U.S.$225,000,000 8.625% Loan Participation Notes due 2015 with interest rate step-up in 9 December 2010 issued by, but without recourse to, Alfa Bond Issuance PLC for the sole purpose of financing a subordinated loan to Open Joint-Stock Company "ALFA-BANK"

Issue Price: 100%

Alfa Bond Issuance PLC (the "**Issuer**") is issuing an aggregate principal amount of U.S.$225,000,000 8.625% Loan Participation Notes due 2015 with an interest rate step up in 9 December 2010 (the "Notes") for the sole purpose of financing a ten-year subordinated loan (the "Subordinated Loan") to Open Joint-Stock Company "ALFA-BANK" ("Alfa Bank") pursuant to a subordinated loan agreement, dated 7 December, 2005 (the "Subordinated Loan Agreement"), between the Issuer and Alfa Bank. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge and pledge as security for all payment obligations in respect of the Notes to J.P. Morgan Corporate Trustee Services Ltd. as trustee (the "Trustee") for the benefit of the holders of the Notes (the "Noteholders") (a) its rights and interests as lender under the Subordinated Loan Agreement and (b) amounts received pursuant to the Subordinated Loan in an account of the Issuer, in each case other than in respect of certain rights, as more fully described in the Trust Deed.

The Notes are limited recourse secured obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of Alfa Bank in respect of the financial servicing of the Notes.**

On each Interest Payment Date (being 9 June and 9 December in each year, commencing on 9 June, 2006), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan accrues at a rate of 8.625% per annum up to, but excluding, 9 December 2010 (the "Reset Date") and, provided that the Subordinated Loan is not prepaid on or before such date, from and including the Reset Date, at the Step Up Rate of Interest (as defined in the Subordinated Loan Agreement).

Except as set forth herein (see "Taxation"), payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Russian Federation ("Russia") or Ireland.

The Subordinated Loan is intended to qualify as additional capital ("Own Funds") of Alfa Bank under regulations of the Central Bank of Russia (the "CBR"). Under the terms of the Subordinated Loan Agreement, Alfa Bank will have the right to prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, (a) subject to the prior consent of the CBR, at par on the Reset Date or (b) at 101 per cent., if the CBR does not unconditionally approve the Subordinated Loan as Own Funds on or before the Approval Date (as defined in the Subordinated Loan Agreement) or (c) at par at any time after the Approval Date, if, as a result of any amendment to, classification of or change in (including a change in interpretation or application of applicable requirements of) Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Own Funds. In addition, Alfa Bank may, subject to CBR consent, prepay the Subordinated Loan, in whole but not in part, together with accrued and unpaid interest thereon, if it must pay Russian or Irish withholding taxes in respect of the Subordinated Loan. If it becomes illegal for the Issuer to allow the Loan or the Notes to remain outstanding, or for Alfa Bank to allow the Subordinated Loan to remain outstanding, Alfa Bank must, subject to the prior consent of the CBR, prepay the Subordinated Loan, in whole but not in part, together with accrued and unpaid interest thereon. Upon repayment in full of the Subordinated Loan, the Notes will be redeemed and repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "CERTAIN RISK FACTORS." ABH FINANCIAL LIMITED IS NOT GUARANTEEING THE NOTES.

The Notes and the Subordinated Loan have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States of America ("United States") by the managers in accordance with Regulation S under the Securities Act, and may not be offered or sold within the United States or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Application has been made to the UK Listing Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("FSMA") for the Notes issued under this Prospectus to be admitted to trading on the London Stock Exchange plc's Gilt-Edged and Fixed Interest Market (the "Regulated Market") and to be admitted to the Official List.

The Notes will be issued in bearer form in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 thereafter, with coupons for the payment of interest attached. The Notes will initially be represented by a temporary global note (the "Temporary Global Note"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 9 December 2005. The Temporary Global Note will be exchangeable for interests in a permanent global note (the "Permanent Global Note" and, together with the Temporary Global Note, the "Global Notes"), without interest coupons, on or after a date which is expected to be 19 January 2006 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will only be exchangeable for Notes in definitive form in the limited circumstances described under "Summary of the Provisions relating to the Notes in Global Form".

Joint Lead Managers

Barclays Capital **UBS Investment Bank**

Co-manager

Alpha Bank

The date of this Prospectus is 7 December, 2005

IMPORTANT NOTICE

In this Prospectus, references to "Alfa Banking Group" mean ABH Financial Limited ("ABH Financial") and its subsidiaries taken as a whole and references to "Alfa Bank Group" mean Alfa Bank and its subsidiaries taken as a whole. This Prospectus comprises a Prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive").

Each of Alfa Bank and ABH Financial accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of Alfa Bank and ABH Financial (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility for the information in this Prospectus relating to the Issuer (the "Issuer Information"). To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), such Issuer Information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Except where otherwise specified herein, all of the information contained in this Prospectus (including information relating to the Russian banking market and Alfa Banking Group's competitors) has been derived from publicly available information including official data published by Russian government agencies and the Central Bank of the Russian Federation (the "CBR"), Goskom Stat and the Russian federal, regional and local governments. Each of Alfa Bank and ABH Financial accepts responsibility for correctly extracting such information from its sources and confirms that such information has been correctly extracted from its sources. However, each of them has relied on the accuracy of such information without carrying out an independent verification. 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 Russia in this Prospectus 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. Where information has been sourced from a third party, each of Alfa Bank and ABH Financial confirms that this information has been accurately reproduced and that as far as each of them is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Neither this Prospectus nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by Alfa Bank, ABH Financial, the Issuer, the managers named under "Subscription and Sale" (the "Managers") or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the 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 Alfa Bank. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of Alfa Bank, the Issuer, the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the Managers 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 Managers or the Trustee as to the accuracy or completeness at any time of this Prospectus or any supplement hereto. No person has been authorised by Alfa Bank, ABH Financial, the Issuer, the Managers or the Trustee to give any information or to make any representation not contained in this Prospectus or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

This Prospectus does not, and is not intended to, constitute or contain an offer or invitation to any person to purchase Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Notes come are required by Alfa Bank, ABH Financial, the Issuer, the Managers 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 Prospectus and other information in relation to the Notes set out under "Subscription and Sale" below. The Notes have not been and will not be registered under the Securities Act. 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 Securities Act.

None of Alfa Bank, ABH Financial, the Issuer, the Managers 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 must seek such tax or other professional advice as it considers necessary for the purpose.

Application has been made to the UK Listing Authority in its capacity as competent authority under the FSMA for the Notes issued under this Prospectus to be admitted to trading on the Regulated Market and to be admitted to the official list of the UK Listing Authority (the "Official List"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 93/22/EEC (the "Investment Services Directive").

Alfa Bank and ABH Financial will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of itself and the rights attaching to the Notes, prepare a supplement to this Prospectus or publish a new prospectus for use in connection with any subsequent issue of Notes and shall supply to each Manager such number of copies of such supplement hereto as such Manager may reasonably request.

In this Prospectus references to "U.S. dollars" and "U.S.$" are to the currency of the United States, references to "Roubles" and "RUR" are to Russian Roubles, references to "Euro", "EUR" or "€" are to the currency of the member states of the European Union that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended and references to "Sterling" and "£" are to the currency of the United Kingdom. Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Irish Financial Services Regulatory Authority ("IFSRA"). The Issuer is not and will not be regulated by IFSRA as a result of issuing the Notes.

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

ALFA BANK IS THE SOLE BORROWER UNDER THE SUBORDINATED LOAN AGREEMENT AND ITS OBLIGATIONS AND LIABILITIES THEREUNDER ARE NOT GUARANTEED OR OTHERWISE INDEMNIFIED OR SUPPORTED BY ABH FINANCIAL OR ANY OF ABH FINANCIAL'S OTHER SUBSIDIARIES. INVESTORS SHOULD NOT THEREFORE RELY SOLELY ON FINANCIAL INFORMATION SET OUT HEREIN WHICH IS DERIVED FROM, OR ON, ABH FINANCIAL'S CONSOLIDATED FINANCIAL STATEMENTS IN ASSESSING THE FINANCIAL CONDITION OF ALFA BANK.

Certain figures included in this Prospectus 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.

In connection with the Notes, UBS Limited (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure the offer of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

FOR A DISCUSSION OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH ANY INVESTMENT IN THE NOTES, SEE "CERTAIN RISK FACTORS" BEGINNING ON PAGE 7. THIS PROSPECTUS DOES NOT DESCRIBE ALL OF THE RISKS OF AN INVESTMENT IN THE NOTES.

PRESENTATION OF FINANCIAL INFORMATION

The financial and other information included in this Prospectus has, except where expressly stated otherwise, been derived from the consolidated financial statements of ABH Financial and its subsidiaries and not from the financial statements of Alfa Bank. Alfa Bank generates a large part of the revenues, assets, liabilities, expenses and cash flows of Alfa Banking Group.

ABH Financial is an indirect parent company of Alfa Bank. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. ABH Financial will not guarantee the Notes and has no obligation with respect to the Notes. See "Risk Factors—Risks Relating to the Financial Information Presented in this Prospectus—Most of the financial and other information included in this Prospectus relates to the consolidated financial position of ABH Financial, the indirect parent of Alfa Bank, which will not guarantee the Notes".

Historically, Alfa Bank has prepared consolidated and nonconsolidated financial statements in accordance with Russian Accounting Regulations ("RAR"). In 2005 Alfa Bank produced nonconsolidated financial statements for the year ended December 31, 2004 in accordance with International Financial Reporting Standards ("IFRS") in Russian in a format prescribed by, and for the purpose of submission to, the CBR. Neither the IFRS financial statements nor the RAR consolidated financial statements for Alfa Bank have been included in this Prospectus on the basis that Alfa Bank's management believe they do not provide any additional information that would be material to an investor when assessing the financial condition or prospects of Alfa Bank or the risks associated with an investment in the Notes.

Alfa Bank's nonconsolidated RAR financial statements for the years ended December 31, 2004 and 2003 are set out on pages F-5 to F-7 and F-12 to F-15 respectively hereof. ABH Financials' consolidated IFRS financial information for the years ended December 31, 2004 and 2003 and the 6 month period respectively hereof ended June 30, 2005 are set out on pages F-17 to F-59, F-61 to F-103 and F-105 to F-159. Investors should note that RAR financial statements do not contain notes and RAR differs from IFRS in a number of material respects. See "Certain Risk Factors—Financial position and financial statements of Alfa Bank" and "Summary of Certain Differences between IFRS and RAR".

