2003, OAO ALFA-BANK operated on the basis of the following licences:

- general banking licence No. 1326 dated 29 January 1998 for banking operations in Rubles and foreign exchange;
- licence No. 1326 dated 29 January 1998 for the right to borrow and lend precious metals;
- licences of a professional participant of the securities market with no expiration date:
- No. 177-03574-010000 to engage in dealing dated 7 December 2000;
- No. 177-03471-100000 to engage in brokerage dated 7 December 2000;
- No. 177-03671-001000 to manage securities dated 7 December 2000;
- No. 177-04148-000100 to act as depositary dated 20 December 2000;
- licence No. 22-000-1-00049 to act as specialised depositary of investment funds, unit investment funds and non-public pension funds dated 25 June 2002, valid until 25 June 2007.

Location of OAO ALFA-BANK: 27 Ulitsa Kalanchevskaya, Moscow 107078.

OAO ALFA-BANK has 32 branches registered with the Central Bank of the Russian Federation.

1. We have audited the following published financial statements attached herewith:

- balance sheet as at 1 January 2004, on 2 pages;
- profit and loss statement for 2003, on 2 pages;
- cash flow statement for 2003, on 2 pages;

- information on the level of capital adequacy, amounts of provisions for doubtful loans and other assets as at 1 January 2004, on 1 page.

The said statements were prepared by the Management of OAO ALFA-BANK in accordance with the standards established under Federal Law No. 129-FZ "On Accounting" dated 21 November 1996 (with subsequent amendments and additions), Directive No. 1270-U of the Central Bank of the Russian Federation "On the Published Financial Statements of Lending Organisations and Banking/Consolidated Groups" dated 14 April 2003, Directive No. 1069-U of the Central Bank of the Russian Federation "On the Annual Report of Lending Organisations" dated 13 December 2001, the Chart of Bookkeeping Accounts in Lending Organisations, the Rules of Bookkeeping Accounts in Lending Organisations in the Territory of the Russian Federation No. 205-P dated 5 December 2002 (with subsequent amendments and additions) and other regulatory acts of the Russian Federation governing the bookkeeping procedures and the preparation of books (financial statements).

Mr. Rushan Fedorovich Khvesyuk, the Chairman of the Executive Board of OAO ALFA-BANK, is responsible for the organisation of the bookkeeping and compliance of banking and other business operations with the Russian legislation.

Mrs. Marina Ivanovna Popova, the Chief Accountant of OAO ALFA-BANK, is responsible for the formation of the accounting policy, bookkeeping and timely submission of full and accurate accounting statements.

The auditor is to express an opinion on the fairness, in all material respects, of the submitted books (financial statements) and on compliance of the accounting procedures with Russian Federation law. Also, the auditor is to include in the report information on a lending organisation's compliance with the prudential ratios set by the Central Bank of the Russian Federation, internal controls and quality of the management of a lending organisation. We were not to express an opinion on full compliance of the operation of OAO ALFA-BANK with Russian Federation law, nor to assess the effectiveness of the Management or to ascertain whether the interests of the shareholders were properly assured.

2. The audit was performed in accordance with Federal Law No. 119-FZ "On Auditing" dated 7 August 2001 (with subsequent amendments and additions), Federal Law No. 395-1 "On Banks and Banking" dated 2 December 1990 (with subsequent and amendments and additions), the Federal Rules (Standards) of Auditing approved under Resolution No. 696 of the Government of the Russian Federation dated 23 September 2002, other regulatory acts governing audit operations and internal audit standards and methods.

In performing the audit we were guided by the internal rules (standards) of the accredited professional audit association IPAR.

The audit was planned and performed to obtain reasonable assurance of whether the books (financial statements) were free of material misstatement.

The audit was performed on a sample basis and included an examination, on a test basis, of documentary evidence supporting the amounts and disclosures in the annual report, the contents of which are defined in Directive No. 1069-U of the Central Bank of the Russian Federation "On the Annual Report of Lending Organisations" dated 13 December 2001. We were also to assess the proper use of accounting principles and techniques and the rules used to prepare financial statements.

We have examined the significant estimates and assumptions made by the executive body of OAO ALFA-BANK in the preparation of financial statements.

We believe that our audit provides a reasonable basis for our opinion of whether the said financial statements are presented fairly in all material respects and whether the accounting policies and procedures are in compliance with Russian Federation law.

OAO ALFA-BANK kept its books in accordance with Federal Law No. 129-FZ "On Accounting" dated 21 November 1996 (with subsequent amendments and additions), the Chart of Bookkeeping Accounts in Lending Organisations, the Rules of Bookkeeping Accounts in Lending Organisations in the Territory of the Russian Federation No. 205-P dated 5 December 2002 (with subsequent amendments and additions) and other regulatory acts of the Russian Federation governing the bookkeeping procedures.

As a result of sample testing of the keeping by OAO ALFA-BANK of its books and preparation of financial statements we failed to discover facts indicating non-compliance of the bookkeeping procedures of OAO ALFA-BANK with applicable law and regulatory acts of the Central Bank of the Russian Federation or improper preparation by OAO ALFA-BANK of its financial statements.

We verified whether the prudential ratios established by the Central Bank of the Russian Federation were properly calculated and complied with by OAO ALFA-BANK as at 1 January 2004.

We failed to discover facts evidencing that OAO ALFA-BANK improperly calculated the prudential ratios established under Instructions No. 1 "On the Procedure to Govern the Operation of Banks" dated 1 October 1997 approved under Order No. 02-430 of the Central Bank of the Russian Federation dated 1 October 1997 (with subsequent amendments and additions), or failed to comply with the procedures for the calculation of the equity (capital) of OAO ALFA-BANK in accordance with the Regulations on the Techniques of Calculation of Equity (Capital) of Lending Organisations approved by the Central Bank of the Russian Federation on 10 February 2003, No. 215-P (with subsequent amendments and additions), as at 1 January 2004.

As at 1 January 2004, OAO ALFA-BANK complied with the figures of prudential ratios established by the Russian Federation Central Bank, except for the maximum exposure per single creditor (depositor) (N8) and the maximum amount of deposits attracted from individuals (N11).

The maximum amount of the N8 prudential ratio was set by the Central Bank of the Russian Federation at 25%. As at 1 January 2004, the N8 prudential ratio amounted to 47.1%.

The maximum amount of the N11 prudential ratio was set by the Central Bank of the Russian Federation at 100%. As at 1 January 2004, the N8 prudential ratio amounted to 139.8%.

Pursuant to Directive No. 795-U of the Central Bank of the Russian Federation "On the Application of the Ratio of the Maximum Exposure per Single Creditor (Depositor) (N8)" dated 24 May 2000, non-compliance with the N8 prudential ratio is not taken into account for the purposes of the assessment of banks in accordance with the requirements of Directive No. 766-U of the Central Bank of the Russian Federation "On the Criteria for the Assessment of Financial Standing of Lending Organisations" dated 31 March 2000. This prudential ratio is of estimation nature, and the Central Bank of the Russian Federation does not impose on lending organisations any sanctions for the breach of this prudential ratio.

Pursuant to Directive No. 192-U of the Central Bank of the Russian Federation "On Additional Measures to Protect the Rights of Depositors in the Banks" dated 27 March 1998, the N11 prudential ratio is of design (estimation) nature, and the Central Bank of the Russian Federation does not impose on lending organisations any sanctions for the breach of this prudential ratio.

We failed to discover facts evidencing non-conformity of the quality of OAO ALFA-BANK management or internal controls with the nature and scope of its operations.

3. ZAO BDO Unicon believes that the balance sheet, profit and loss statement, cash flow statement and information of the level of the capital adequacy, amounts of provisions for doubtful loans and other assets fairly reflect in all material aspects the financial condition of Open Joint-Stock Company "ALFA-BANK" as at 1 January 2004 and the results of its financial and business operations from 1 January through 31 December 2003.

31 March 2004

[signed and stamped]

A.V.Tamarin
Deputy General Director

[signed and stamped]

V.M.Volkov
Auditor

Qualification Certificate No. 029070 issued by decision of the Central Qualification and Licencing Audit Commission of the Central Bank of the Russian Federation dated 10 July 1995 (minutes No. 6), extended through 27 July 2004 (minutes No. 3 of the Central Qualification and Licencing Audit Commission of the Central Bank of the Russian Federation dated 30 March 2001).

Bound: a total of 15 pages

NON-CONSOLIDATED ANNUAL RAR FINANCIAL STATEMENTS OF ALFA BANK

Set out below are RAR financial statements of Alfa Bank for the years ended 31 December 2003, 2002 and 2001. In the Russian version of each set of financial statements, the annual RAR Financial Statements are dated 1 January following 31 December 2003, 2002 or 2001, respectively.

BALANCE SHEET
as at 1 January 2004

(Audited)

		As at 1 January 2004 (RUR '000)
ASSETS		
1	Balances with the Central Bank of the Russian Federation	11,137,645
2	Mandatory reserves with the Central Bank of the Russian Federation	8,133,045
3	Due from other banks (net) (3.1–3.2)	10,690,045
3.1	Due from other banks (gross)	10,690,169
3.2	Provision for losses	124
4	Trade securities (net) (4.1–4.2)	3,753,680
4.1	Trade securities (gross)	3,753,680
4.2	Provision for diminution in value	0
5	Loans (gross)	140,975,363
6	Provision for losses	19,967,382
7	Loans (net) (5–6)	121,007,981
8	Accrued interest income (including overdue interest)	226,158
9	Investments held to maturity (net) (9.1–9.2)	0
9.1	Investments held to maturity (gross)	0
9.2	Provision for diminution in value	0
10	Fixed and intangible assets, household equipment, small items	2,161,491
11	Investments available for sale (net) (11.1–11.2)	4,931,333
11.1	Investments available for sale (gross)	4,952,257
11.2	Provision for diminution in value	20,924
12	Deferred expense	278,816
13	Other assets (net) (13.1–13.2)	15,223,372
13.1	Other assets (gross)	15,320,326
13.2	Provision for losses	6,954
14	**Total assets** (1+2+3+4+7+8+9+10+11+12+13)	177,543,566
LIABILITIES		
15	Due to the Central Bank of the Russian Federation	0
16	Due to banks	41,057,664
17	Customer accounts	88,051,915
17.1	— including accounts of individuals	34,331,151
18	Deferred income	1,353
19	Promissory notes	21,119,737
20	Other liabilities	4,823,732
21	Provision for losses arising in futures, off-balance liabilities, settlement with debtors on off-shore transactions	934,210
22	**Total liabilities** (15+16+17+18+19+20+21)	155,988,611
SHAREHOLDERS' EQUITY		
23	Share capital (23.1+23.2+23.3)	768,679
23.1	Registered ordinary stock	768,679
23.2	Registered preferred stock	0
23.3	Non-registered stock	0
24	Treasury stock	0
25	Share premium	19,927,045
26	Retained earnings	2,798,390
27	Revaluation of premises and equipment	32,533
28	Net Profit (loss) for the reported period	301,333
29	Current year dividends	0
30	Allocation of profit (excluding dividends)	126,385
31	Unallocated profit:(items 28–29–30)	174,948
32	Additional provisions	2,146,640
33	**Total shareholders' equity** (23–23.3–24+25+26+27+31–32)	21,554,955
34	**Total liabilities and shareholders' equity** (22+23.3+33)	177,543,566
OFF-BALANCE SHEET LIABILITIES		
35	Irrevocable commitments	77,473,171
36	Guarantees issued by the Bank	22,512,642

The Bank had no funds under trust management.