CONTENTS

	Page
Summary of the Offering	1
Description of the Transaction	6
Certain Risk Factors	7
Use of Proceeds	27
The Issuer	28
Exchange Rates	30
Alfa Banking Group	31
Management	50
Asset and Liability Management	56
Selected Statistical and Other Information	61
Related Party Transactions	69
Capital Adequacy	71
Selected Financial and Other Ratios of Alfa Banking Group	74
Subordinated Loan Agreement	75
Terms and Conditions of the Notes	105
Summary of the Provisions relating to the Notes in Global Form	117
The Banking Sector and Banking Regulation in the Russian Federation	119
Enforceability of Civil Liabilities in the Russian Federation	132
Taxation	133
Subscription and Sale	138
General Information	141
Summary of Certain Differences between IFRS and RAR	143
Index to Financial Statements	F-1

SUMMARY OF THE OFFERING

Issuer:	Alfa Bond Issuance PLC
Borrower:	Open Joint-Stock Company "ALFA-BANK"
Joint Lead Managers:	Barclays Bank PLC UBS Limited
Trustee:	J.P. Morgan Corporate Trustee Services Ltd.
Principal Paying Agent:	JPMorgan Chase Bank, N.A.
Use of Proceeds:	The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Subordinated Loan. The proceeds of the Subordinated Loan, expected to be U.S.$225,000,000 before taking account of commissions, fees and expenses, will be used by Alfa Bank for general corporate purposes. Total commissions, fees and expenses relating to the offering of the Notes are expected to be approximately U.S.$1,398,000 and will be financed by Alfa Bank. See "Use of Proceeds."
Interest:	The Issuer will account, semi-annually in arrear in 9 June and 9 December in each year to the Noteholders for an amount equal to the amounts of interest actually received by it pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 8.625 per cent. per annum from the Issue Date to the Reset Date (comprised of the prevailing U.S. Treasury Rate plus a margin of 4.185 per cent. (the "Margin")). If the Subordinated Loan is not prepaid at or before such time, interest will accrue from and including the Reset Date, at the Step Up Rate of Interest (as defined in the Subordinated Loan Agreement), all as more fully described under "Terms and Conditions of the Notes." The Step Up Rate of Interest will be the sum of the U.S. Treasury Rate on the second Business Day immediately preceding the Reset Date and 150 per cent. of the Margin.
Limited Recourse:	The Notes will constitute the obligation of the Issuer to apply an amount equal to the proceeds from the issue of the Notes solely for the purpose of financing a Subordinated Loan to Alfa Bank pursuant to the terms of the Subordinated Loan Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received from Alfa Bank under the Subordinated Loan Agreement less amounts in respect of the Reserved Rights (as defined under "Terms and Conditions of the Notes").
Status of the Notes:	The Notes constitute limited recourse, secured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without preference among themselves, all as more fully described under "Terms and Conditions of the Notes – Status and Limited Recourse."
Status of the Subordinated Loan:	The claims of the Issuer against Alfa Bank in respect of the principal of, and interest on, the Subordinated Loan will be subordinated, in the event of the winding up of Alfa Bank or in the event of the administration of Alfa Bank where the administrator makes a distribution to creditors, to the claims of Senior Creditors (as defined

	in the Subordinated Loan Agreement) in accordance with the Federal Law "On Insolvency (Bankruptcy) of Credit Organisations" No. 40-FZ dated 25 February 1999 (as amended or superseded from time to time) and will rank at least *pari passu* with the claims of other subordinated creditors of Alfa Bank (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of (a) Alfa Bank's share capital (including preference shares) and (b) all other obligations ranking junior to the claims of the Issuer pursuant to applicable law or otherwise. The Issuer shall not be entitled to offset any liabilities of Alfa Bank under the Subordinated Loan Agreement against any liabilities owing by the Issuer to Alfa Bank.
Security:	The Notes are secured by a charge and pledge to the Trustee of the Issuer's rights under the Subordinated Loan Agreement (other than the Reserved Rights (as defined under "Terms and Conditions of the Notes")) and a first fixed charge to the Trustee of sums held on deposit in the Account (as defined under "Terms and Conditions of the Notes"), all as more fully described under "Terms and Conditions of the Notes".
Form:	The Notes will be in bearer form and will be issued in the denomination of U.S.$100,000 per Note (the "Minimum Denomination") and further integral multiples of U.S.$1,000 thereafter. However for so long as the Notes are represented by a Global Note, and Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme so permit, the Notes shall be tradable in minimum nominal amounts of U.S.$100,000 and integral multiples of U.S.$1,000 thereafter. If definitive Notes are required to be issued they will only be printed in denominations of U.S.$100,000. Consequently a Noteholder who holds Notes in the relevant clearing system in amounts that are not integral multiples of the Minimum Denomination may need to purchase or sell, prior to the Exchange Date, a principal amount of Notes such that its holding is an integral multiple of the Minimum Denomination. Under no circumstances will definitive Notes be printed in respect of an amount of Notes which is less than the Minimum Denomination and any Noteholder which on the Exchange Date holds Notes having a nominal amount which cannot be represented by a definitive Note in the Minimum Denomination will not be entitled to receive a definitive Note in respect of such Notes or to receive payments of interest or principal in respect of such Notes. The Notes will initially be represented by a Temporary Global Note, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable for interests in a Permanent Global Note, without interest coupons, on or after a date which is expected to be 40 days after the date of issue of such Notes, upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will only be exchangeable for Notes in definitive form in limited circumstances.

Prepayment Option:	Under the terms of the Subordinated Loan Agreement, Alfa Bank will have the right to prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, (a) subject to the prior consent of the CBR, at par on the Reset Date or (b) at 101 per cent. if the CBR does not unconditionally approve the Subordinated Loan Agreement and the Subordinated Loan as Own Funds on or before the Approval Date or (c) at par at any time after the Approval Date, if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or other applicable requirements of the CBR the Subordinated Loan Agreement and the Subordinated Loan would cease to qualify as Own Funds.
Tax Redemption:	Alfa Bank may, on or after the Reset Date and subject to the prior consent of the CBR, prepay the Subordinated Loan, in whole but not in part, plus accrued and unpaid interest thereon, if it must pay Russian or Irish withholding taxes in respect of the Subordinated Loan or certain increased costs of the Issuer with respect to the Subordinated Loan or Irish withholding taxes with respect to the Notes.
Illegality:	If it becomes illegal for the Issuer to allow all or part of the Loan or the Notes to remain outstanding, or for the Alfa Bank to allow all or part of the Loan to remain outstanding, Alfa Bank must, subject to the prior consent of the CBR, prepay the Subordinated Loan, in whole but not in part, together with accrued and unpaid interest thereon.
Covenants:	The Subordinated Loan Agreement will, among other things and, with certain exceptions, restrict the ability of Alfa Bank, ABH Financial or any of ABH Financial's material subsidiaries to enter into certain transactions with affiliates; pay certain dividends and other restricted payments or create any consensual restrictions on the ability of any material subsidiary of ABH Financial to pay dividends or make distributions on its share capital; dispose of certain assets; or enter into any reorganisation.
Events of Default:	If an Event of Default (as defined in the Subordinated Loan Agreement) or a Relevant Event (as defined under "Terms and Conditions of the Notes") occurs and is continuing, the Trustee may, subject as provided in the Trust Deed, (a) require the Issuer to declare all amounts payable under the Subordinated Loan Agreement by the Bank to be due and payable and do all such other acts in connection therewith that the Trustee may direct or (b) enforce any rights under the security created in the Trust Deed in favour of the Noteholders. The Events of Default are limited to payment default and winding-up. If there is an Event of Default relating to a payment default or a winding-up, the Trustee may declare all amounts due under the Subordinated Loan Agreement immediately due and payable.
Relevant Event:	If a Relevant Event (as defined under "Terms and Conditions of the Notes") occurs, the Trustee may, subject to the provisions of the

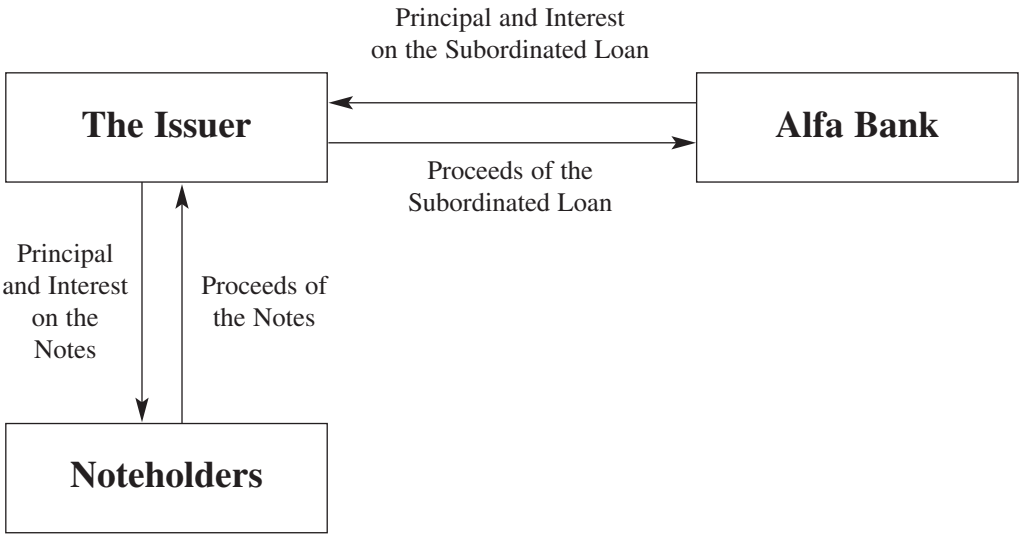
	Trust Deed, enforce the security created in favour of the Noteholders.
Ratings:	Alfa Bank is rated by three rating agencies: Fitch Ratings Ltd. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw Hill Companies Inc. ("Standard & Poor's"). Alfa Bank has received a long term credit rating of B+ (outlook stable) from Fitch, Ba2 (outlook positive) from Moody's and BB- (outlook stable) from Standard and Poor's. The Notes have been rated Ba3 (positive outlook) by Moody's, B by Standard & Poor's and B– by Fitch. 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. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy or sell securities and may be subject to revision, suspension or withdrawal at time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Alfa Bank could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Withholding Tax:	All payments of principal and interest under the Subordinated Loan and in respect of the Notes will be made free and clear of all taxes, duties, assessments or governmental charges of Ireland or Russia save as required by law. If any taxes, duties, assessments or governmental charges are payable in either or both of the above jurisdictions, the sum payable by Alfa Bank will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives and retains an amount which it would have received had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from Alfa Bank for the purpose. See "Terms and Conditions of the Notes".
Listing:	Application has been made to the UK Listing Authority for the Notes to be admitted to trading on the Regulated Market and to be admitted to the Official List.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be offered or sold in other jurisdictions (including the United Kingdom, Russia, Italy and Ireland) only in compliance with applicable laws and regulations. See "Subscription and Sale".

Governing Law:	The Notes, the Subordinated Loan Agreement and the Trust Deed will be governed by English law.
Security Codes:	ISIN: XS0237792428
	Common code: 023779242
Certain Risk Factors:	**For a discussion of certain risk factors relating to Alfa Bank, the Issuer and the Notes that prospective investors should carefully consider prior to an investment in the Notes see "Certain Risk Factors".**

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Subordinated Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "Subordinated Loan Agreement" appearing elsewhere in this Prospectus.

The transaction will be structured as a subordinated loan to Alfa Bank by the Issuer. The Issuer will issue Notes to Noteholders for the sole purpose of funding the Subordinated Loan. The Notes will be constituted by the Trust Deed entered into between the Issuer and the Trustee. Pursuant to the Trust Deed the Issuer will charge by way of first fixed security and pledge by way of first fixed charge (a) certain of its rights and interests under the Subordinated Loan and (b) all its rights, title and interest in and to all sums held on deposit from time to time in an account with JPMorgan Chase Bank, N.A., account number 32659001 (in each case other than certain Reserved Rights, as defined under "Terms and Conditions of the Notes") to the Trustee as security (the "**Security Interests**") for the benefit of the Noteholders for its payment obligations in respect of the Notes. If and when the first fixed charge and pledge of certain of the Issuer's rights and interests under the Subordinated Loan are enforced, the Trustee will assume the rights of the Issuer under the Subordinated Loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed. This offering is made on a limited recourse basis and the Issuer will not have any obligations to the Noteholders except to account to the Noteholders for amounts equivalent to the amounts of payments of principal, interest and additional amounts (if any) under the Subordinated Loan if and to the extent actually received and retained from Alfa Bank. The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to the Noteholders. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts. To the extent that Alfa Bank complies with its obligations under the Subordinated Loan Agreement, the Issuer will receive sufficient funds under the Subordinated Loan Agreement in order to service expected payments on the Notes.



CERTAIN RISK FACTORS

Investments in the Notes involve a high degree of risk. Investors may lose the value of their entire investment or part of it, as the case may be. Potential investors should carefully review this entire Prospectus 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 Alfa Bank, the Issuer and/or their 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.

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 seven 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). 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). There has been a tendency for the Russian Government to reduce the number and reconsider the composition of constituent entities. In accordance with the results of referenda held in 2003, the Federal Constitutional Law of 25 March 2004 provides that Permskaya Oblast and Komi Perm autonomous region will be merged into a unified Permsky krai from 1 December 2005. Following the referenda held on 17 April 2005, each of Krasnoyarsky krai, the Taimyrsky and Evenkiysky autonomous regions will be merged into one (Krasnoyarsky krai) from 1 January 2007. 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. The system of constituent entities is supplemented by the system of seven federal districts (federalny okrug) supervised by representatives of the President. Tensions between the federal and local authorities are not unusual in Russia. There has been a move towards centralisation of the country's governance by reducing the independence of local government. On 11 December 2004, legislation was amended to provide for Russia's 89 regional governors to be appointed by the President of the Russian Federation, rather than elected as was previously the case. This reform has provoked fears of further "usurpation of power" by the President and of a threat to democratic principles. 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. Recent terrorist activity in the Middle East region and elsewhere has had a significant effect on international and domestic financial and commodity markets. In the past few years Russia has suffered a number of terrorist attacks, including suicide bombings, bombings of two domestic airline passenger flights and hostage taking at a school in Beslan, Russia, resulting in significant loss of life and damage to property. In addition, in October 2005, terrorists conducted a co-ordinated series of attacks on police and other government buildings in Nalchik, Kabardino-Balkaria. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodity markets and the global economy in general and on Alfa Bank's financial results in particular.

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. Despite Yukos' filing for Chapter 11 protection in the U.S., 100% of the voting shares in Yuganskneftegaz (Yukos' main oil extracting subsidiary) were sold at an auction organised by the Russian Federal Property Fund to recover Yukos' debt to the tax authorities. Standard & Poor's downgraded Yukos further to D in December 2004. There has been considerable volatility in the Russian stock market in the context of these events. In May 2005, Mikhail Khodorkovsky was sentenced to nine years in prison by a Russian district court (later commuted to eight years). 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. 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 (U.S.$107.6 billion as at 1 July 2005), 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 reemergence 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 nascent 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.

The Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from actions taken by the CBR and a crisis of confidence among Russian banking customers. During July 2004, the CBR revoked the banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending system and to liquidity pressure for many Russian banks. The collapse of a number of Russian banks caused panic among depositors and even reliable larger banks, such as Alfa Bank, experienced deposit withdrawals. Although the Russian banking market has since stabilised to a significant degree, similar actions taken in the future by the CBR could undermine depositors' trust in the Russian banking system and create overall instability in the markets, which could have a negative effect on Alfa Bank's performance and financial results.

Alfa Bank enters into transactions with derivative instruments, including foreign currency options, and plans to continue to develop risk management tools by utilising financial products or models. 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 Equities Department derives a significant income from equity derivative operations. The Russian authorities are considering a number of legislative changes such as the lifting of restrictions on foreign persons investing in the shares of certain Russian companies. The lifting of such restrictions could allow foreign persons to invest directly in these Russian companies and it is unclear what impact this might have on this market.

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. 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. Many Russian companies were privatised in the middle of the 1990s, when privatisation legislation was at times vague, inconsistent and conflicted with other applicable law. To the extent such conflicts exist, including conflicts between federal and local privatisation legislation, most, if not all, privatisations are arguably deficient and therefore vulnerable to challenge at least on formal grounds. At the same time, the Russian Government is taking some steps to provide additional security for investors in the sphere of privatised business. For example, the Government recently reduced the statute of limitations for the invalidation of privatisations from ten to three years. 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. 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 underdeveloped and underfunded. 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. Further, 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 2002 Arbitration Procedural Code of the Russian Federation regulating the resolution of commercial disputes came 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 and arbitral awards

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions (including the United Kingdom and Ireland) 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) and the United Kingdom are parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Notes and other transactional 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, 10% 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, President Putin signed a Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") which has replaced the former Federal Law "On Currency Regulation and Currency Control" of 1992. Most of the provisions of the New Currency Control Law 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 new forms of currency control (such as the deposit of reserve amounts into non interest bearing accounts 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, under the New Currency Control Law, Russian banks may be required by the CBR to reserve at the CBR the Rouble equivalent of either up to 100% of the total amount of their non banking transactions for a period of up to 60 days, or up to 20% of the amount of such transactions for a period of up to one year. Under Directive No. 1425-U dated 28 April 2004, the CBR established a list of banking and non banking transactions between authorised Russian banks that are exempt from all currency control restrictions and provided that

other currency operations by authorised banks shall be subject to the general currency control regime applicable to Russian resident legal entities, unless otherwise determined by the CBR (see "The Banking Sector and Banking Regulation in the Russian Federation — Banking and Other Relevant Reforms").

The 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, 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 enacted and implemented regulations imposing currency control restrictions on banks 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 regulation may hamper Alfa Bank's ability to receive foreign funding and make loans to foreign borrowers as well as Alfa Bank's 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 the 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 relevant agencies under the system for mandatory insurance of retail deposits;
- 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 reliable official data

Official statistics and other data published by the CBR, the 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.

Russia's tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively, issued tax claims for periods which, under the statute of limitations, have expired and reviewed the same tax periods multiple times. In addition to the usual tax burden imposed on the Russian taxpayers, these conditions complicate tax planning and related business decisions. Laws related to these taxes, such as the Russian Federation Tax Code (the "Tax Code"), have been in force for a short period relative to tax laws in more developed market economies, and the Government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Government and within Government ministries and organizations, such as the former Ministry of Taxes and Duties (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and its various inspectorates, creating uncertainties and areas of conflict. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. Therefore, as previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the tax payer has obstructed or hindered a tax inspection. Because none of the relevant terms are defined, the tax authorities may have broad discretion to argue that a tax payer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three year term. In addition, 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.

Moreover, 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 with significant price fluctuations (if the price differs on similar transactions differs from prices on similar transaction by more than 20 per cent. within a short period of time). 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 the business, financial condition, results of operations or prospects of Alfa Banking Group.

Russian tax legislation has principally been based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by RAR. Accordingly, there have been 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.

Alfa Banking Group occasionally conducts intercompany transactions at off market rates. The form of the transactions and their accompanying documentation would generally meet the literal requirements of current tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax laws in the Russian Federation and the changes in the approach of the

Russian tax authorities, that such transactions could be challenged in the future. The impact of any such challenge can not be estimated and it may be significant.

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, based on IFRS, for the years ended 31 December 2003 and 31 December 2004 was 9.4% and 17.1%, respectively, and 17.5% for the six month period ended 30 June 2005.

Until the adoption of the new Tax Code, the system of tax collection was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, plus the potential for state budget deficits, raise the risk of a sudden imposition of additional taxes on us. This could adversely affect the Alfa Banking Group.

The Russian tax system has recently been revised. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems, and local tax officials have recently made a number of material tax claims against major Russian companies. Even if further reforms to tax legislation are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. Accordingly, Alfa Banking Group may have to pay significantly higher taxes, which could have a material adverse effect on its business.

Each entity in Alfa Banking Group pays its applicable taxes and may not offset its profit or loss against the loss or profit of another entity in Alfa Banking Group.

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

Competition

The markets for financial and banking services are highly competitive, with 1,215 banks (including Russian banks and Russian subsidiaries of foreign banks) operating in Russia as at 1 October 2005, according to the CBR. Alfa Bank is one of a small number of Moscow based banks which dominate the Russian banking industry (in terms of and according to rankings published on the RosBusiness Consulting website, www.rbc.ru) including one of Alfa Banking Group's main competitors, Sberbank (in the retail sector), which

is majority owned by the CBR. Sberbank has the advantage of having inherited an extensive retail branch network from the State. 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 one of the largest private banks 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 plans to 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 of target growth and expansion rates.

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 is 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 30 June 2005, Alfa Banking Group's loan exposure to related parties represented 2.3% and 1.4% of gross loans to customers and total assets respectively, compared to 2.1% and 1.3% as at 31 December 2004. As at 30 June 2005, Alfa Bank's total limit on lending and credit related commitments to TNK BP ("TNK") was U.S.$150 million and the total limit on lending and credit related commitments to all related parties was 40% of Alfa Banking Group's equity, being, for example, U.S.$776.1 million as at 30 June 2005. 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.$798.7 million as at 30 June 2005, which is 17.0% of the total customer accounts of Alfa Banking Group (see note 28 to the audited interim consolidated financial statements for the six month period ended 30 June 2005 for a description of Alfa Banking Group's related party transactions).

Relatively high industry, borrower and depositor concentrations in Alfa Banking Group

Alfa Banking Group's loan portfolio shows relatively high industry, individual borrower and depositor concentration. As at 30 June 2005, the manufacturing and construction sector and the energy and oil related sector accounted for 46% and 22%, respectively, of Alfa Banking Group's loans to customers. Furthermore, as of such date, loans to Alfa Banking Group's 24 largest borrowers amounted to U.S.$2,421.1 million representing 47.3% 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.$309.4 million, constituting 6.0% of total gross loans to customers. Similarly as at 30 June 2005, Alfa Banking Group's top seven depositors accounted for 39.7% of its customer accounts (compared to six customers accounting for 41.0% of the same as at 31 December 2004). 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

In September 2005 Alfa Bank produced its first set of annual IFRS financial statements for the year ended 31 December 2004 in addition to its financial statements prepared under RAR. Such IFRS financial statements were produced in Russian in a format prescribed by, and for the purpose of submission to, the CBR. Historically, Alfa Bank prepared its annual financial statements only in accordance with RAR. Neither the IFRS financial statements nor the RAR consolidated financial statements for Alfa Bank have been included in this Prospectus on the basis that Alfa Bank's management believe they do not provide any additional information that would be material to an investor when assessing the financial condition or prospects of Alfa Bank or the risks associated with an investment in the Notes. 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 Certain Differences between IFRS and RAR").

Banking reform and impact on business of Russian banks

On 5 April 2005, the Government and the CBR issued their joint *Strategy for the Development of the Banking Sector of the Russian Federation until 2008* (the "Strategy"). The Strategy replaces the five year

Strategy for the Development of the Banking Sector in the Russian Federation issued in December 2001, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008) (see "The Banking Sector and Banking Regulation in the Russian Federation").

As part of the Russian banking reform, the Law on the Insurance of Individuals' Bank Deposits in the Russian Federation (the "New Deposit Law") came into force in December 2003 introducing 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 Finance Holdings S.A. was replaced in its capacity as the shareholder of the Alfa Banking Group with a newly established company, ABH Holdings Corp, in June 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. Alfa Finance Holdings S.A. transferred its ownership of ABH Financial Limited to ABH Holdings Corp on 21 June 2004.

All banks wishing to continue to accept individuals' deposits in Russia and participate in the System were required to apply to the CBR for a certificate confirming compliance with the New Deposit Regime. Alfa Bank was accepted into the System on 15 December 2004. Being a member of the System, Alfa Bank should comply with the relevant applicable requirements on an on going basis. Failure to meet these requirements may in certain instances lead to the expulsion of Alfa Bank from the System and revocation of its retail banking licence. 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 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. As required by the CBR, to date Alfa Bank has only prepared financial statements in accordance with IFRS for the year ended 31 December 2004 in a format required by, and for the purposes of submission, to the CBR. Russian banks are not yet required by the CBR to comply with 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 1988, as updated to April 1998 (the "BIS Guidelines"). There is no guarantee that Alfa Bank's capital adequacy, based on IFRS statements, would satisfy the BIS Guidelines, without appropriate remedial action.