INCOME STATEMENT
for the year ended 31 December 2003

(Audited)

		As at 31 December 2003 (RUR '000)
INTEREST INCOME ON		
1	Interbank loans	1,036,884
2	Loans and advances to customers	13,535,643
3	Leasing	0
4	Fixed-income securities	734,785
5	Other interest income	2,623
6	**Total interest income** (1+2+3+4+5)	15,309,935
INTEREST EXPENSE ON		
7	Interbank deposits	1,640,413
8	Customer deposits	2,521,213
9	Promissory notes	1,760,974
10	Rent	436,662
11	**Total interest expense** (7+8+9+10)	6,359,262
12	Net interest income (6–11)	8,950,673
13	Commission income	2,688,318
14	Commission expense	317,300
15	Net commission income (13–14)	2,371,018
OTHER OPERATING INCOME		
16	Income from trading in foreign currency and foreign exchange translation gain	58,336,518
17	Income from trading in precious metals, securities and other assets including revaluation gain (mark to market)	8,652,677
18	Dividends	352
19	Other operating income	321,992
20	**Total other operating income** (16+17+18+19)	67,311,539
21	Net revenues (12+15+20)	78,633,230
OPERATING EXPENSES		
22	Staff costs	2,563,541
23	Maintenance	2,112,359
24	Loss from trading in foreign currency and foreign exchange translation loss	58,026,350
25	Loss from trading in precious metals, securities and other assets including revaluation loss (mark to market)	8,946,333
26	**Other operating expenses**	1,205,647
27	Total operating expenses (22+23+24+25+26)	72,854,230
28	Net profit before provisions and extraordinary items (21–27)	5,779,000
29	Provision/(recovery) for losses on loans	5,299,442
30	Provision/(recovery) for diminution in value of investments	(16,986)
31	Other provisions/(recovery)	195,211
32	Net profit before extraordinary items (28–29–30–31)	301,333
33	Extraordinary items	0
34	Net profit before taxation (32+33)	301,333
35	Profit tax	126,385
36	Deferred profit tax	0
36a	Extraordinary items after tax	0
37	Net profit (34–36–36a)	301,333

STATEMENT OF CASH FLOWS
for the year ended 31 December 2003

		For the year ended 31 December 2003 (RUR '000)
I	**OPERATING CASH FLOWS**	
1	Interest income	15,309,935
2	Interest expense	6,359,262
3	Commission income	2,688,318
4	Commission expense	317,300
5	Gains from exchange and from dealing in other foreign currency items	23,105,291
6	Gains from dealing in precious metals, securities and other items	7,308,279
7	Expenses arising from exchange and from dealing in other foreign currency items	22,550,449
8	Expenses arising from dealing in precious metals, securities and other items	8,595,963
9	Dividends yield	352
10	Other operating income	321,992
11	Other operating expenses	5,881,547
12	Extraordinary expenses after tax	0
13	Total profit/loss (item 13.1+item 13.2), including:	4,658,093
13.1	Profit/loss: (item 1–item 2+item 3–item 4+item 5+item 6–item 7–item 8+item 9+item 10–item 11–item–12)	5,029,646
13.2	Movement in profit/loss	(371,553)
14	Payments to the budget from profit, charity and other expenses	(126,188)
15	Operating cash flows before movement in current assets/liabilities (items 13 + 14)	4,531,905
MOVEMENT IN CURRENT ASSETS		
16	Mandatory reserves with the Central Bank of the Russian Federation	1,466,080
17	Due from lending organisations	2,341,174
18	Investment in securities	1,751,044
19	Loan and similar arrearages	15,406,003
20	Other assets	11,741,652
MOVEMENT IN CURRENT LIABILITIES		
21	Loans from the Central Bank of the Russian Federation	0
22	Due to lending organisations	1,960,303
23	Customer funds	28,317,610
24	Other liabilities	1,569,611
25	Net operating inflow/outflow: (item 16+item 17+item 18+item 19+item 20+item 21+item 22+item 23+item 24)	(858,429)
26	Net operating inflow/outflow (item 15+item 25)	3,673,476
II	**INVESTMENT CASH FLOWS**	
27	Fixed and intangible assets, household equipment, small items	132,496
28	Placement in investment in securities	0
29	Investment in securities held for dealing purposes	808,842
30	Net investment inflow: (item 27+item 28+item 29)	941,338
III	**FINANCIAL INFLOW/OUTFLOW**	
31	Charter capital (shareholders' equity)	0
32	Treasury shares	0
33	Issuance income	0
34	Funds and revenues retained	270,178
35	Dividends yield over the current year	0
36	Debentures issued	1,931,386
37	Net financial inflow/outflow: (item 31+item 32+item 33+item 34+item 35+item 36)	2,201,564
38	Positive/negative revaluation of exchange and other foreign currency items, precious metals and securities; accrued and other funds not accounted for, and other items	120,639
39	Net inflow/outflow of cash and equivalents: (item 26+item 30+item 37+item 38)	6,937,017
40	Amount of cash and equivalents at the start of the reported period	17,334,104
41	Amount of cash and equivalents at the end of the reported period (item 39+item 40)	24,271,121

INFORMATION ON THE LEVEL OF CAPITAL ADEQUACY, AMOUNTS OF PROVISIONS FOR DOUBTFUL LOANS AND OTHER ASSETS as at 1 January 2004

No. 1	Name 2	As at the reporting date 3
1	Actual value of the capital adequacy (%)	13.7
2	Regulatory value of the capital adequacy (%)	10.0
3	Amount (absolute value) of the equity (capital) of the lending organisation (RUR, thousands)	24,655,458
4	Amount of estimated provision for possible loan losses (RUR, thousands)	19,967,383
5	Amount of the actually formed provision for possible loan losses (RUR, thousands)	19,967,382
6	Amount of estimated provision for possible losses (RUR, thousands)	28,002
7	Amount of the actually formed provision for possible losses (RUR, thousands)	28,002

[signed and stamped]

Rushan Fedorovich Khvesyuk
Chairman of the Executive Board of OAO ALFA-BANK

[signed]

Marina Ivanovna Popova
Chief Accountant

ZAO BDO Unicon believes that the balance sheet, profit and loss statement, cash flow reports and information of the level of the capital adequacy, amounts of provisions for doubtful loans and other assets fairly reflect in all material aspects the financial condition of OAO ALFA-BANK as at 1 January 2004 and the results of its financial and business operations from 1 January through 31 December 2003.

ZAO BDO Unicon
Licence No. E 000547
Date of issue of the licence: 25 June 2002
Valid through 24 June 2007
Issued by the Finance Ministry of the Russian Federation
General Director – A.Yu.Dubinskiy

[signed and stamped]

A.V.Tamarin
Deputy General Director
(power of attorney No. 1
issued by Director General
of ZAO BDO Unicon,
dated 13 January 2004)

[signed and stamped]

V.M.Volkov
Auditor

31 March 2004

AUDITORS' REPORT — APRIL 2003

The following is the text of a report (translated into English) received by the Shareholders of Alfa Bank in respect of the financial year ended 31 December 2002, prepared by the Auditors of Alfa Bank:

"AUDIT REPORT

ON THE FAIRNESS OF THE BOOKS (FINANCIAL STATEMENTS) OF OPEN JOINT-STOCK COMPANY "ALFA-BANK" BASED ON THE OPERATING RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002.

The audit of the books (financial statements) of the Open Joint-Stock Company "Alfa-Bank" (hereinafter, "OAO ALFA-BANK") for 2002 has been performed by ZAO "BDO UniconRuf", legal successor to ZAO "Unicon/MS Consulting Group" (state registration certificate of amendments to the constituent documents of a legal entity, series 77, No. 006869528, dated 27 February 2003) pursuant to contract #11-12237/2002 dated 9 December 2002 made with ZAO "Unicon/MS Consulting Group" based on the resolution of the annual general meeting of shareholders of OAO Alfa-Bank to approve ZAO Unicon/MS Consulting Group as the official auditor (minutes No. 02-2002 dated 27 June 2002).

Brief information on ZAO BDO UniconRuf

The BDO UniconRuf Closed Joint Stock Company is registered with Moscow City Southern Administrative District Inspectorate No. 26 of the Russian Federation Ministry for Taxes and Collections.

Certificate of entry in the Unified State Register of Legal Entities, series 77, No. 006869528, dated 27 February 2003, principal state registration number 1037739271701.

Mailing Address: 125 Varshavskoye shosse, Moscow 117545

Telephone: (095) 319 4656, 319 6636

Telephone/Fax: (095) 319 5909

E-mail: reception@unicon-ms.ru

Web: www.bdo.ru

General Director: Andrey Yurievich Dubinskiy

ZAO "BDO UniconRuf" holds license No. E 000547 dated 25 June 2002 to engage in audit activities issued by the Russian Federation Finance Ministry, valid until 24 June 2007.

ZAO "BDO UniconRuf" is an independent national audit and consulting company forming part of the BDO international network and using exclusive rights to provide services to clients in Russia under the BDO trademark.

ZAO "BDO UniconRuf" is a full member of IPAR "Institute of Professional Auditors," a professional association of auditors accredited with the Russian Federation Finance Ministry pursuant to order No. 145 dated 16 July 2002.

The authorised signatory of this audit report shall be Natalia Vassilievna Kharlamova, Deputy General Director and Managing Director of the Audit Services Department pursuant to order No. 055 of the General Director of ZAO "BDO UniconRuf" dated 10 April 2003.

The audit of OAO ALFA-BANK was supervised by the auditor Vladimir Mikhailovich Volkov, General and Bank Audit Director of the Audit Services Department.

The audit was conducted from 16 December 2002 to 1 April 2003.

Taking part in the audit were the following auditors who were staff members of ZAO "BDO UniconRuf" as of the moment of the audit:

Petr Nikolayevich Romanov — Qualification Certificate No. K00744 to engage in bank audits, issued pursuant to a resolution of the Central Certification and Licensing Audit Commission of the Central Bank of the Russian Federation (minutes No. 4 dated 26 July 1999) issued for an indefinite term by way of exchange as of 26 August 2002;

Igor Vladimirovich Riashin — CB RF Qualification Certificate No. 012653 to engage in bank audits from 15 February 2000 to 14 February 2003;

Elena Alexandrovna Stanko — CB RF Qualification Certificate No. 005501 to engage in bank audits from 22 January 1997 to 21 January 2000, extended until 20 January 2003 (Qualification Certificate being extended);

And the following experts who were staff members of ZAO "BDO UniconRuf" as of the moment of the audit and were not qualified to conduct bank audits as of the moment of the audit:

Varvara Alexeyevna Bokova;

Valery Yurievich Polushkin;

Svetlana Borisovna Sorina;

Anastasiya Vladimirovna Sukhova.

Brief information on OAO ALFA-BANK

Full name of lending organisation: ALFA-BANK Open Joint Stock Company.

Abbreviated name of lending organisation: OAO ALFA-BANK

OAO ALFA-BANK is registered in the form of an open joint stock company. The Moscow Registration Chamber has assigned to it registration number 001.937. The Central Bank of the Russian Federation has assigned to it registration No. 1326.

The charter of OAO ALFA-BANK, valid as of 1 January 2003, was approved by MGTU CB RF on 28 June 2002. The charter was approved by the General Meeting of Shareholders of OAO ALFA-BANK (minutes No. 02-2002 dated 27 June 2002).

OAO ALFA-BANK was established as a result of the transformation of the "Alfa-Bank" Commercial Innovation Bank (limited liability company registered with the Central Bank of the Russian Federation on 3 January 1991) into an open joint stock company by decision of the participants (minutes No. 11-97 dated 10 October 1997) and the reorganisation in the form of accession of the "Alfa-Bank-Novosibirsk" Limited Liability Company by decision of the participants (minutes No. 7-99 dated 9 October 1999). OAO ALFA-BANK is the successor of "Alfa-Bank" Commercial Innovation Bank (limited liability company) and the "Alfa-Bank-Novosibirsk" Limited Liability Company with respect to all their creditors and debtors, including with respect to obligations challenged by parties.

In 2002 OAO ALFA-BANK operated on the basis of the following licenses:

- general banking license No. 1326 dated 29 January 1998 for banking operations in Rubles and foreign exchange;
- license No. 1326 dated 29 January 1998 for the right to borrow and lend precious metals;
- licenses of a professional participant of the securities market with no expiration date:
- No. 177-03574-010000 to engage in dealing dated 7 December 2000;
- No. 177-03471-100000 to engage in brokerage dated 7 December 2000;
- No. 177-03671-001000 to manage securities dated 7 December 2000;

- No. 177-04148-000100 to act as depositary dated 20 December 2000;
- No. 22-000-1-00049 to act as specialised depositary of investment funds, unit investment funds and non-public pension funds dated 25 June 2002.

Location of OAO ALFA-BANK as of 1 January 2003: 7-1 Ulitsa Novatorov, Moscow 117421.

Location of OAO ALFA-BANK (as of 18 April 2003): 27 Ulitsa Kalanchevskaya, Moscow 107078.

Mailing Address of OAO ALFA-BANK: 9 Ulitsa Mashi Poryvayevoy, Moscow 107078.

During the period under review the following were responsible for the conduct of the financial and business operations and preparation of financial statements of OAO ALFA-BANK:

From 1 January 2002 to 31 July 2002:

Mr. Leonard Berngardovich Vid, Chairman of the Executive Board;

Ms Marina Ivanovna Popova, Chief Accountant

From 1 August 2002 to 31 December 2002:

Mr. Rushan Fiodorovich Khvesiuk, Chairman of the Executive Board;

Ms Marina Ivanovna Popova, Chief Accountant.

As of the moment of preparation of this report the following were responsible for the conduct of the financial and business operations and preparation of financial statements of OAO ALFA-BANK:

Mr. Rushan Fiodorovich Khvesiuk, Chairman of the Management Board;

Ms Marina Ivanovna Popova, Chief Accountant.

OAO ALFA-BANK has branches and representative offices.

As of 1 January 2003 the following branches were specified in the charter of OAO ALFA-BANK:

1. Nizhegorodskiy, 45 Ul. Piskunova, Nizhny Novgorod, 603005;
2. Sankt-Peterburgskiy, 6/2 nab. kanala Griboyedova, Saint-Petersburg, 191011;
3. Samarskiy, 151/1 Ul. Molodogvardeiskaya, Samara, 443001;
4. Irkutskiy, 38 b-r Gagarina, Irkutsk, 664003;
5. Kurganskiy, 61 Gogolia, Kurgan,640000;
6. Yekaterinburgskiy, 99-a pr-t Lenina, Yekaterinburg, 620062;
7. Tyumenskiy, 162 Ul. Respubliki, Tyumen, 625035;
8. Omskiy, 79 Ul. Kuybysheva, Omsk, 644001;
9. Volgogradskiy, 7 Ul. Sovetskaya, Volgograd, 400066;
10. Orenburgskiy, 11 prosp. Pobedy, Orenburg, 460000;
11. Permskiy, 120 Ul. Bolshevistskaya, Perm, 614000;
12. Dalnevostochniy, 26 Ul. Semenovskaya, Vladivostok, 690000;
13. Lipetskiy, 7 Ul. Barasheva, Lipetsk, 398001;
14. Saratovskiy, 70 Ul. Moskovskaya, Saratov, 410600;
15. Novosibirskiy, 1 prosp. Dimitrova, Novosibirsk, 630004;
16. Krasnodarskiy, 124 (Liter B), Ul. Krasnaya, Krasnodar, 350000;
17. Kaliningradskiy, 4 (Liter A), Ul. Pobedy, Kaliningrad, 236000;

18. Rostovskiy, 33 prosp. Voroshilovskiy, Rostov-on-Don, 344007;
19. Tomskiy, 2, pl. Kirova, Tomsk, 634050;
20. Khabarovskiy, 60, ul. Karla Marksa, Khabarovsk, 680000;
21. Krasnoyarskiy, 121 ul. Lenina, Krashoyarsk, 660017;
22. Chelyabinskiy, 108 ul. Kirova, Chelyabinsk, 454000;
23. Altayskiy, 4Á prosp. Stroiteley, Barnaul, 656002;
24. Orskiy, 62 pr-t Lenina, Orsk, Orenburgskaya obl., 462431
25. Izhevskiy, 13, liter A, ul. Sovetskaya, Izhevsk, Republic of Udmurtia, 426057;
26. Voronezhskiy, 38 prosp. Revoliutsii, Voronezh, 394000;
27. Yaroslavskiy, 2 ul. Svobody, Yaroslavl, 150000;
28. Sakhalinskiy, 113 prosp. Mira, Yuzhno-Sakhalinsk, 693000;
29. Murmanskiy, 3 korp.1, ul. Papanina, Murmansk, 183038;
30. Ulyanovskiy, 15 ul. Minayeva, Ulyanovsk, 432063.

The Auditor was also provided with information that the Kemerovsky Branch of OAO ALFA-BANK, 12 ul. Ostrovskogo, Kemerovo, 650099, was entered in the state registration ledger of lending organisations.

OAO ALFA-BANK has the following representative offices:

- In the United Kingdom: City Tower, Level 4, 40 Basinghall Street, London EC2V 5 DE;
- In the city of Kazan: 29B ul. Nikolaya Ershova, Kazan, Republic of Tatarstan (Tatarstan), Russia 420045.

1. We have audited the attached books (financial statements) for 2002 comprising 31 pages:

- lending organisation's turnover balance sheet for December 2002 reflecting final transactions (form No. 101) on 9 pages;
- lending organisation's 2002 profit and loss statement (form No. 102) on 10 pages;
- calculation of provisions for possible loan losses as of 1 January 2003 (form No. 105) on 3 pages;
- cash flow statement as of 1 January 2003 (form No. 123) on 2 pages;
- calculation of equity (capital) as of 1 January 2003 (form No. 134) on 2 pages;
- detailed individual balance sheet accounts for the calculations of prudential ratios and prudential ratio figures as of 1 January 2003 (form No. 135) on 3 pages;
- calculation of provisions for possible losses as of 1 January 2003 (form No. 155) on 2 pages.

The said statements were prepared by the Management of OAO ALFA-BANK in accordance with the standards established under Federal Law No. 129-FZ "On Accounting" dated 21 November 1996 (with subsequent amendments and additions), the Chart of Bookkeeping Accounts in the lending organisation of the Russian Federation approved under the Central Bank of the Russian Federation Order No. 02-399 dated 31 October 1996 (with subsequent amendments and additions), the Accounting Rules for lending organisations located on the territory of the Russian Federation approved by the Central Bank of the Russian Federation on 18 June 1997, No. 61 (with subsequent amendments and additions), Directive No. 1069-U of the Central Bank of the Russian Federation "On the Annual Report of Lending Organisations" dated 13 December 2001 and other regulatory acts of the Russian Federation governing the bookkeeping procedure and the preparation of financial statements.

The executive body of the Bank is responsible for bookkeeping, preparation of financial statements, compliance with applicable law and organisation and condition of internal controls.

The auditor is to express an opinion on the fairness, in all material respects, of the submitted statements and on compliance of the accounting procedures with Russian Federation law. We were not to express an opinion on full compliance of the operation of OAO ALFA-BANK with Russian Federation law, nor to assess the effectiveness of the management nor to ascertain whether the interests of the shareholders were properly assured.