In April 2005, the CBR revised its system of mandatory economic ratios that Russian banks are required to observe. One of these ratios — current liquidity ratio N3 — requires that the liquid assets of a bank (including any financial assets realisable or receivable within 30 days) should be no less than 50% of the aggregate amount of such bank's liabilities to its customers on demand. Although this requirement is aimed at guarding against the lack of short term liquidity in the Russian banking market, it also restricts the income generating capacity of banks operating in Russia.

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 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 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 licence, 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 EUR5 million or more, and 11% for banks whose capital is less than EUR5 million. Alfa Bank's capital adequacy ratio calculated on the basis of the audited financial statements of Alfa Bank adjusted for post balance sheet events as prescribed by the Instructions of the Central Bank of the Russian Federation No. 1530 U Procedures for the Compilation of Annual Report of a Credit Organisation of 17 December 2004 was 12.4% as at 1 January 2005. As at 1 January 2003 and 1 January 2004, the corresponding figures were 15.4% and 13.7% respectively. Alfa Banking Group had Tier I and Total Capital ratios of 9.8% and 9.9% as at 30 June 2005 calculated under the BIS Guidelines, which is 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) 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 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 2004, Alfa Banking Group invested approximately U.S.$35 million in information technology, compared with approximately U.S.$17 million and U.S.$19 million, for the years ended 31 December 2003 and 2002, 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 outside of 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 GEMINI and OMEGA IT projects 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 these 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 Russian subsidiaries

The Russian Civil Code and the Federal Law on Joint Stock Companies generally provide that 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. Accordingly, Alfa Bank may be liable for transactions concluded, and debts incurred, by its Russian subsidiaries.

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 or favourable or unfavourable press commentary. 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.

Banking market risks

During the summer of 2004, the uncertainty in the Russian banking sector led to a reduction in interbank lending which caused liquidity problems for many Russian banks, including Alfa Bank, and resulted in a temporary reduction in Alfa Bank's retail and corporate lending levels. It is impossible to predict whether similar liquidity problems will recur, and how any such recurrence may affect the Russian banking sector and Alfa Bank. Equally, it is too early to assess whether the 2004 summer's events will have an impact on Alfa Bank's long term development.

Significant reliance on investment banking operations

In recent years, the Alfa Banking Group has generated a significant portion of its operating profit from its investment banking activities which contributed 80% of Alfa Banking Group's operating profit (before unallocated costs) in 2004. As at 30 June 2005, investment banking activities accounted for 17.2% of Alfa Banking Group's profit from operations (before unallocated costs) as compared to 8.2% for the period ended 30 June 2004. Investment banking transactions tend to be completed in the second half of the year. The income Alfa Bank derives from its diversified investment banking activities, including equity brokerage, fixed income trading, investment banking and M&A advisory work, is generally subject to greater variation than Alfa Bank's commercial banking operations and is highly susceptible to conditions in the global markets and international and Russian economic conditions. As a result there can be no assurance that the Alfa Banking Group's investment banking segment will continue to generate the same level of revenues or profits as it has historically.

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 by 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, investment and manufacturing companies, is carried in Alfa Banking Group's consolidated balance sheet at a value of U.S.$130.0 million as at 30 June 2005. However, there can be no assurance 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 RELATED TO THE FINANCIAL INFORMATION PRESENTED IN THIS PROSPECTUS

Most of the financial and other information included in this Prospectus relates to the consolidated financial position of ABH Financial, an indirect parent company of Alfa Bank, which will not guarantee the Notes

Most of the financial information included in this Prospectus has, except where expressly stated otherwise, been derived from the consolidated financial statements of ABH Financial and not from the financial statements of Alfa Bank. ABH Financial is an indirect parent company of Alfa Bank. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. ABH Financial will not guarantee the Notes and has no obligation with respect to the Notes.

Historically, Alfa Bank has prepared its financial statements only in accordance with RAR. In 2005 Alfa Bank produced financial statements for the year ended December 31, 2004 in accordance with IFRS in Russian in a format prescribed by, and for the purpose of submission to, the CBR. Such IFRS financial statements have not been included in this Prospectus on the basis that Alfa Bank's management believe they do not provide any additional information that would be material to an investor when assessing the financial condition or prospects of Alfa Bank or the risks associated with an investment in the Notes. Investors should note that RAR financial statements do not contain notes and RAR differs from IFRS in a number of material respects. See "Certain Risk Factors - Financial position and financial statements of Alfa Bank" and "Summary of Certain Differences between IFRS and RAR."

RISKS RELATING TO NOTES

Alfa Bank's payment obligations under the Subordinated Loan are subordinated to the claims of its unsubordinated creditors

Alfa Bank's obligations in respect of the payment of principal and interest under the Subordinated Loan are subordinated in right of payment to the claims of its unsubordinated creditors. As a result, in case of the

entry into force of a final decision of a competent Russian court finding Alfa Bank bankrupt, Alfa Bank's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all unsubordinated creditors have been satisfied in full. Such remaining assets may not be sufficient to satisfy Alfa Bank's obligations under the Subordinated Loan.

The Subordinated Loan Agreement does not prohibit or limit the incurrence by Alfa Bank of unsubordinated indebtedness, other subordinated indebtedness that will rank equally with the indebtedness under the Subordinated Loan or other liabilities. Incurrence of such additional indebtedness or other liabilities could adversely affect Alfa Bank's ability to make payments under the Subordinated Loan. As of 30 September 2005, Alfa Bank had a significant amount of senior long-term debt (in addition to indebtedness incurred in the ordinary course of its banking business, such as deposits). Alfa Bank anticipates that, from time to time, it will incur additional indebtedness including unsubordinated indebtedness.

In addition, in order for the Subordinated Loan to qualify as Own Funds under CBR regulations, the terms of the Subordinated Loan Agreement cannot and do not contain customary events of default or, with certain exceptions, early repayment provisions. Nonetheless, following the occurrence of the limited Events of Default, specified therein amounts payable under the Subordinated Loan Agreement may be declared immediately due and payable. However, such actions may not result in payment of principal, accrued interest and additional amounts, if any, due under the Subordinated Loan Agreement being paid in full, because such payments may be made only after all unsubordinated obligations are satisfied in full.

The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian regulatory capital regulations

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital regulations of the CBR are currently rudimentary as compared with regulatory capital legislation enacted in other jurisdictions, which could lead to uncertainty and a lack of clarity in the interpretation and application of such regulations. Furthermore, the CBR regulations do not currently address certain important concepts such as call options, step-up coupons and other issues relating to subordinated debt, which are generally accepted as standard in the world's more developed financial markets, and which are contained in the Subordinated Loan Agreement.

As required under Regulation 215-P, Alfa Bank has submitted a draft of the Subordinated Loan Agreement to the CBR for review. See "The Banking Sector and Banking Regulation in the Russian Federation – CBR Regulation of the Russian Banking Sector – Subordinated Debt." Alfa Bank is relying on dialogue that it has engaged in with representatives of the CBR to support its view regarding the preliminary conclusions of the CBR, confirming that the draft Subordinated Loan Agreement generally satisfies the conditions set forth in Regulation 215-P. This preliminary approval would require Alfa Bank, among other things, to submit to the CBR a copy of the executed Subordinated Loan Agreement and documents confirming disbursement of funds to be received by Alfa Bank under the Subordinated Loan Agreement to Alfa Bank's account. This preliminary approval does not have the effect of legislation, and as such if may, at any time, be revised, revoked and/or disapplied.

On the basis of the above, Alfa Bank expects the CBR to deliver its final approval and conclusion (*zakluchenie*) on the regulatory capital treatment of the Subordinated Loan within 30 days after the issue date of the Notes. There can, however, be no guarantee that such approval and conclusion will be granted. If the CBR does not grant such final approval or conclusion, Alfa Bank will have the right (described below) under the Subordinated Loan Agreement to prepay the Subordinated Loan, which would result in the early repayment of the Notes.

In addition, there is a risk either that the interpretation of such capital treatment could change or that the regulatory capital rules could be subsequently amended or clarified. As a result, Alfa Bank could lose the regulatory capital treatment granted to the Subordinated Loan Agreement and, therefore, exercise the right (described below) to prepay the Subordinated Loan, which would result in the early repayment of the Notes.

The Subordinated Loan Agreement provides that Alfa Bank will have the right, *inter alia*, to prepay the Subordinated Loan, in whole but not in part, together with accrued and unpaid interest thereon, at any time (a) subject to the prior consent of the CBR, at par on the Reset Date; (b) at 101 per cent. if the CBR does not unconditionally approve the Subordinated Loan as Own Funds on or before the Approval Date; or (c) at par at any time after the Approval Date, if, as a result of any amendment to, classification of, or change in (including a change in interpretation or application of applicable requirements of Regulation No. 215-P or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Own Funds. If the Subordinated Loan is prepaid pursuant to this provision, the Notes will become due and repayable at the appropriate proportion of their principal amount plus accrued and unpaid interest on such proportion of the principal amount.

Prepayment of the Subordinated Loan may require the consent of the CBR

Certain of the provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan are subject to the consent of the CBR. There can be no guarantee that the consent of the CBR will be forthcoming even if the Subordinated Loan would otherwise be subject to prepayment pursuant to such provisions and, consequently, that Alfa Bank will be able to prepay at such time.

Payments under the Notes are limited to the amount of certain payments received under the Subordinated Loan Agreement

The Issuer is only obliged to make payments to the Noteholder's under the Notes in an amount equal to, and in the same currency as, sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from Alfa Bank pursuant to the Subordinated Loan Agreement. Consequently, if Alfa Bank fails to meet its payment obligations under the Subordinated Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

There is no direct recourse of the Noteholders to Alfa Bank

Except as otherwise expressly provided in the "Terms and Conditions of the Notes" and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer's rights under or in respect of the Subordinated Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any right to enforce any of the provisions of the Subordinated Loan Agreement or have direct recourse to Alfa Bank except through action by the Trustee under the Charge (as defined in the "Terms and Conditions of the Notes") or any assignment of rights, including any rights under the Subordinated Loan Assignment.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by Alfa Bank of its obligations under the Subordinated Loan Agreement.

Russian 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 Subordinated Loan Agreement or the Notes are subject to any withholding, Alfa Bank is obliged to increase the amounts payable by it under the Subordinated Loan Agreement 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. Based on professional advice Alfa Bank has received, it believes that interest payments to the Issuer on the Subordinated Loan should not be subject to withholding under the terms of the double tax treaty between Russia and Ireland. However, there can be no assurance that such an exemption will be available.

Under the Russian Tax Code, each person must pay taxes established by law individually, whereas grossing up provisions in relation to Irish taxes which may be required to be withheld by the Issuer can be interpreted as requiring Alfa Bank to pay the tax liabilities of the Issuer or the Noteholders. Accordingly, there is some

doubt as to whether the gross up provisions Alfa Bank will enter into under the Subordinated Loan Agreement are enforceable under Russian law.

The Issuer has granted security over all principal, interest and other amounts payable under the Subordinated Loan Agreement and the right to receive all sums payable under any claims or judgments relating to the Subordinated Loan Agreement and all sums now or in the future deposited in the Account. Furthermore, under the terms of the Subordinated Loan Agreement, the Issuer will agree that, upon the occurrence of a Relevant Event, it will assign all of its rights (except for any Reserved Rights) under the Subordinated Loan Agreement to the Trustee. Rights under security granted to the Trustee in the Trust Deed will become exercisable upon the occurrence of a Relevant Event. In these circumstances, if interest under the Subordinated Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Ireland will cease and payments of interest could be subject to Russian withholding tax at a rate of 20%.