The audit was conducted in the central office of OAO ALFA-BANK (City of Moscow).

As of 1 January 2003 there were no branches with a balance value in excess of 5% of the consolidated balance value of OAO ALFA-BANK. The balance value of Sankt-Peterburgskiy, the biggest branch, is 8,381,513,000 Rubles, or 3.83% of the consolidated balance value of OAO ALFA-BANK.

The table below presents information on the balance value amounts of the branches of OAO ALFA-BANK as of 1 January 2003.

	Branch Name	Balance value, RUR '000	Percentage in total balance value of branches	Percentage in consolidated balance value
1	Altayskiy	1,222,892	2.09	0.56
2	Chelyabinskiy	3,136,846	5.36	1.43
3	Yekaterinburgskiy	5,069,859	8.67	2.32
4	Khabarovskiy	865,193	1.48	0.40
5	Irkutskiy	3,702,304	6.33	1.69
6	Kaliningradskiy	551,112	0.94	0.25
7	Krasnodarskiy	3,008,961	5.14	1.37
8	Krasnoyarskiy	1,368,917	2.34	0.63
9	Kurganskiy	560,253	0.96	0.26
10	Lipetskiy	1,498,870	2.56	0.68
11	Nizhegorodskiy	3,791,507	6.48	1.73
12	Novosibirskiy	3,265,190	5.58	1.49
13	Omskiy	1,427,213	2.44	0.65
14	Orenburgskiy	1,084,428	1.85	0.50
15	Orskiy	448,872	0.77	0.21
16	Permskiy	852,910	1.46	0.39
17	Rostovskiy	1,032,351	1.77	0.47
18	Samarskiy	3,788,584	6.48	1.73
19	Saratovskiy	1,363,121	2.33	0.62
20	Sankt-Peterburgskiy	8,381,513	14.33	3.83
21	Tomskiy	784,933	1.34	0.36
22	Tyumenskiy	4,838,823	8.27	2.21
23	Dalnevostochniy	1,847,508	3.16	0.84
24	Volgogradskiy	1,490,611	2.55	0.68
25	Izhevskiy	844,045	1.44	0.39
26	Voronezhskiy	924,197	1.58	0.42
27	Yaroslavskiy	186,500	0.32	0.09
28	Sakhalinskiy	249,455	0.43	0.11
29	Murmanskiy	646,512	1.11	0.30
30	Ulyanovskiy	168,280	0.29	0.08
31	Kemerovskiy	87,956	0.15	0.04
	Total	58,489,716	100.00	26.73

The balance value of the audited branches as of 1 January 2003 comprises 61.5% of the total balance value of the branches of OAO ALFA-BANK and 16.4% of the consolidated balance value of OAO ALFA-BANK.

2. The audit was performed in accordance with Federal Law No. 395-1 "On Banks and Banking" dated 2 December 1990 (with subsequent and amendments and additions), Federal Law No. 119-FZ "On Auditing" dated 7 August 2001 (with subsequent amendments and additions), the Federal Rules (Standards) of Auditing approved under Resolution No. 696 of the Russian Federation Government dated 23 September 2002, other regulatory acts governing audit operations and internal audit standards and methods.

In performing the audit we were guided by the internal rules (standards) of the accredited professional audit association IPAR.

The audit was planned and performed to obtain reasonable assurance of whether the financial statements were free of material misstatement.

The audit was performed on a sample basis and included an examination, on a test basis, of documentary evidence supporting the amounts and disclosures in the financial statements. We were also to assess the proper use of accounting principles and techniques and the rules used to prepare financial statements. We examined the significant estimates derived by the executive body of OAO ALFA-BANK in the preparation of financial statements.

In our opinion on the results of the audit of the branches we proceeded from the documents of the OAO ALFA-BANK internal control division reflecting the results of the audits of the following branches:

- Tomskiy
- Chelyabinskiy
- Izhevskiy
- Yekaterinburgskiy
- Tyumenskiy
- Orenburgskiy
- Orskiy
- Omskiy
- Dalnevostochniy
- Sakhalinskiy
- Khabarovskiy
- Yaroslavskiy
- Samarskiy
- Krasnodarskiy
- Sankt-Peterburgskiy

We believe that our audit provides a reasonable basis for our opinion of whether the said financial statements are presented fairly in all material respects and whether the accounting policies and procedures are in compliance with Russian Federation law.

As a result of the procedures conducted in order to perform our audit we have the following to report on the specific matters indicated below.

Audit of compliance by OAO ALFA-BANK with applicable law and regulatory acts of the Central Bank of the Russian Federation with respect to OAO ALFA-BANK operations

We conducted tests to verify compliance of OAO ALFA-BANK's operations with applicable law and regulatory acts of the Central Bank of the Russian Federation, including a test of whether the accounting policy of OAO ALFA-BANK is in compliance with the established requirements. The approved accounting policy was drawn up in accordance with the Chart of Bookkeeping Accounts in the lending organisations of the Russian Federation approved under the Central Bank of the Russian Federation Order No. 02-399 dated 31 October 1996 (with subsequent amendments and additions), the Accounting Rules for lending organisations located on the territory of the Russian Federation approved by the Central Bank of the Russian Federation on 18 June 1997, No. 61 (with subsequent amendments and additions) and other regulatory acts of the Central Bank of the Russian Federation.

Opinion. During the period under review OAO ALFA-BANK conducted its operations in accordance with the established standards of applicable law. As a result of sample testing we failed to discover facts evidencing non-compliance by OAO ALFA-BANK with applicable law in the course of its operations.

Audit of the condition of books and accounts

We conducted tests to assess the condition of the OAO ALFA-BANK books and accounts with respect to operations performed.

OAO ALFA-BANK kept its books in accordance with Federal Law No. 129-FZ "On Accounting" dated 21 November 1996 (with subsequent amendments and additions), the Chart of Bookkeeping Accounts in the lending organisations of the Russian Federation approved under the Central Bank of the Russian Federation Order No. 02-399 dated 31 October 1996 (with subsequent amendments and additions) and the Accounting Rules for Lending Organisations located on the territory of the Russian Federation dated 18 June 1997, #61, approved under the Central Bank of the Russian Federation Order No. 02-263 dated 18 June 1997 (with subsequent amendments and additions).

The balance sheet of the individual accounts in which operations were performed and extracts (second copies of individual accounts) from customers' accounts were printed daily.

The books reflecting operations in customers' accounts, property, claims, obligations, business and other operations of OAO ALFA-BANK were kept in Rubles by way of double-entry bookkeeping in interconnected accounts. Analytic accounting data conform to the turnover and balance figures reflected in synthetic accounts.

Receipts and disbursements were reflected in the books according to the cash method.

Assets and liabilities were evaluated separately and reflected in detail. Book accounts were limited to assets and liabilities (according to the methodology of paired accounts).

Assets and liabilities in foreign exchange were re-evaluated as the exchange rate changed; this was in accordance with regulatory acts of the Central Bank of the Russian Federation. Banking operations in foreign exchange were reflected in the daily balance sheet in Rubles only.

Valuables and documents reflected in the balance sheet accounts were not reflected in the off-balance accounts except in cases provided for under regulatory acts of the Central Bank of the Russian Federation.

The pattern for the identification of analytical individual accounts includes: sections, first-order accounts, second-order accounts, currency codes, protective key codes and other designations consistent with the principles of transparency.

In order to record operations with securities groups of accounts by type of operation were used.

Receipts and disbursements are grouped in subsections reflecting homogeneous operations. As a rule, amounts are itemised in sections by name.

The published statements for 2002 were prepared by OAO ALFA-BANK in accordance with the regulatory documents of the Central Bank of the Russian Federation.

Opinion. As a result of sample testing of the keeping by OAO ALFA-BANK of its books and preparation of financial statements we failed to discover facts indicating non-compliance of the bookkeeping procedures of OAO ALFA-BANK with applicable law and regulatory acts of the Central Bank of the Russian Federation or improper preparation by OAO ALFA-BANK of its financial statements.

Audit of compliance with and proper calculation of the Central Bank of the Russian Federation-established prudential ratios as of 1 January 2003

We verified whether the prudential ratios established by the Central Bank of the Russian Federation were properly calculated and complied with by OAO ALFA-BANK as of 1 January 2003.

Opinion. We failed to discover facts evidencing that OAO ALFA-BANK improperly calculated the prudential ratios established under Instructions No. 1 "On the Procedure to Govern the Operation of Banks" dated

1 October 1997 approved under the Central Bank of the Russian Federation Order No. 02-430 dated 1 October 1997 (with subsequent amendments and additions) or of improper calculation of the equity (capital) of OAO ALFA-BANK in accordance with the Regulations on the Techniques of Calculation of Equity (Capital) of Lending Organisations approved by the Central Bank of the Russian Federation on 26 November 2001, No. 159-P (with subsequent amendments and additions) as of 1 January 2003.

As of 1 January 2003 OAO ALFA-BANK complied with the figures of prudential ratios established by the Central Bank of the Russian Federation.

Audit of the calculation of mandatory reserves deposited with the Central Bank of the Russian Federation.

We have audited, on a sample basis, operations to calculate and remit mandatory reserves to be deposited with the Central Bank of the Russian Federation.

Opinion. We failed to discover any facts of non-compliance with the requirements of Regulations No. 37 on the mandatory reserves of lending organisations to be deposited with the Central Bank of the Russian Federation dated 30 March 1996, approved under the Central Bank of the Russian Federation Order No. 02-77 dated 30 March 1996 (with subsequent amendments and additions).

As of 1 January 2003 the amount of mandatory reserves to be deposited with and remitted to the Central Bank of the Russian Federation was in conformity with the established regulatory requirements.

Assessment of the quality of OAO ALFA-BANK management and its internal controls

We assessed the overall quality of OAO ALFA-BANK management for compliance with the requirements of the Central Bank of the Russian Federation.

We note that the management of OAO ALFA-BANK is responsible for the organisation and condition of the system of internal controls which we examined as we planned and conducted the audit of the 2002 financial statements of OAO ALFA-BANK.

We examined the condition of the system of internal controls mostly to form an audit opinion on the fairness of financial statements. The work performed in the course of the audit does not represent a full and comprehensive inspection of the system of OAO ALFA-BANK's internal controls in order to identify all possible flaws.