If a non-resident Noteholder (as defined in "Taxation") that is a legal entity sells Notes and receives proceeds from a source within Russia, part of the payment representing accrued interest may be subject to a 20% Russian withholding tax. Where proceeds from disposal of the Notes are received from a source in Russia by an individual non-resident Noteholder, a similar withholding tax would be charged at a rate of 30% on gross proceeds from such disposal of the Notes less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "Taxation."

The Notes may be redeemed early if withholding tax becomes payable or it becomes illegal for the Issuer to provide the Subordinated Loan

In the event that Alfa Bank is obliged to increase the amounts payable under the Subordinated Loan Agreement, including in the event that any tax is or becomes applicable to such payments, Alfa Bank may, subject to the prior consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued interest, at any time, and (to the extent that it has actually received the relevant funds from Alfa Bank) the Issuer shall redeem all outstanding Notes as described in "Terms and Conditions of the Notes."

In the event that the Issuer delivers a notice to Alfa Bank requiring Alfa Bank to prepay the whole (but not part only) of the Subordinated Loan in accordance with Clause 6.4 (*Prepayment in the Event of Illegality*) of the Subordinated Loan Agreement, Alfa Bank shall, subject to CBR consent, prepay the Subordinated Loan, and the Issuer shall redeem the Notes upon notice thereof to the Noteholders.

Structural subordination

A significant amount of Alfa Banking Group's assets are held, and revenue is generated, by subsidiary companies in Alfa Banking Group other than Alfa Bank. 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. Similarly, the Issuer's right to receive payment of any amounts which at any time become due and payable in respect of the Subordinated Loan from Alfa Bank will, in addition to being subordinated by its terms, be structurally subordinated to the prior ranking claims of creditors (secured or unsecured) of other subsidiaries of ABH Financial.

No existing market/market volatility

Application has been made for Notes to be admitted to trading on the Regulated Market and to be admitted to the Official List. 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 as to the development or liquidity of any market for Notes.

Credit rating

Outstanding Eurobonds of the Russian Federation are rated "Baa2" (outlook stable) by Moody's, "BBB-" (outlook stable) by Standard & Poor's and "BBB" (outlook stable) by Fitch. Moody's, Standard & Poor's and Fitch have raised Russia's sovereign rating to Baa2 (outlook positive), BBB- and BBB (outlook stable) 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 B+ (outlook stable) from Fitch, Ba2 (outlook positive) from Moody's and BB- (outlook stable) from Standard & Poor's. The Notes have been rated Ba3 (positive outlook) by Moody's, B by Standard & Poor's and B– by Fitch. 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.

Examiners, preferred creditors under Irish law and floating charges

The Issuer has its registered office in Ireland. As a result there is a rebuttable presumption that its centre of main interest is in Ireland and consequently it is likely that any insolvency proceedings applicable to it would be governed by Irish law.

An examiner may be appointed to an Irish company in circumstances where it is unable, or likely to be unable, to pay its debts. One of the effects of such an appointment is that during the period of appointment, there is a prohibition on the taking of enforcement action by any creditors of the company. Given that the Issuer is a special purpose entity, the limited recourse nature of the Issuer's liabilities and the structure of the transaction, it is unlikely that an examiner would be appointed to the Issuer.

In an insolvency of the Issuer, the claims of certain preferential creditors (including the Irish Revenue Commissioners for certain unpaid taxes) will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges. In addition, the claims of creditors holding fixed charges may rank behind other "super" preferential creditors (including expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners.

In certain circumstances, a charge which purports to be taken as a fixed charge may take effect as a floating charge. Under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid.

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceeding.

USE OF PROCEEDS

The Issuer will use the proceeds of the issue of the Notes for the sole purpose of funding the Subordinated Loan to Alfa Bank. The proceeds of the Subordinated Loan (expected to be U.S.$225,000,000 before taking account of commissions, fees and expenses) will be used by Alfa Bank for general corporate purposes. Total commissions, fees and expenses relating to the offering of the Notes are expected to be approximately U.S.$1,398,000 and will be financed by Alfa Bank.

THE ISSUER

Introduction

Alfa Bond Issuance PLC (the "**Issuer**") was incorporated in Ireland on 8 November 2005, with registered number 410510 as a public company with limited liability under the Companies Acts 1963-2005 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 85 Merrion Square, Dublin 2, Ireland and phone number +353 614 6240.

The authorised share capital of the Issuer is EUR 40,000 divided into 40,000 ordinary shares of par value EUR 1 each (the "**Shares**"). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by TMF Management (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 7 December 2005, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

TMF Administration Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 7 December 2005 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least two months written notice to the other party.

The Corporate Services Provider's principal office is 85 Merrion Square, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set out in Article 3 of its memorandum of association (as currently in effect) and permit the Issuer, amongst other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to, among other things, raise capital by the issue of the Notes and to use an amount equal to the proceeds of such issuance and drawing to make the Subordinated Loan to Alfa Bank pursuant to the terms of the Subordinated Loan Agreement. The Issuer may engage in other similar transactions in the future on behalf of Alfa Bank, subject to the limitations set forth in the Trust Deed.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses as of the date hereof are as follows:

Mattijs Sibbing	85 Merrion Square, Dublin 2, Ireland.
Alan Moore	85 Merrion Square, Dublin 2, Ireland.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the directors is provided as part of the Corporate Service Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

The Company Secretary is TMF Administration Services Limited.

Capitalisation

The following table sets out the capitalisation of the Issuer as at the date of this Prospectus

Shareholders' Funds:	**EUR**
Share capital (Authorised: 40,000 Ordinary Shares of EUR 1 each; Issued : 40,000 Ordinary Shares of EUR 1 each)	40,000
Total Capitalisation	EUR 40,000

There has been no material adverse change in the financial position or prospects of the Issuer since its date of incorporation. Save for the issues of Notes described above and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

Since its date of incorporation and as at the date of this Prospectus, the Issuer has not commenced operations and no financial statements have been prepared. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2006. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with the report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than 9 months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The auditors of the Issuer are PricewaterhouseCoopers, Wilton Place, Dublin 2, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end official rates set by the CBR, in each case for the purchase of Roubles, all expressed in Roubles per U.S. dollar. These translations should not be construed as representations that Rouble amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any of the dates mentioned in this Prospectus.

	High	Low	Average[1]	Period End
		(RUR per U.S. dollar)		
2005 (to 2 December)	28.87	27.46	28.28	28.81
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.63	29.45
2002	31.86	30.13	31.40	31.78
2001	30.30	28.16	29.22	30.14
2000	28.87	26.90	28.14	28.16
1999	27.00	20.65	24.67	27.00

(1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

ALFA BANKING GROUP

The following is a description of the Alfa Banking Group. Alfa Bank is an indirect subsidiary of ABH Financial which is the parent of the Alfa Banking Group. Alfa Bank and its subsidiaries operate the commercial and retail banking and a significant part of the investment banking businesses of Alfa Banking Group. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. Although Alfa Bank generates a large part of the revenues, assets, liabilities, expenses and cashflows of Alfa Banking Group, investors should not rely solely on the financial information set out herein which has been derived from, or on, ABH Financial's consolidated financial statements in assessing the financial condition of Alfa Bank.

HISTORY

Alfa Banking Group is part of the Alfa Consortium (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 1660, Luxembourg. Alfa Finance Holdings S.A. was originally incorporated in May 1999. The principal business of Alfa Finance Holdings S.A. was 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.

After the Reorganisation, Alfa Finance Holdings S.A. held 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.

Alfa Finance Holdings S.A. was 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).

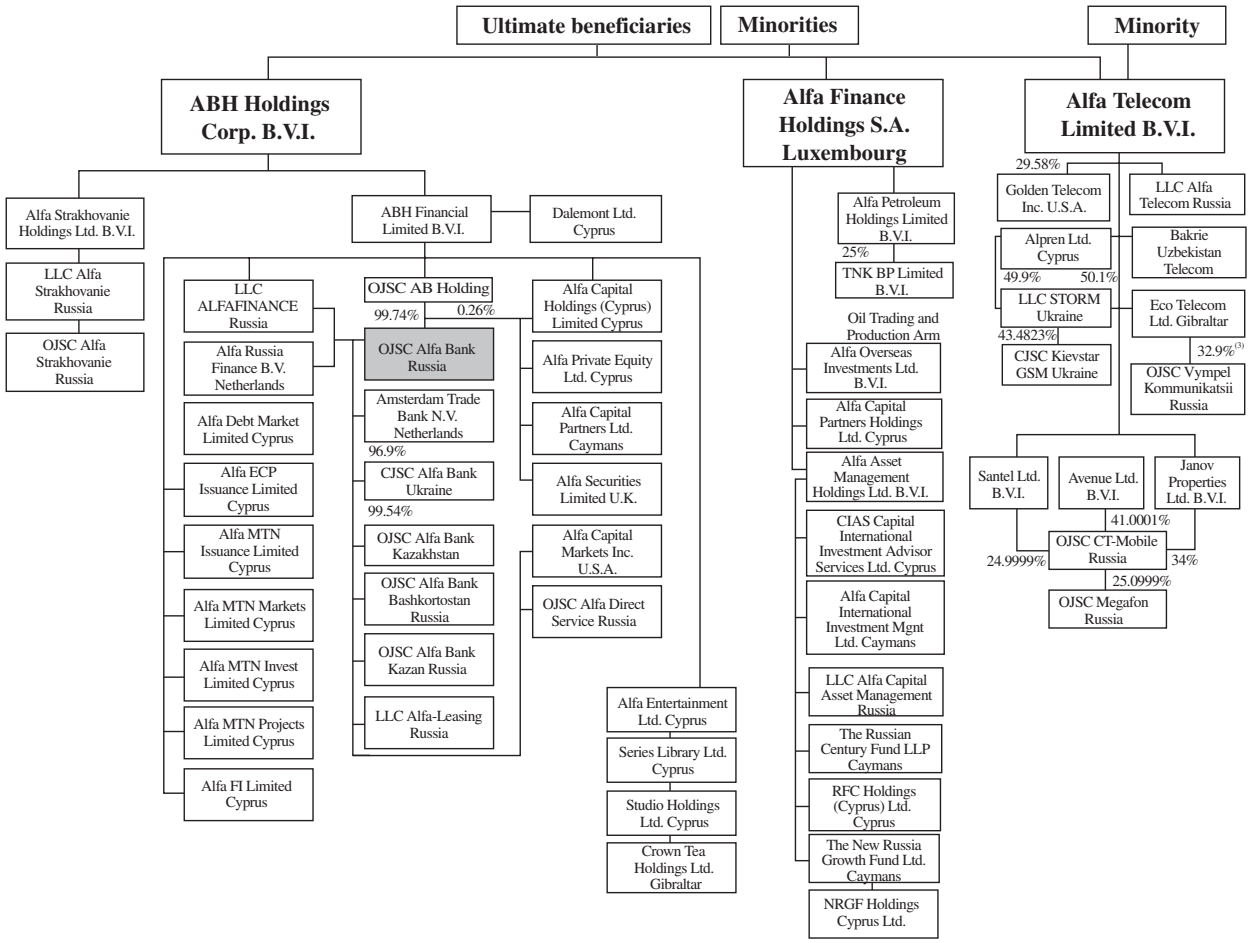
In early 2004, Alfa Bank reformed its shareholding structure. The reform resulted in the merger of the 11 shareholders (holding in aggregate 99.74% of Alfa Bank's charter capital) into one company, OJSC AB Holding. The necessary CBR and anti monopoly authorities' approvals were obtained to undertake 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.

In June 2004, Alfa Finance Holdings S.A. was 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. The transfer of shares to ABH Holdings Corp took place on 21 June 2004.

The rationale behind these changes was to make Alfa Bank's ownership structure separate from other Alfa Consortium business segments and 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"). Alfa Telecom Limited was transferred from Alfa Finance Holdings S.A. to the ownership of the same individuals who are the ultimate beneficial shareholders of Alfa Finance Holdings S.A. and ABH Holdings Corp. during 2004.

The insurance arm was transferred from Alfa Finance Holdings S.A. to ABH Holdings Corp on 3 December 2004.

This chart sets out, amongst others, the principal operating subsidiaries of the ABH Holdings Corp. and Alfa Finance Holdings S.A.:



Notes:

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

(2) The dark grey box signifies Alfa Bank.

(3) 32.9% – voting interest; 24.5% – ownership interest.

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 comprise interests in media and manufacturing businesses, principally in Russia, so as to focus on its core business segments, although as at 30 June 2005 it continued to hold investments with a carrying value of approximately U.S.$130.0 million which are considered to be non core assets.

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 that are active in the Russian banking market. 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.

OVERVIEW AND BUSINESS OF ALFA BANKING GROUP

Alfa Banking Group's business 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 and asset management which is conducted by Alfa Bank and its subsidiary in the United States as well as through Alfa Capital Holdings (Cyprus) Limited in Cyprus ("Alfa Capital") and its subsidiaries in Cyprus, Cayman Islands and the United Kingdom.

According to "Finance" magazine No. 39; 24.10.2005, Alfa Bank is one of Russia's largest banks in terms of equity, assets, branches, retail deposits and assets under management among private banks. Alfa Bank 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 and leasing. As at 1 October 2005, Alfa Bank had 121 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 Banking Group is actively developing its branch network throughout Russia and the CIS.

Alfa Bank is one of the largest VISA branded debit card issuers in Russia in terms of market share, ranking in sixth place (according to Visa International), with a 4.45% share of the Russian Visa Card market. Alfa Bank has the seventh largest share (1.33%) of the retail banking market in Russia behind Sberbank, Vneshtorgbank, Bank of Moscow, Rosbank, Gazprombank and Uralsib Financial Corporation (according to information shown on the CBR website, www.cbr.ru). Sberbank is majority owned by the CBR and dominates the Russian retail banking market having a market share of around 50% of all retail deposits as at 30 October 2005.

As at 30 June 2005 Alfa Banking Group had total assets of approximately U.S.$8,150.9 million and total equity of approximately U.S.$776.1 million. For the six month period ended 30 June 2005, Alfa Banking Group generated operating income of U.S.$269.2 million, compared with U.S.$201.3 million for the six month period ended 30 June 2004 and net profit of U.S.$87.3 million, compared with U.S.$53.2 million for the six month period ended 30 June 2004.

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 121 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.$625.9 million for the year ended 31 December 2004 and U.S.$346.8 million in the six month period ended 30 June 2005. As at 30 September 2005, Alfa Bank had a total corporate customer base of over 47,000 clients and a retail customer base of over 1,600,000 clients. Alfa Bank's project finance department engages in project finance, export import finance and guarantee, 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 conducts precious metal trading and correspondent banking operations.

RELATIONSHIP WITH ALFA CONSORTIUM

The Alfa Banking Group is part of a wider group of companies commonly referred to as the "Alfa Consortium" (the "Alfa Consortium") which includes the Alfa Finance Group. The majority shareholders of Alfa Banking Group are also the majority shareholders of the companies in the Alfa Consortium. In addition to those companies operating in banking, insurance, telecommunications and oil and gas referred to in the chart on page 78, there are other companies in the Alfa Consortium engaged in investment and retail trade businesses.

Alfa Banking Group has traditionally had significant related party assets and liabilities. As at 30 June 2005, Alfa Banking Group's gross exposure comprising loans and guarantees to related parties was U.S.$245.3 million, compared to U.S.$187.3 million as at 31 December 2004. A list of the exposures of Alfa Banking Group to related parties is set out under "Related Party Transactions".

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 in terms of equity, assets, branches, retail deposits and assets under management, (measured in accordance with CBR standards), as well as improving its position vis-a-vis 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, further diversify its loan portfolio and develop its strategy to focus more on medium sized and small corporate clients. Alfa Banking Group currently serves its small and medium sized clients through its retail banking division. Both of these market segments offer the potential for greater participation of banks and Alfa Banking Group endeavours to capitalise on the potential of this market.

Alfa Banking Group offers 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 Alfa Banking Group's medium sized and smaller corporate clients 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. Alfa Bank has already applied its expertise in this area by developing individually tailored services to meet client requirements. Smaller corporate clients are also targeted by offering them a wide variety of services designed to meet their needs.

Expansion of investment banking operations

Alfa Banking Group plans to further develop its investment banking business both in Russia and overseas. Areas of future focus include increasing the level of fee commission from brokerage operations, in particular, from its on line equity brokerage service – Alfa Direct. In its fixed income operations, Alfa

Banking Group plans to increase its trading activity in the Russian corporate bond sector. Alfa Banking Group also plans to further develop its M&A practice in Russia and Ukraine and its equity capital markets activities particularly in relation to initial public offerings. The Group also plans to expand its side as arranger in the local and international debt capital markets operations and to arrange further CLN issues under its U.S.$10,000,000,000 Global Repackaging Programme. (See "Funding".)

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 services, wide branch network (currently standing at 121 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 in such a large country as Russia. The 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 which contacts new customers, an ATM network (including ATMs with drop boxes) and remote access channels — internet banking and telephone banking. Alfa Bank has been able to offer its customers such services as 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, which allows customers to make withdrawals from ATMs and make payments at points of sale. 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 Bank to private individuals and medium sized and smaller corporate customers includes current accounts, savings, credit cards and overdraft facilities as well as a number of products in high demand such as instant cash transfers, pre paid cards and individual strong boxes. Alfa Bank offers four different tariff plans with a variety of different features including discounts, family cards and Euro, Rouble and Dollar accounts. Alfa Bank also offers a VIP programme. Alfa Bank aims to increase the proportion of "demand" accounts in its portfolio as it believes that customers with "demand" accounts are more loyal than holders of term deposits. In response to client demand Alfa Bank has started to offer personal loans and plans to enter the auto and mortgage loan market in the 2006.

Now that Alfa Bank has successfully launched the "Alfa Bank Express" concept in Moscow, it plans to apply aspects of the model in the regions of Russia which it believes have higher retail growth potential than Moscow. As at 1 October 2005, Alfa Bank had 30 branches operating under the "Alfa Bank Express" brand name, including one in Krasnodar. Alfa Bank 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.

Consumer finance

Alfa Bank will continue to focus on the consumer finance business by leveraging off the existing Alfa Bank brand, distribution channels, high profile management team and advanced technology platform. In the last 6 months Alfa Bank has expanded its consumer finance business out of Moscow into 23 regions of Russia using the existing Alfa Bank branch network. The number of consumer loans more than doubled since the beginning of 2005 to reach 89 thousand in September. Alfa Bank plans to further improve distribution by expanding partnerships with fast moving consumer goods (FMCG) retailers.

Expansion of commercial banking operations in the CIS

Alfa Banking Group has expanded its commercial banking operations into the CIS, both in Ukraine and, on a smaller scale, in Kazakhstan. Currently, Alfa Bank has a subsidiary bank in Kiev, with three branches

in Kiev, including its head office, and three regional branches in Ukraine. 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.

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. 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 its main competitors (see "Overview and Business of Alfa Banking Group") 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 U.S.$1,000,000,000 Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by ABH Financial and Alfa Bank (the "Programme") and other note issuances give the Alfa Banking Group a readily accessible source of funding in the international and domestic capital markets.

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. Alfa Bank has introduced incentive schemes to minimise staff turnover and encourage staff to be results driven. The continued implementation of this strategy is fundamental to Alfa Banking Group continuing to remain (as evidenced by RosBusiness Consulting reports) a leading commercial and investment banking group in Russia (see "Management") and in other regions in which it conducts business (see "Management").

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 "Description of Alfa Banking Group's Business — Information Technology", the "Mars Project", the "Mercury Project" and the "Gemini Project").

COMPETITION

According to the CBR, as at 1 October 2005, there were 1,215 banks operating in Russia, with the five largest banks accounting for 44% of total bank assets. A small number of Moscow based banks dominate the Russian banking industry. Alfa Banking Group's main competitors are Sberbank (in the retail sector), which has the advantage of having inherited a retail branch network of approximately 20,000 branches from the State, Vneshtorgbank (Bank for Foreign Trade), Gazprombank, Bank of Moscow, MDM Bank, Rosbank, Uralsib Financial Corporation 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.

RECENT DEVELOPMENTS

Alfa Banking Group's balance sheet grew 24% between 31 December 2004 to 31 August 2005 according to its management accounts. This increase was driven by an increase in loans and cash (up 35% and 18% respectively over the same period). The growth in loans is observed across all segments of Alfa Bank's businesses (commercial, consumer finance, and retail). However, the main driver of growth continues to be the Bank's strategy of diversifying its commercial loan portfolio within the large and medium sized business sector.

While total loan growth continues to keep pace with overall market growth, Alfa Banking Group reduced its effective provisioning level to 4.5% of the loan portfolio by the end of June 2005 compared to 4.6% for 2004. This continues Alfa Bank's policy over the last few years of slowly reducing loan/loss coverage ratio as its commercial portfolio continues to diversify across many industrial/service sectors while showing minimal losses. As Alfa Bank continues to grow its retail and consumer finance portfolios, management anticipates an increase in bad and irrecoverable debts in line with the expansion of the Bank's retail business. However, management believes this increase should be offset by the higher margins and fees in the retail banking sector.

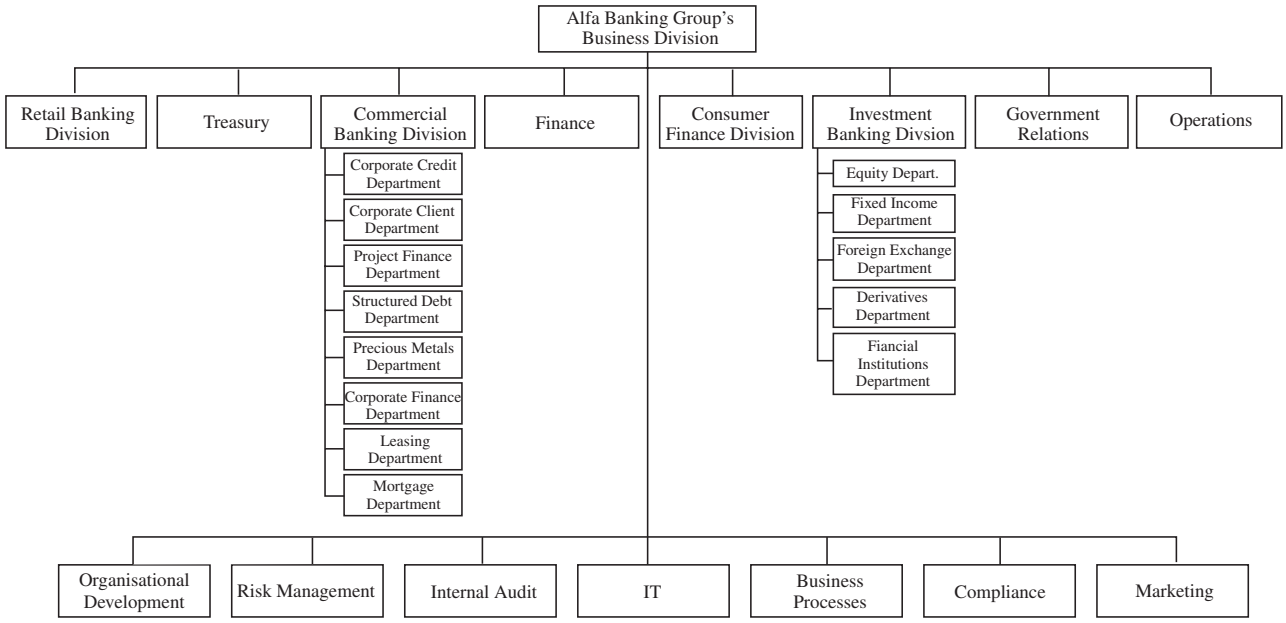
Key drivers of net profit growth are net interest income and cost control. Net interest income is positively impacted by stable commercial interest rates and lower funding rates.