Internal organisational work in OAO ALFA-BANK is performed on the basis of approved regulations on structural subdivisions and official instructions. There exists a sufficient degree of distribution of duties and division of powers between the managers and the subordinates within OAO ALFA-BANK.

The organisational structure of OAO ALFA-BANK comprises a sufficient number of subdivisions and their employees for the performance of all types and scope of operations of OAO ALFA-BANK.

OAO ALFA-BANK has an internal control division operating under the regulations on the internal control division approved by a resolution of the Board of Directors dated 3 April 2002 (minutes No. 05-2002). The contents of the said regulations meet the requirements of Regulations No. 509 on the organisation of internal controls at banks dated 28 August 1997 approved under the Central Bank of the Russian Federation Order No. 02-372 dated 28 August 1997 (with subsequent amendments and additions). The Executive Board of the Bank (minutes No. 10 of the Executive Board Meeting dated 22 March 2000) appointed the chief of the internal control division and information on the appointee was sent to the Chief Directorate of the Bank of Russia for the City of Moscow on 23 March 2000 (letter No. 3006/2029a).

In its operation, the internal control division is guided by the following internal bank documents:

- procedure for responding to violations discovered in the course of inspections conducted by the Internal Control Division of OAO ALFA-BANK;
- rules for interaction between the Internal Control Division and the OAO ALFA-BANK subdivisions involved in internal and currency control;
- rules for the organisation of inspections by the Internal Control Division of OAO ALFA-BANK;
- concept of improvements of internal controls in OAO ALFA-BANK in 2002;

- OAO ALFA-BANK has approved Internal Control Division work plans approved by the Chairman of the Executive Board of OAO ALFA-BANK.

The Internal Control Division inspected various aspects of banking, including operations by branches of OAO ALFA-BANK. The results of such inspections were recorded in the form of acknowledgments. The acknowledgments reflected the principal violations and flaws identified in the course of such inspections and contained recommendations on how to cure them. The results of such inspections are contained in reports on the curing of flaws identified by the Internal Control Division.

In accordance with the conclusions made by the Internal Control Division with respect to the results of its inspections OAO ALFA-BANK branches conducted, during 2002, operations in all material respects conforming to the standards of applicable law, regulatory requirements of the Central Bank of the Russian Federation to bookkeeping and preparation of financial statements.

The internal controls system operating within OAO ALFA-BANK provides for the proper bookkeeping of operations performed and for the safekeeping of the recorded property of OAO ALFA-BANK. The internal controls system of OAO ALFA-BANK is shaped by the following factors:

- operations are performed and reflected in the accounts on the basis of documents drawn up in accordance with statutory requirements;
- operations are authorised by competent officers;
- the available system of automation of the principal accounting operations (input of entries, preparation of account statements, formation of synthetic accounting and balance sheet registers) properly makes all the calculations;
- agreements on full financial liability have been made with all those liable for the safekeeping of property;
- inventory-taking and audits of the property reflected on the balance sheet, available cash and valuables are conducted in accordance with the established statutory requirements;
- there exists a division of the following functions: authorisation of operations; their reflection in the books, control functions, liability for safekeeping, inventory taking, audits;
- controls over the preparation and drawing-up of books (financial statements) are in place.

The branches of OAO ALFA-BANK have internal control divisions. Over the period under review the branches inspected the condition of internal controls and compliance with OAO ALFA-BANK-established standards and upper quantities (limits) for the performance of operations. OAO ALFA-BANK has established the following limits for its branches:

- maximum loan amount to be provided by the branch to one borrower or a group of related borrowers;
- maximum aggregate amount of loans to be provided by the branch to one borrower or a group of related borrowers, including the guarantees and sureties provided and the borrower's acquired debt obligations (including debt securities not quoted on the market);
- maximum aggregate amount of loans to be provided by the branch;
- maximum amount of obligations undertaken by the branch with respect to one creditor (depositor) or a group of related creditors (depositors);
- maximum amount of borrowed cash loans (deposits);
- maximum amount of transactions to acquire market-listed securities of one issuer;
- maximum amount of resources to acquire market-listed securities of other legal entities;
- maximum amount of notes issued in the name of OAO ALFA-BANK (if the branch is granted such right);
- maximum amount of resources to finance capital investments and the acquisition of fixed or other tangible assets;
- sub-limits for open forex positions are established in accordance with the requirements of the Central Bank of the Russian Federation Instructions No. 41 "On the Setting of Open Forex Position Limits and Control of Compliance Therewith by Authorised Banks of the Russian Federation" dated 22 May 1996 (with subsequent amendments and additions).

In our sample testing of operations performed by branches of OAO ALFA-BANK we failed to discover instances of the branch management exceeding the powers granted by the head office of OAO ALFA-BANK or failure by such branches to comply with the established limits.

Opinion. We failed to discover facts evidencing non-conformity of the quality of OAO ALFA-BANK management or internal controls with the nature and scope of the operations performed by OAO ALFA-BANK at the current stage in the development of the banking services sector in the Russian Federation.

Analysis of the OAO ALFA-BANK credit policy and credit risk management quality

In analysing OAO ALFA-BANK's credit policy and credit risk management quality we considered the following matters:

- existence of a credit committee;
- procedure for the consideration of a loan request;
- availability of essential and sufficient information on the borrower;
- security for loans;
- proper form of pledge obligations;
- monitoring of loan repayments when due, including by insiders and employees of OAO ALFA-BANK;
- monitoring of proper grounds for loan extensions;
- organisation and conduct of work with claims;
- sufficiency of the available allowance for possible loan losses.

The process of lending, the keeping of records of lending operations and the formation of provisions for possible loan losses are governed within OAO ALFA-BANK by approved documents, including:

- rules for the interaction of subdivisions of the central office, of the Moscow-based additional offices, branches and their additional offices/subsidiary banks with subdivisions of the bank office of the central office, the Moscow-based additional offices, branches and their additional offices/subsidiary banks in the recording of lending transactions;
- concept behind classifying OAO ALFA-BANK customers as first-class customers and borrowers;
- procedure for reducing loan interest rates based on expected income from the customer with respect to other operations;
- methodology for the evaluation of collateral;
- instructions on the procedure for the making of pledge agreements and subsequent work with the object of pledge within OAO ALFA-BANK;
- rules for interaction between the inter-bank business directorate and the forex financial operations directorate in the making of transactions with other banks on the inter-bank credit market and the domestic forex market.

The content of the documents prepared by OAO ALFA-BANK conforms to the requirements of regulatory acts of the Central Bank of the Russian Federation and, with respect to a number of matters, sets them forth more specifically in relation to the lending practice adopted by OAO ALFA-BANK.

As a result of sample testing for the purposes of the audit we arrived at the following conclusions. We failed to discover circumstances whereunder the provision of loans within OAO ALFA-BANK was in breach of the requirements of the internal bank documents of OAO ALFA-BANK. We failed to discover facts in conflict with the adopted credit policy of OAO ALFA-BANK designed to reduce credit risks.

Resolutions of the credit committee are approved upon completion of all the necessary procedures to reduce risks when providing loans with due regard for the financial condition of the borrower. With a view to reducing credit risks all the necessary procedures are performed to monitor proper recording of collateral, timely repayment of loans by customers, including insiders and employees of OAO ALFA-BANK, and proper grounds for loan extensions. The rules for the performance of lending operations provide for procedures to conduct work with claims for loan recovery.

We have conducted sample testing of OAO ALFA-BANK operations to identify credit risks and create provisions for possible loan losses in accordance with the requirements of the Central Bank of the Russian Federation contained in the Central Bank of the Russian Federation Instructions No. 62a "On the Procedure for the Creation and Use of Provisions for Possible Loan Losses" dated 30 June 1997 (with subsequent amendments and additions).

Opinion. As a result of the said procedures we note that we failed to discover facts indicating non-conformity of the OAO ALFA-BANK credit policy and credit risk management quality with the statutory requirements of the Central Bank of the Russian Federation or insufficient provisions for possible loan losses as of 1 January 2003.

Audit of operations with securities

OAO ALFA-BANK performed its operations with securities as a professional participant of the securities market. The OAO ALFA-BANK-established procedure for decision-making on investments in securities and compliance with such decisions (remittance of cash, drawing up of relevant primary documents and accounting registers, reflection of operations in the books) are in line with the requirements concerning control over operations with securities.

In performing operations with securities OAO ALFA-BANK is guided by applicable law and the documents it has drawn up, including:

- document circulation rules and rules for the interaction of OAO ALFA-BANK subdivisions in the performance of credit-leveraged lending operations under shareholding agreements;
- by-laws on the procedure for the provision of services on the securities market;
- rules for the performance of REPO operations with securities denominated in foreign exchange;
- OAO ALFA-BANK rules for the purchase of shares of Russian issuers on MICEX and subsequent sales over the counter;
- operative terms for the performance by OAO ALFA-BANK of depositary activities;
- rules for the performance of depositary activities with notes;
- rules for the interaction of OAO ALFA-BANK subdivisions when performing operations with OAO ALFA-BANK notes;
- rules for the bookkeeping of operations with OAO ALFA-BANK-issued notes;
- rules for the recording, sale and redemption of OAO ALFA-BANK notes.

With a view to reducing risks in this sphere of banking the management of OAO ALFA-BANK has established limits on investments in securities. The authorised body of OAO ALFA-BANK is monitoring compliance with the established limits.

We failed to discover facts indicating non-conformity of the OAO ALFA-BANK books and accounts by type of professional activity on the securities market with regulatory acts of the Central Bank of the Russian Federation or the Federal Commission for the Securities Market.

The formation of provisions for depreciation of securities and provisions for possible losses on investments in securities was in accordance with the requirements of the Regulations on the Procedure for the Creation by Lending Organisations of Provisions for Possible Losses approved by the Central Bank of the Russian Federation, No. 137-P, 12 April 2001 (with subsequent amendments and additions).

Opinion. As a result of performing such procedures we note that we failed to discover violations of the statutory requirements on the creation of provisions for depreciation of securities and provisions for possible losses on investments in securities as of 1 January 2003. We failed to discover facts indicating non-conformity of risk management in the performance by OAO ALFA-BANK of operations on the securities market with statutory requirements of the Central Bank of the Russian Federation.

Audit of Provisions for Possible Losses

We conducted sample testing of OAO ALFA-BANK operations for the creation of provisions for possible losses to check for compliance with the requirements specified in the Central Bank of the Russian

Federation Regulations No. 137-P "On the Procedure for the Creation by Lending Organisations of Provisions for Possible Losses" dated 12 April 2001 (with subsequent amendments and additions).

In identifying the basis for the calculation of provisions and factors underlying a motivated assessment of risk level, OAO ALFA-BANK was guided by the approved regulations on the procedure for the creation of provisions for possible losses.

Opinion. We failed to discover facts indicating violations of the requirements of statutory documents with respect to the determination of provisions for possible losses as of 1 January 2003.

Audit of Compliance with the Recommendations of the Previous Audit

The audit of OAO ALFA-BANK as to its performance results in 2001 was performed by ZAO Unicon/MS Consulting Group (license No. 006332 dated 18 June 1998 for bank audits, valid until 18 June 2003). In accordance with the audit report, the fairness of the 1 January 2002 financial statements submitted to the territorial agency of the Central Bank of the Russian Federation was confirmed. There were no adverse comments.

3. We believe that the attached financial statements of OAO ALFA-BANK fairly reflect in all material aspects its financial condition as of 31 December 2002 and the results of its financial and business operations from 1 January through 31 December 2002.

The audited annual financial statements have been prepared in all material respects in conformity with applicable law and regulatory acts governing the procedure for the keeping and preparation of statements and with the accounting principles accepted in the Russian Federation. The fairness of the balance sheet, profit and loss statement, cash flow reports and data on compliance with the principal requirements established under the Bank of Russia regulatory acts is hereby confirmed.

Date of issue of audit report: 18 April 2003.

[signed]

N.V. Kharlamova,
Deputy General Director, Managing Director of Audit Services Department

General Audit Qualification Certificate No. 025432 of the Russian Federation Finance Ministry issued under Resolution of the Central Qualification and Licensing Audit Commission of the Russian Federation Finance Ministry dated 25 March 1999, extended for an indefinite term as of 28 March 2002 (minutes No. 104 of the Russian Federation Finance Ministry Central Qualification and Licensing Audit Commission).

[signed]

V.M. Volkov,
Auditor

Qualification Certificate No. 029070 issued by decision of the Central Qualification and Licensing Audit Commission of the Central Bank of the Russian Federation dated 10 July 1995 (minutes No. 6), extended through 27 July 2004 (minutes No. 3 of the Central Qualification and Licensing Audit Commission of the Central Bank of the Russian Federation dated 30 March 2001)".

BALANCE SHEET
as at 1 January 2003

(Audited)

		As at 1 January 2003 (RUR '000)
ASSETS		
1	Balances with the Central Bank of the Russian Federation	5,269,915
2	Mandatory reserves with the Central Bank of the Russian Federation	6,666,965
3	Due from other banks (net) (3.1–3.2)	1,762,358
3.1	Due from other banks (gross)	1,762,495
3.2	Provision for losses	137
4	Trade securities (net) (4.1–4.2)	2,002,636
4.1	Trade securities (gross)	2,002,636
4.2	Provision for diminution in value	0
5	Loans (gross)	131,086,573
6	Provision for losses	14,666,732
7	Loans (net) (5–6)	116,419,841
8	Accrued interest income (including overdue interest)	256,877
9	Investments held to maturity (net) (9.1–9.2)	0
9.1	Investments held to maturity (gross)	0
9.2	Provision for diminution in value	0
10	Fixed and intangible assets, household equipment, small items	2,293,987
11	Investments available for sale (net) (11.1–11.2)	5,723,189
11.1	Investments available for sale (gross)	5,761,099
11.2	Provision for diminution in value	37,910
12	Deferred expense	97,951
13	Other assets (net) (13.1–13.2)	3,473,625
13.1	Other assets (gross)	3,488,674
13.2	Provision for losses	15,049
14	**Total assets** (1+2+3+4+7+8+9+10+11+12+13)	143,967,344
LIABILITIES		
15	Due to the Central Bank of the Russian Federation	0
16	Due to banks	39,097,361
17	Customer accounts	59,734,305
17.1	— including accounts of individuals	23,932,848
18	Deferred income	574
19	Promissory notes	19,188,351
20	Other liabilities	3,254,121
21	Provision for losses arising in futures, off-balance liabilities, settlement with debtors on off-shore transactions	732,286
22	**Total liabilities** (15+16+17+18+19+20+21)	122,006,998
SHAREHOLDERS' EQUITY		
23	Share capital (23.1+23.2+23.3)	768,679
23.1	Registered ordinary stock	768,679
23.2	Registered preferred stock	0
23.3	Non-registered stock	0
24	Treasury stock	0
25	Share premium	19,927,045
26	Retained earnings	2,528,212
27	Revaluation of premises and equipment	36,272
28	Net Profit (loss) for the reported period	371,553
29	Current year dividends	0
30	Allocation of profit (excluding dividends)	197
31	Unallocated profit:(items 28–29–30)	371,356
32	Additional provisions	1,671,218
33	**Total shareholders' equity** (23–23.3–24+25+26+27+31–32)	21,960,346
34	**Total liabilities and shareholders' equity** (22+23.3+33)	143,967,344
OFF-BALANCE SHEET LIABILITIES		
35	Irrevocable commitments	67,351,227
36	Guarantees issued by the Bank	7,527,200

The Bank had no funds under trust management.

INCOME STATEMENT
for the year ended 31 December 2002

		As at 31 December 2002 (RUR '000)
INTEREST INCOME ON		
1	Interbank loans	785,196
2	Loans and advances to customers	10,999,284
3	Leasing	0
4	Fixed-income securities	416,592
5	Other interest income	4,386
6	**Total interest income** (1+2+3+4+5)	12,205,458
INTEREST EXPENSE ON		
7	Interbank deposits	1,144,111
8	Customer deposits	1,944,987
9	Promissory notes	1,326,378
10	Rent	339,274
11	**Total interest expense** (7+8+9+10)	4,754,750
12	Net interest income (6–11)	7,450,708
13	Commission income	2,109,002
14	Commission expense	219,011
15	Net commission income (13–14)	1,889,991
OTHER OPERATING INCOME		
16	Income from trading in foreign currency and foreign exchange translation gain	20,702,556
17	Income from trading in precious metals, securities and other assets including revaluation gain (mark to market)	2,666,712
18	Dividends	637
19	Other operating income	1,482,938
20	**Total other operating income** (16+17+18+19)	24,852,843
21	Net revenues (12+15+20)	34,193,542
OPERATING EXPENSES		
22	Staff costs	1,367,118
23	Maintenance	1,732,210
24	Loss from trading in foreign currency and foreign exchange translation loss	20,246,510
25	Loss from trading in precious metals, securities and other assets including revaluation loss (mark to market)	2,027,629
26	**Other operating expenses**	1,852,880
27	Total operating expenses (22+23+24+25+26)	27,226,347
28	Net profit before provisions and extraordinary items (21–27)	6,967,195
29	Provision/(recovery) for losses on loans	6,388,872
30	Provision/(recovery) for diminution in value of investments	35,013
31	Other provisions/(recovery)	171,757
32	Net profit before extraordinary items (28–29–30–31)	371,553
33	Extraordinary items	0
34	Net profit before taxation (32+33)	371,553
35	Profit tax	197
36	Deferred profit tax	0
36a	Extraordinary items after tax	0
37	Net profit (34–36–36a)	371,553

STATEMENT OF CASH FLOWS
for the year ended 31 December 2002

		For the year ended 31 December 2002 (RUR '000)
OPERATING CASH FLOWS		
1	Interest income	12,205,458
2	Interest expense	4,754,750
3	Commission income	2,109,002
4	Commission expense	219,011
5	Gains from exchange and from dealing in other foreign currency items	9,134,356
6	Gains from dealing in precious metals, securities and other items	2,582,935
7	Expenses arising from exchange and from dealing in other foreign currency items	8,657,280
8	Expenses arising from dealing in precious metals, securities and other items	2,002,555
9	Dividends yield	637
10	Other operating income	1,482,938
11	Other operating expenses	4,952,208
12	Extraordinary expenses after tax	0
13	**Total profit/loss** (item 13.1+item 13.2), including:	6,434,765
13.1	Profit/loss: (item 1–item 2+item 3–item 4+item 5+item 6–item 7–item 8+item 9+item 10–item 11–item 12)	6,929,522
13.2	Movement in profit/loss	(494,757)
14	Payments to the budget from profit, charity and other expenses	2,572
15	Operating cash flows before movement in current assets/liabilities (items 13 + 14)	6,437,337
MOVEMENT IN CURRENT ASSETS		
16	Mandatory reserves with the Central Bank of the Russian Federation	(2,471,258)
17	Due from credit organisations	252,170
18	Investment in securities	(98,744)
19	Loan and similar arrearages	(36,309,780)
20	Other assets	2,231,218
MOVEMENT IN CURRENT LIABILITIES		
21	Loans from the Central Bank of the Russian Federation	0
22	Due to credit organisations	19,731,491
23	Customer funds	10,124,506
24	Other liabilities	(2,395,818)
25	Net operating inflow/outflow: (item 16+item 17+item 18+item 19+item 20+item 21+item 22+item 23+item 24)	(8,936,215)
26	Net operating inflow/outflow (item 15+item 25)	(2,498,878)
II INVESTMENT CASH FLOWS		
27	Fixed and intangible assets, household equipment, small items	(271,798)
28	Placement in investment in securities	0
29	Investment in securities held for dealing purposes	(4,354,455)
30	Net investment inflow: (item 27+item 28+item 29)	(4,626,253)
III FINANCIAL INFLOW/OUTFLOW		
31	Charter capital (shareholders' equity)	0
32	Treasury shares	0
33	Issuance income	0
34	Funds and revenues retained	369,000
35	Dividends yield over the current year	0
36	Debentures issued	9,908,366
37	Net financial inflow/outflow: (item 31+item 32+item 33+item 34+item 35+item 36)	10,277,366
38	Positive/negative revaluation of exchange and other foreign currency items, precious metals and securities; accrued and other funds not accounted for, and other items	(1,102,953)
39	Net inflow/outflow of cash and equivalents: (item 26+item 30+item 37+item 38)	2,049,282
40	Amount of cash and equivalents at the start of the reported period	15,284,822
41	Amount of cash and equivalents at the end of the reported period (item 39+item 40)	17,334,104

COMPLIANCE WITH THE BASIS REQUIREMENTS OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION as at 1 January 2003

No. 1	Prudential ratios and provisions 2	Amount or percentage as of the reporting date 3
1.	Actual capital adequacy ratio (N1 in %)	15.4
2.	Average provision for losses on loans according to the Central Bank of the Russian Federation (thousands of RUR)	14,666,732
3.	Actual provision for losses on loans (thousands of RUR)	14,666,732
4.	Estimated securities depreciation reserve and loan loss provision according to the Central Bank of the Russian Federation (thousands of RUR)	523,214
5.	Actual securities depreciation reserve and loan loss provision according to the Central Bank of the Russian Federation (thousands of RUR)	523,214

[signed]

R.F. Khvesiuk,
Chairman of Executive Board

[Signed]

M.I. Popova,
Chief Accountant

[seal of Alfa-Bank]

The audited annual financial statements have been prepared in all material respects in conformity with applicable law and regulatory acts governing the procedure for the keeping and preparation of statements and with the accounting principles accepted in the Russian Federation. The fairness of the balance sheet, profit and loss statement, cash flow reports and data on compliance with the principal requirements established under the Central Bank of the Russian Federation regulatory acts is hereby confirmed.