While Alfa Banking Group's net profit has been largely driven in the past by large, one off, profitable investment banking deals, its results for 2005 have been driven by recurring interest margin, commissions and on-going business-related activities. Excluding foreign exchange translation gains/losses, corporate finance, merchant banking, and debt programmes, Alfa Bank's recurring income accounted for 89% of the total by the end of June 2005. As Alfa Bank continues to reduce its exposure to merchant banking deals, management believes recurring margin/commission income will remain the main driver overall of operating profit.

DESCRIPTION OF ALFA BANKING GROUP'S BUSINESS

Business Divisions of Alfa Banking Group

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



Commercial Banking Division

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 and investment 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 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 numerous Russian and International awards — being awarded "Super Brand of the Year Award" by Superbrands International in July 2005, "Elite Quality Recognition Award" by JPMorgan Chase in June 2005 for the second year running, "Best Forex Bank in Russia" by Global Finance in March 2005 and the "Operational Risk Achievement Award 2005" for operational risk framework at an institution based in an emerging market and named "Best M&A House in Russia" in July 2004 by Euromoney, "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 Financial Consultant at Russian Investment and Banking Services Market" by Russiadeal in January 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 and Peter Aven, President of Alfa Bank, was named as Russia's most admired executive in the field of financial services in October 2004. In April 2005, Peter Aven was awarded the Order of Honour by decree of the President of the Russian Federation for his excellent achievements at work. Alexander Gafin was awarded a medal of the Order "For Merit before the Motherland" of the Second Grade in April 2005 for his achievements in the field of art and culture.

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. An independent survey conducted in June 2005 by ANALYTICS Market Research Corporation found that there was a 99% awareness rate of Alfa Bank among persons with an average monthly wage of RUR 9,000 (approx U.S.$ 315) and above. Similarly, 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's management believes that the Alfa Bank brand is synonymous with reliability and stability, as demonstrated during the summer 2004 banking liquidity squeeze by the support of Alfa Bank's shareholders for Alfa Bank — two factors which are critically important to most Russians since the 1998 banking crisis — and with leadership.

During the July 2004 liquidity squeeze, Alfa Bank's shareholders and a company under their control, placed approximately U.S.$800 million in total aggregate amount as (i) on demand deposits with Alfa Bank and (ii) deposits with Amsterdam Trade Bank N.V., with terms ranging from three to six months, which were transferred to Alfa Bank in the form of interbank loans (the "Facility"). The Facility's average interest rate weighted by amount and term to actual/contractual repayment date was 3.8% per annum. At the same time, Alfa Bank extended its opening hours and stocked its ATMs with additional cash to satisfy increased demand. The aggregate amount withdrawn by depositors from Alfa Bank during July 2004 was approximately U.S.$650 million, with U.S.$250 million withdrawn by individuals and U.S.$400 million withdrawn by corporates. As at 30 June 2005, all Alfa Bank's indebtedness under these arrangements had been repaid.

On 20 July 2004 Alfa Bank assigned loan receivables under certain credit agreements (the "Loans") with three large corporate customers (the "Borrowers") to a large state-owned Russian bank (the "Transferee Bank") in the amount of U.S.$230 million (the "Assignment"). Initiated by the Borrowers, the Assignment was aimed at refinancing the Loans with the Transferee Bank, and was made at the face value and on arm's length terms. By 9 August 2004 Alfa Bank had applied the proceeds of the Assignment to new credit agreements with a number of smaller customers and on higher average interest rates, reflecting the change in market conditions.

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.

Alfa Bank and its subsidiaries operate Alfa Banking Group's commercial banking business. Commercial banking generated total revenues of U.S.$346.8 million for the six month period ended 30 June 2005, compared to U.S.$298.2 million for the six month period ended 30 June 2004.

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, Euros 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 October 2005, the total number of Alfa Banking Group offices within Russia and the CIS was 121 (including subsidiary banks, regional branches and outlets), compared with 103 as at 1 November 2004. 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.

As at 1 October 2005, Alfa Bank had 520 automated teller machines (ATMs) across its branch network.

Mercury Project — Alfa Bank Express

Through the Mercury Project which was established to consider ways of establishing an innovative and cost effective banking product, Alfa Banking Group has developed "Alfa Bank Express".

In creating and developing the "Alfa Bank Express" brand, Alfa Bank has sought to enhance its existing retail business operations through increased efficiency and cost effectiveness. Alfa Bank has further planned to develop its new business model first in Moscow and then throughout the regions of Russia.

In developing its "Alfa Bank Express" platform, Alfa Bank's key objectives are to:

- expand the potential for acquiring new customers;
- increase Alfa Banking Group's market share of banking business generated by private individuals and small businesses;
- increase Alfa Banking Group's market share of individual deposits and further diversify funding sources; and
- increase the overall profitability of Alfa Banking Group's retail business.

As a result of the implementation of this project, Alfa Banking Group's retail customers have access to top tier retail banking products and services through a wide range of distribution and service channels such as internet banking, telephone banking, GSM and SMS — banking and Alfa Bank's branch network.

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 upon 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.

Gemini Project – Defining a New Business Strategy for Retail Clients (2005 2006)

Alfa Bank has launched another strategic programme for the retail part of its banking operations called the Gemini Project. The key objectives of the Gemini Project are to identify sustainable long term competitive advantages to capitalise on to allow it to maintain its market leadership, grow its business and introduce a cost effective infrastructure and IT model. The Gemini Project consists of advanced technology front ends and end customer applications, such as internet banking, Java/GSM, IVR, Call Centre etc. It is based on innovative core Business Process Management software engine (BPM) which helps Alfa Bank to optimise its business process on a rolling and continual basis for consumer finance, credit cards and other products.

Large and Medium Sized Corporate Client Department

Unless stated otherwise in this paragraph, all figures in this paragraph are calculated in accordance with and extracted from Alfa Bank's RAR Accounts. Alfa Bank has a large and medium sized corporate customer base of over 18,000 clients and as at 30 June 2005, its net corporate loan portfolio amounted to U.S.$4,902 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. During the six month period ended 30 June 2005, the share of medium sized clients in Alfa Bank's corporate loan portfolio increased by 3% to 35%. At the same time Alfa Bank plans to reduce the concentration of large corporate clients in its loan portfolio (see "Customer Concentration").

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 2004 (see "Related Party Transactions").

Alfa Bank's prudent credit policy has resulted in a very low rate of overdue loans, which stands at 0.58% of the total gross loans and advances to customers as at 30 June 2005, none 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 24–24.5% for 2005–2006. 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
- develop a cost effective infrastructure and IT model.

Retail Banking Division

Retail banking is a traditional priority for Alfa Bank and it continues to dynamically develop its retail business and consolidate its regional presence in cities with a population of over one million. With a 1.33%

share of the Russian retail banking market as at 30 June 2005 (according to CBR figures, shown on www.cbr.ru) and more than 1,600,000 customers as at 30 September 2005, Alfa Bank has the seventh largest share of the Russian retail banking market (according to CBR figures, shown on www.cbr.ru).

Retail banking generated total revenues of U.S.$37.8 million for the six month period ended 30 June 2005 compared with U.S.$17.6 million for the same period in 2004.

Alfa Bank Express

As mentioned above, Alfa Bank's retail banking business is spearheaded by its network of "Alfa Bank Express" branches.

The "Alfa Bank Express" platform was launched in 2003 following extensive market research, with the aim of providing an easy-to-understand, convenient and efficient service to individuals and small and medium-sized enterprises.

"Alfa Bank Express" offers customers 24 hour a day access to their accounts through telephone, internet and self-service channels. Alfa Bank has placed a strong emphasis on delivering a combination of high customer service and a product portfolio tailored to the needs of modern living. In addition to offering customers a range of current and savings accounts (Rouble, Dollar and Euro), credit cards, overdraft facilities and instant cash transfers, pre-paid cards and individual safe deposit boxes, "Alfa Bank Express" also offers customers a range of four different tariff plans. Each tariff plan has a variety of different features, including discounts and family cards.

Alfa Bank has established a number of partnerships with retailers to allow it to offer "Alfa Bank Express" customers discounted and/or privileged access to a range of travel, insurance, car-rental, dining, fashion and beauty services as well as enhanced terms with outlets of household goods, mobile handsets and digital goods.

"Alfa Bank Express" has also established a pilot VIP programme. The pilot VIP programme offers clients a qualified personal account manager, segregated VIP areas and a priority service in other branches of "Alfa Bank Express."

Since July 2005, "Alfa Bank Express" has offered a range of personal loans in the amount of RUR 22,500 to RUR 450,000 for terms between one and three years. Alfa Bank also offers a wide range of credit cards to customers. Such credit cards can be issued to customers on the basis of express assessment technology, which allows credit decisions to be made quickly following the presentation by the customer of certain documents.

Having established a strong presence and branch identity in Moscow ("Alfa Bank Express" had over 290,000 customers as at 30 September 2005), Alfa Bank has now started to roll out the "Alfa Bank Express" model in the Russian regions.

Alfa Bank believes that the "Alfa Bank Express" model is now sufficiently developed to allow it to intensify its efforts to grow its share of the retail market through, in particular, direct and telephone sales. Similarly, Alfa Bank is now ready to roll out the "Alfa Bank Express" brand in the developing regions of Russia.

On 29 July 2004 the Federal Law "On the Payment by the CBR on Individual Deposits in Insolvent Banks that are not Part of the System of Mandatory Insurance of Deposits held by Individuals in Russian Banks" (the "CBR Deposit Insurance Law") came into force. The CBR Deposit Insurance Law guarantees individuals' bank deposits up to RUR 100,000 in banks that become insolvent prior to being admitted to the system of mandatory insurance of individuals' bank deposits (the "System").

The System was introduced by the "Law on the Insurance of Individuals' Bank Deposits in the Russian Federation" (enacted on 23 December 2003) and required all banks wishing to continue to accept individuals' deposits to apply to the CBR for participation in the System. Alfa Bank was accepted into the System on 15 December 2004, allowing it to further develop its retail banking business. Alfa Bank's regional subsidiary, Alfa Bank Bashkortostan, was accepted into the System on 10 November 2004.

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. As at 1 April 2005, Alfa Bank had a global correspondent network of around 450 institutions and around 45 "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.

LLC Alfa Leasing, established in 1999 as 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 establishing cost effective leasing schemes based on minimising tax exposure and maximising depreciation. The company's clients are Russian Railways, NOVATEK, Izavto, GAZ, KAMAZ, Ravioli, SMARTS, Polimetal, KrasAir and others. The company works together with the largest foreign manufacturers of vehicles and equipment, including Caterpillar (USA), Leibher (Germany), Claas (Germany), Marubeni (Japan), Komatsu (Japan), Tetra Pak (Russia), Berstoff (Germany), Bruckner Maschinenbau (Germany), ThyssenKrupp (Germany), Hitachi (Japan), CFS Bakel B.V. (Holland), DURR KOREA Inc. (South Korea), KIA MOTORS (South Korea), AZOVMASH (Ukraine), Uralvagonzavod (Russia) and others.

Precious Metals Trading Department

The precious metals department was established in 2000 and has developed a small business trading gold, silver, platinum and palladium in the Russian market. The precious metals department is also involved in precious metals consulting, hedging strategies, financing mining organisations, bullion trade 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

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 according to the RosBusiness Consulting website rating.rbu.ru. 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.$62.5 million for the six month period ended 30 June 2005 compared to U.S.$48.7 million for the six month period ended 30 June 2004.