Detailed information on the fairness of the lending organisation's financial statements, including information on the above data, is contained in the audit report on the fairness of the lending organisation's financial statements as of 1 January 2003.

ZAO "BDO UniconRuf"
License No. E 000547
License issue date 25 June 2002 valid until 24 June 2007
issued by: Russian Federation Finance Ministry
General Director: R.A. Dubinskiy

[signed]

N.V. Kharlamova,
Deputy General Director, Managing Director,
Audit Services Department
(order No. 055 of General Director of
ZAO "BDO UniconRuf" dated 10 April 2003)

[signed]

V.M. Volkov, Auditor

[seal of ZAO "BDO UniconRuf"]

18 April 2003

AUDITORS' REPORT — APRIL 2002

The following is the text of a report (translated into English) received by the Shareholders of Alfa Bank in respect of the financial year ended 31 December 2001, proposed by the Auditors of Alfa Bank:

"AUDIT REPORT

OF INDEPENDENT AUDIT COMPANY ZAO UNICON/MS CONSULTING GROUP ON THE FAIRNESS OF THE ACCOUNTING REPORTS OF OPEN JOINT-STOCK COMPANY "ALFA-BANK" PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF RUSSIAN LAW, BASED ON THE OPERATING RESULTS FOR THE YEAR ENDED ON 31 DECEMBER 2001.

Outgoing No. 1399, dated 5 April 2002

Moscow
2002

1. Introduction

The audit of the enclosed accounting reports of OPEN JOINT-STOCK "ALFA-BANK" (hereinafter ALFA-BANK) for 2001 has been conducted by ZAO UNICON/MS Consulting Group on the basis of Contract No. 111-10303/2001 dated 5 November 2001.

Brief information on ZAO UNICON/MS Consulting Group

ZAO UNICON/MS Consulting Group is registered with Moscow Registration Chamber.

State Registration Certificate No. 272.543 dated 5 October 1992

Bank instructions:

INN 7716021332

Clearing account 40702810938270101484 with Moscow Tsaritsyno OSB No. 7978 of Sberbank of Russia

Correspondent account 30101810400000000225

BIK 044525225

OKONKh 84400, **OKPO** 11450284

Mail address: 125, Varshavskoye shosse, Moscow, 113545

Telephones: (095) 319 4656, 319 6636

Tel./Fax: (095) 319 5909

E-mail: reception@unicon-ms.ru

General Director — Dubinsky, Andrei Yurievich

ZAO UNICON/MS Consulting Group holds:

General Audit License No. 006332 issued by Russian Federation Ministry of Finance pursuant to Russian Federation Ministry of Finance Order No. 356 of 27 December 1999, dated 16 February 2002, valid until 27 December 2002.

Bank Audit License No. 0066332 issued by the Central Certification and Licensing Audit Commission of the Central Bank of the Russian Federation pursuant to Resolution No. 4 of 18 June 1998, dated 18 June 1998, valid until 18 June 2003.

License to Audit Insurance Organizations and Mutual Insurance Companies (Insurer Audit) No. 013793 issued by the Central Certification and Licensing Audit Commission of Russian Federation Finance Ministry pursuant to Resolution No. 54 of 27 March 1998, dated 15 April 1998, valid until 15 April 2003.

License No. 000001 to Audit Stock Exchanges, Off-Budget Funds and Investment Institutions issued by Russian Federation Ministry of Finance pursuant to Russian Federation Ministry of Finance Order No. 132 of 7 June 1999, dated 7 June 1999, valid until 7 June 2002.

Evaluator Activities License No. 000006 issued by Russian Federation Ministry of Property Relations pursuant to Russian Federation Ministry of Property Relations Resolution No. 2220-r of 1 August 2001, dated 6 August 2001, valid until 6 August 2004.

Information Security License No. 001106 issued by the State Technical Commission under the President of the Russian Federation, dated 27 July, valid until 27 July 2004.

License No. B 310622 to Perform Operations Related to the Use of Data Constituting State Secret, issued by Moscow and Moscow Region Department of the Federal Security Service of Russia, dated 27 May 2001, valid until 27 April 2005.

Natalia Vasileivna Kharlamova, Managing Director of the Audit Services Department, is authorized to sign the Audit Report on the ground of Order No. 262 issued by General Director of ZAO UNICON/MS Consulting Group, dated 27 December 2001; General Audit Certificate No. 025432 of Russian Federation Finance Ministry is issued on the ground of a Resolution of the Central Certification and Licensing Audit Commission, dated 25 March 1999, and is valid until 25 March 2002 (pending extension).

The audit was conducted from 13 December to 28 February 2002.

The Audit Report was issued on 5 April 2002.

The following auditors, who are staff members of ZAO UNICON/MS Consulting Group, took part in the audit:

Vladimir Mikhailovich Volkov	— CB RF Qualification Certificate No. 029070 to engage in bank audits from 11 July 2000 to 11 July 1998, extended until 27 July 2004 inclusive;
Irina Vuacheslavovna Yegorova	— CB RF Qualification Certificate No. 034870 to engage in bank audits from 30 March 2001 to 29 March 2004;
Nadezhda Mikhailovna Zaitseva	— CB RF Qualification Certificate No. 034874 to engage in bank audits from 30 March 2001 to 29 March 2004;
Liudmila Nikolayevna Kalupayeva	— CB RF Qualification Certificate No. 012367 to engage in bank audits from 30 December 1997 to 29 December 2000; extended until 29 December 2003;
Natalia Borisovna Korfidova	— CB RF Qualification Certificate No. 012969 to engage in bank audits from 3 October 2000 to 2 October 2003;
Andrei Anatolievich Pervushin	— CB RF Qualification Certificate No. 034874 to engage in bank audits from 26 January 1999 to 25 January 2002;
Elena Alexandrovna Stanko	— CB RF Qualification Certificate No. 005501 to engage in bank audits from 22 January 1997 to 21 January 2000, extended until 20 January 2003;

The following specialists, who are staff members of ZAO UNICON/MS Consulting Group, did not hold certificates to conduct bank audits as of the moment of the audit:

— Svetlana Borisovna Starikova;

— Tatiana Alexandrovna Stoskova;

2. Concluding part

AUDIT REPORT

OF INDEPENDENT AUDIT COMPANY ZAO UNICON/MS CONSULTING GROUP ON THE FAIRNESS OF THE ACCOUNTING REPORTS OF OPEN JOINT-STOCK COMPANY "ALFA-BANK" PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF RUSSIAN LAW, BASED ON THE OPERATING RESULTS FOR THE YEAR ENDED ON 31 DECEMBER 2001

To shareholders of OAO ALFA-BANK

We have audited of the enclosed accounting reports prepared on OAO ALFA-BANK operating results for 2001.

We conducted our audit in accordance with Federal Law No. 119-FZ "On Auditing Activities" dated 7 August 2001, Bank of Russia Regulation No. 10-P "On the Procedure for Drawing Up and Submitting an Auditor Report to the Bank of Russia, Based on the Credit Institution's Operating Results for the Year", audit regulations (standards) approved by the Commission on Audit Activities under the President of the Russian Federation, bank audit regulations (standards) approved by the Bank Audit Expert Committee under the Central Bank of the Russian Federation, and internal audit standards.

The preparation of these accounting reports is the responsibility of the management of OAO ALFA-BANK. We undertake to produce an opinion on the fairness of these reports in all material respects, based on the conducted audit.

We planned and conducted the audit so as to be sufficiently confident that the accounting reports do not contain essential errors, misstatements and meet Russian law requirements in respect of conducting banking operations.

The audit included examination, on a test basis, of evidence supporting the amounts and explanations contained in the accounting reports. Besides, the audit included assessment of the accounting policy practiced by OAO ALFA-BANK, as well as evaluation of the overall presentation of the accounting reports in order to ascertain compliance of such reports with standard acts of the Russian Federation.

A number of financial and business operations conducted by the management of OAO ALFA-BANK were only audited by us in order to assure that the accounting reports are free of material misstatements, and to observe the requirements of the Commission on Audit Activities under the President of the Russian Federation, Bank Audit Expert Committee under the Central Bank of the Russian Federation, and internal standards of audit activities applicable to prepare an auditor report. We believe that the conducted audit has provided us with substantial grounds to express opinion on the fairness of the accounting reports.

The audited accounting reports have been in all material respects prepared in conformity with legislation and standard acts regulating the procedure for accounting and drawing up accounting reports, and in accordance with accounting principles adopted in the Russian Federation. The fairness of the balance sheet, profit and loss account, cash flow statement, and data reflecting the fulfillment of basic requirements established by standard acts of the Russian Federation has been verified.

Managing Director of the Audit Services Department [signed and sealed] N.V. Kharlamova Auditor

[signed and sealed] V.M. Volkov

5 April 2002."

BALANCE SHEET
as at 1 January 2002

		As at 1 January 2002 (RUR '000)
ASSETS		
1	Balances with the Central Bank of the Russian Federation	12,383,767
2	Mandatory reserves with the Central Bank of the Russian Federation	942,442
3	Due from other banks (net) (3.1–3.2)	1,116,886
3.1	Due from other banks (gross)	0
3.2	Provision for losses	0
4	Trade securities (net) (4.1–4.2)	959,952
4.1	Trade securities (gross)	961,450
4.2	Provision for diminution in value	1,498
5	Loans (gross)	90,707,145
6	Provision for losses	262,545
7	Loans (net) (5–6)	0
8	Accrued interest income (including overdue interest)	8,273,109
9	Investments held to maturity (net) (9.1–9.2)	82,434,036
9.1	Investments held to maturity (gross)	0
9.2	Provision for diminution in value	0
10	Fixed and intangible assets, household equipment, small items	2,022,189
11	Investments available for sale (net) (11.1–11.2)	1,405,246
11.1	Investments available for sale (gross)	1,406,644
11.2	Provision for diminution in value	1,398
12	Deferred expense	92,641
13	Other assets (net) (13.1–13.2)	5,719,892
13.1	Other assets (gross)	0
13.2	Provision for losses	0
14	**Total assets** (1+2+3+4+7+8+9+10+11+12+13)	107,339,596
LIABILITIES		
15	Due to the Central Bank of the Russian Federation	0
16	Due to banks	19,365,870
17	Customer accounts	49,609,799
17.1	— including accounts of individuals	13,991,896
18	Deferred income	2,713
19	Promissory notes	9,279,985
20	Other liabilities	5,649,939
21	Provision for losses arising in futures, off-balance liabilities, settlement with debtors on off-shore transactions	580,467
22	**Total liabilities** (15+16+17+18+19+20+21)	84,488,773
SHAREHOLDERS' EQUITY		
23	Share capital (23.1+23.2+23.3)	768,679
23.1	Registered ordinary stock	768,679
23.2	Registered preferred stock	0
23.3	Non-registered stock	0
24	Treasury stock	0
25	Share premium	19,927,045
26	Retained earnings	2,159,212
27	Revaluation of premises and equipment	38,208
28	Net Profit (loss) for the reported period	494,757
29	Current year dividends	0
30	Allocation of profit (excluding dividends)	2,769
31	Unallocated profit:(items 28–29–30)	491,988
32	Additional provisions	534,309
33	**Total shareholders' equity** (23–23.3–24+25+26+27+31–32)	22,850,823
34	**Total liabilities and shareholders' equity** (22+23.3+33)	107,339,596
OFF-BALANCE SHEET LIABILITIES		
35	Irrevocable commitments	27,762,553
36	Guarantees issued by the Bank	8,061,276

INCOME STATEMENT
for the year ended 31 December 2001

		For the year ended 31 December 2001 (RUR '000)
INTEREST INCOME ON		
1	Interbank loans	453,896
2	Loans and advances to customers	5,836,356
3	Leasing	0
4	Fixed-income securities	210,838
5	Other interest income	2,292
6	**Total interest income** (1+2+3+4+5)	6,503,382
INTEREST EXPENSE ON		
7	Interbank deposits	622,302
8	Customer deposits	1,039,523
9	Promissory notes	624,043
10	Rent	325,202
11	**Total interest expense** (7+8+9+10)	2,611,070
12	Net interest income (6–11)	3,892,312
13	Commission income	1,709,123
14	Commission expense	261,361
15	Net commission income (13–14)	1,447,762
OTHER OPERATING INCOME		
16	Income from trading in foreign currency and foreign exchange translation gain	16,493,943
17	Income from trading in precious metals, securities and other assets including revaluation gain (mark to market)	2,609,717
18	Dividends	7,119
19	Other operating income	237,011
20	**Total other operating income** (16+17+18+19)	19,347,790
21	Net revenues (12+15+20)	24,687,864
OPERATING EXPENSES		
22	Staff costs	617,415
23	Maintenance	1,504,190
24	Loss from trading in foreign currency and foreign exchange translation loss	16,165,179
25	Loss from trading in precious metals, securities and other assets including revaluation loss (mark to market)	1,809,235
26	Other operating expenses	729,576
27	**Total operating expenses (22+23+24+25+26)**	20,825,595
28	Net profit before provisions and extraordinary items (21–27)	3,862,269
29	Provision/(recovery) for losses on loans	3,830,620
30	Provision/(recovery) for diminution in value of investments	(504,395)
31	Other provisions/(recovery)	41,287
32	Net profit before extraordinary items (28–29–30–31)	494,757
33	Extraordinary items	0
34	Net profit before taxation (32+33)	494,757
35	Profit tax	2,683
36	Deferred profit tax	0
36a	Extraordinary items after tax	0
37	Net profit (34–36–36a)	494,757

STATEMENT OF CASH FLOWS
for the year ended 31 December 2001

Name of the credit institution: OPEN JOINT-STOCK COMPANY “ALFA-BANK”, OAO ALFA-BANK
Registration No. 1326 BIK-code 044525593
Mail address: 9, Mashy Poryvayevoi Str., Moscow, 107078

No.	Item	Cash flow for the reporting period
1	2	3 (RUR ’000)
1	**Cash flow from operating activities**	
1.	Interest income	6,503,382
2.	Interest expense	2,611,070
3.	Commission income	1,709,123
4.	Commission expense	261,361
5.	Income on operations with foreign currency and other currency denominated instruments	6,363,281
6.	Income on sale and purchase operations with precious metals, securities and other assets	2,571,557
7.	Losses on operations with foreign currency and other currency denominated instruments	5,873,945
8.	Losses on sale and purchase operations with precious metals, securities and other assets	1,808,635
9.	Dividends received	7,119
10.	Other operating income	237,011
11.	Other operating expenses	2,851,181
12.	Extraordinary loss, net of tax	0
13.	**Total income/expenses** (items 13.1. + item 13.2) including	3,973,437
13.1.	Income/expenses (items 12 + item 3 + item 4 + item 5 + item 6 + item 7 + item 8 + item 9 + item 10 + item 11 + item 12)	3,985,281
13.2.	Change in income/expenses	(11,844)
14.	Taxes paid from profit, expenses for charity and other purposes	9,075
15.	Cash flow from operating activities before changes in current assets/liabilities (items 13 + 14)	3,982,512
	Movement in current assets	
16.	State debt securities	(592,895)
17.	Due from credit institutions	(2,022,970)
18.	Trading securities	307,639
19.	Loans and other advances	(47,276,224)
20.	Assets leased out	0
21.	Other assets	(4,527,677)
	Movement in current liabilities	
22.	Due to the Central Bank of the Russian Federation	0
23.	Due to credit organisations	6,298,869
24.	Client funds	25,699,238
25.	Other liabilities	2,056,108
26.	Net inflow/outflow of cash from current operations (item 16 + item 17 + item 18 + item 19 + item 20 + item 21 + item 22 + item 23 + item 24 + item 25)	(20,057,912)
27.	Net inflow/outflow from operating activities (item 15 + item 26)	(16,075,400)
II	**Investment cash flows**	
28.	Fixed assets and intangible assets, office supplies and low-value and unendurable items	(614,778)
29.	Long-term investments in securities and stakes (book value)	(937,806)
30.	Net inflow/outflow of cash from investing activities (item 28 + item 29)	(1,552,584)
III	**Financial cash flows**	
31.	Charter capital (equity of shareholders (participants))	2100
32.	Treasury stock (stakes) repurchased from shareholders (participants)	0
33.	Income from issue	810,208
34.	Funds and retained earnings left at the credit institution’s disposal	(122,289)
35.	Current year dividends	0
36.	Debt securities issued	1,425,648
37.	Net inflow/outflow of cash from financial activities (item 31 + item 32 + item 33 + item 34 + item 35 + item 36)	2,115,667
38.	Gains/losses from translation of foreign currencies and other currency denominated instruments, precious metals, and securities; revaluation of fixed assets; accruals and other amounts not included in the financial results	(658,109)
39.	Net increase/decrease in cash and cash equivalents (item 27 + item 30 + item 37 + item 38)	(16,170,426)
40.	Cash and cash equivalent at the beginning of the reporting period	31,429,592
41.	Cash and cash equivalent at the end of the reporting period (item 39 + item 40)	15,259,166

COMPLIANCE WITH THE BASIS REQUIREMENTS OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION as at 1 January 2002

No.	Prudential ratios and provisions	Amount or percentage as of the reporting date
1	2	3
1.	Actual capital adequacy ratio (N1 in %)	21.2
2.	Average provision for losses on loans according to the Central Bank of the Russian Federation (thousands of RUR)	8,273,109
3.	Actual provision for losses on loans (thousands of RUR)	8,273,109
4.	Estimated amount of securities depreciation reserve as per requirements of the Central Bank of the Russian Federation (thousands of RUR)	2,896
5.	Amount of available securities depreciation reserve (thousands of RUR)	2,896
6.	Estimated amount of provisions for possible losses calculated as per the requirements of the Central Bank of the Russian Federation (thousands of RUR): from 1 October 2001 — 20% of the estimated provision; from 1 April 2002 — 50% of the estimated provision; from 1 October 2002 — 100% of the estimated provision	267,843
7.	Amount of actually available provisions for possible losses (thousands of RUR)	268,017

Chairman L.B. Vid [signed]
(signature) [sealed]

Chief Accountant M.I. Popova [signed]
(signature)

The audited accounting reports have been in all material respects prepared in conformity with legislation and standard acts regulating the procedure for accounting and drawing up accounting reports, and in accordance with accounting principles adopted in the Russian Federation. The fairness of the balance sheet, profit and loss account, cash flow statement, and data reflecting the fulfillment of basic requirements established by standard acts of the Russian Federation has been verified.

Detailed information on the fairness of the credit institution's accounting reports, including information on the above figures, is contained in the Audit Report on the fairness of the credit institution's accounting reports as of 1 January 2002.

ZAO UNICON/MS Consulting Group

License No. 006332

The License is issued on 18 June 1998.

The License is valid until 18 June 2003.

The License was issued by the Central Certification and Licensing Audit Commission of the Central Bank of the Russian Federation.

General Director A.Yu. Dubinsky

Managing Director of the Audit Services Department
(Order No. 262 of General Director of
ZAO UNICON/MS Consulting Group, dated 27.12.2001)

[signed] N.V. Kharlamova

[sealed]

Auditor [signed] V.M. Volkov

5 April 2002

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