Equities Department

Alfa Banking Group's Equities Department is one of Russia's leading brokerages and is active on all major trading systems and exchanges where Russian securities are traded — mainly RTS, MICEX and the

GDR/ADR markets in London and New York. The Equities Department specialises in six key areas: equity trading, international sales, domestic sales, capital markets, structured products and proprietary analytical research. Alfa Bank is one of the top players in equity financing transactions, both public and private according to the RosBusiness Consulting website rating.rbu.ru, and has acted as a co lead manager in the IPOs of Wimm Bill Dann, RosBusinessConsulting and Concern Kalina. The Equities Department has also developed an Internet trading platform called AlfaDirect, which services thousands of retail clients across Russia. Alfa Bank's Research Department produces highly rated analysis covering overall market strategy and macroeconomic issues as well as industry and company specific reports. The total turnover of the Equities Department in the first half of 2005 was more than U.S.$6 billion.

In 2005, Alfa Banking Group's London operation, Alfa Capital Markets, was reorganised as a branch of Alfa Capital Holdings Cyprus and became a member of the London Stock Exchange. It is authorised by the Financial Services Authority to provide brokerage, research and investment banking services to UK and European institutional clients. Alfa Banking Group's U.S. operation, Alfa Capital Markets (USA) Inc., was established in New York to serve clients in North and South America. Alfa Capital Markets provides brokerage and investment services to a wide range of institutional clients investing in Russia. Alfa Capital Markets Inc. is a NASD member firm.

Corporate Finance Department

Alfa Bank has in recent years strengthened its position in corporate finance and for the first six months of 2005 was ranked in the top ten among investment banks operating in Russia in terms of volume of deals (as evidenced by The RosBusiness Consulting website, rating.rbc.ru). Over each of the last three years the volume of its corporate finance transactions exceeded U.S.$1 billion. According to Global Finance, Alfa Bank is recognised as the Best M&A Advisor in Russia for 2003 and 2004 (Survey of Russian M&A Advisors, February 2004, Global Finance). Euromoney has also recognised Alfa Bank as the Best M&A Advisor in Russia in 2004 (Euromoney Awards for Excellence, July 2004 edition). The transaction volume on which Alfa Bank corporate finance advised in 2004 exceeded U.S.$3 billion. 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.

In 2004, Alfa Bank continued to successfully act as a financial advisor in the pharmaceutical industry. After participating in 2003 in the sale of the Russian assets of ICN Pharmaceuticals, an American public company, Alfa Bank was retained as exclusive financial adviser of EBRD and other shareholders of Natur Produkt Holdings. Natur Produkt Holdings is engaged in the development and marketing of pharmaceutical drugs under the Natur Produkt brand and also operates one of the largest pharmacy networks in Russia with over 200 pharmacies in 40 cities in Russia, Kazakhstan, Moldova, Belarus and Estonia. The sale process was organised in the form of closed tender the winner of which became the Russian private equity fund Renova Capital.

Historically, a significant share of Alfa Bank corporate finance transactions was attributed to the telecommunications industry. Alfa Bank's corporate finance team advised the owners of TOO KaR Tel, the second largest cellular operator in Kazakhstan. Alfa Bank organised a closed tender for the sale. TOO KaR Tel and a number of international and Russian strategic investors as well as Kazakhstan financial investors were invited to participate in the sale process. The transaction structure involved companies in five different jurisdictions and required detailed legal due diligence and certain warranties and representations on behalf of the seller. OAO Vimpel Communications won the tender and the deal was recognised by analysts as one of the most successful transactions in the CIS telecommunications market.

Alfa Bank's Corporate Finance Department also continued rendering advisory services to Russia's utility monopoly, RAO Unified Energy System, as part of its restructuring effort and spin off of its non core assets. In particular, in 2004, Alfa Bank organised and successfully held an auction for the sale of Hotel Energetic located in the historical centre of Moscow. In 2005, Alfa Bank intends to further strengthen its position in the corporate finance services market.

Fixed Income Department

Alfa Banking Group engages 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. Alfa Bank offers a large range of services in both the domestic and international debt capital markets. During 2003, Alfa Bank was a lead manager of Rouble corporate bond issues totalling RUR7.7 billion, compared to RUR3.2 billion in 2002. During the year ended 31 December 2004, Alfa Bank arranged RUR6.6 billion of Rouble corporate bonds and as at 1 September 2005, Alfa Bank had arranged RUR3.1 billion of Rouble corporate bonds. In June 2005, Alfa Bank established a U.S.$10,000,000,000 Global Repackaging Programme and as at 1 September 2005, Alfa Bank had arranged CLNs issued under such programme totalling U.S.$225 million. In addition, Alfa Banking Group trades emerging markets' fixed income instruments as well as derivative contracts.

Derivatives Department

In early 2004, Alfa Banking Group 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, interest rates, 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. In 2004, Alfa Bank became a member of FORTS — Futures and Options on the RTS Stock Exchange. Alfa Banking Group's clients in derivatives include both large corporate clients of Alfa Banking Group (largely for FOREX, Rouble and interest rate derivatives) as well as Russian medium sized and smaller banks and investment companies (for the whole range of derivatives).

Foreign Exchange Department

Alfa Banking Group maintains market making positions on the domestic foreign exchange market, currently covering approximately 5% 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 around U.S.$300 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 (30%).

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 AND LIQUIDITY

The principal sources of funding for the Alfa Banking Group are demand and term deposits from corporates and individuals which, as at 30 June 2005, amounted to U.S.$4,690.1 million and represented 63.6% of total liabilities, compared to U.S.$4,492.1 million and 71.1%, respectively, for the year ended 31 December 2004. Alfa Banking 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 8.1% in 2004 to U.S.$1,398.0 million, and by a further 11.5% in the six month period ended 30 June 2005 to U.S.$1,559.0 million, ranking Alfa Banking Group in seventh 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 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 interbank borrowings. Alfa Bank has over the last few years diversified its funding sources by entering the international debt capital markets through its ECP Programme (as defined below) and under the Programme.

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 January 2003 syndicated loan was repaid by Alfa Bank in July 2004 and the November 2003 loan was repaid on 23 May 2005. 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 Euro Commercial Paper Programme with an initial programme amount of U.S.$200 million (the "ECP Programme") the nominal amount outstanding under the ECP Programme was U.S.$120.5 million as at 30 June 2005. On 22 June 2004, Alfa Banking Group established the Programme. The nominal amount outstanding under the Programme was U.S.$590 million as at 30 June 2005. In June and December 2004 two syndicated loans of U.S.$120.0 million and U.S.$65.0 million respectively with 1-2 year maturities were obtained from a consortium of leading European banks. In June and November 2005, Alfa Bank obtained 364 day syndicated loans of U.S.$230 million and U.S.$275 million, each with an option to extend for an additional 364 days.

Alfa Banking Group will look to raise further funds over the near term in the international bank market which, together with the net proceeds of Notes under the Programme and the proceeds of its non-core asset disposition plan and capital contributions 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		As at 30 June
	2003	2004	2005
Loans to customers[1] as % of total assets	56.5	65.7	53.5
Loans to customers[1] as % of customer accounts	111.8	117.5	84.4
Loans to customers[1] as % of total shareholders' equity	471.8	519.6	466.8

Note:

(1) Net of provisions.

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. Alfa Banking Group's non core asset portfolio is carried in Alfa Banking Group's consolidated balance sheet at a value of U.S.$130.0 million at 30 June 2005, being approximately 1.6% of its total assets. The following table sets out its main investments as at 30 June 2005 and Alfa Banking Group's stake in the company below:

Investments	Line of Business	Country of Registration	Ownership stake (%)	Carrying value (U.S.$ millions)
CTC Media Inc[1]	Television	Russia	29.1	56.5
Investment through profit and loss				45.0
Other				28.5
Total				130.0

Notes:

(1) Formerly Story First Communications.

(2) Investment through profit and loss of U.S.$45 million represents a 8.3% interest of Amtel Holdings, a tyre manufacturing company.

MATERIAL CONTRACTS

Save as disclosed below, neither of the Issuer or Alfa Bank have entered into any material contracts outside the ordinary course of its business which could result in the Issuer or Alfa Bank being under an obligation or entitlement that is material to its ability to make payments under the Notes.

- Alfa Bank through the entities of the Alfa Banking Group obtains debt financing through the issuance of notes under the Programme, its euro commercial paper programme, the issue of Russian Rouble bonds, Ukrainian Grivna bonds and Eurobonds. Alfa Bank's total debt financing received in accordance with these contractual arrangements as at 30 September 2005 was approximately U.S.$976.9 million.
- Alfa Bank has entered into syndicated loans with various financial institutions as at 30 September 2005, totalling U.S.$373.1 million.
- Alfa Bank has access to trade facilities of approximately U.S.$1 billion. These facilities have various maturity dates and approximately 60% of these global lines are currently in use.

SUBSIDIARIES

ABH Financial's principal consolidated subsidiaries as at 30 June 2005 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	96.9	Ukraine
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
Alfa Debt Market Limited	SPV[1]		Cyprus
Alfa MTN Issuance Limited	SPV[1]		Cyprus
Alfa MTN Invest Limited	SPV[1]		Cyprus
Alfa FI Limited	SPV[1]		Cyprus

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 Alfa Bank.

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 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 management accounts, ATB's net profit for the six month period ended 30 June 2005 amounted to EUR5.05 million as compared to EUR7.1 million for the year ended 31 December 2004 with assets increasing from EUR1.25 billion in 2004 to EUR1.5 billion as at 30 June 2005. The loan portfolio accounted for EUR620 million as at 30 June 2005 as compared to EUR349 million as at 31 December 2004. The bank's BIS solvency ratio was more than 22.6%, well above the minimum requirement of 8%.

On 19 November 2004, Alfa Bank made an equity contribution in the amount of EUR40 million, thereby increasing the total equity to EUR82 million. Total shareholder's equity amounted to EUR92 million as at 30 June 2005.

Alfa Bank Ukraine

In 2000 Alfa Banking Group acquired control of 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, combining the expertise of Alfa Bank and the know-how of a local operator in the Ukrainian market.

In 2002 Alfa Bank Ukraine started to increase the reach of its branch network. Over the last two years, Alfa Bank Ukraine opened three branches in the cities of Donetsk, Kharkov, and Dnepropetrovsk as well as its central office and 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, including the big industrial regional centres of Ukraine. Alfa Bank Ukraine's current loan portfolio is approximately U.S.$150 million. Alfa Banking Group is considering spinning off its commercial banking operations in Ukraine.

In addition to commercial and retail banking, Alfa Bank Ukraine engages in investment banking activities, such as fixed income trading, debt capital services and M&A consulting. During 2004 Alfa Bank Ukraine was a lead-manager of Grivna (UHR)) corporate bond issues totaling approximately U.S.$49 million. In the first half of 2005 Alfa Bank Ukraine had arranged approximately U.S.$7 million of Grivna (UHR) corporate bonds.

As of 30 June 2005, Alfa Bank Ukraine was ranked 16th in terms of capital by the Ukrainian Banking Association. Alfa Bank Ukraine has set itself the target of being among the top ten banks in Ukraine in the next few years.

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 Capital Markets Inc.

Alfa Capital Markets is the SEC 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. A significant part of Alfa Banking Group's operating profit was contributed by its investment banking activities (See "Certain Risk Factors – Significant reliance on investment banking operations") and the majority of such profits were booked with Alfa Capital Holdings (Cyprus) Limited. 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.

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. None of the Issuer, Alfa Bank or 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 3 March 2004, the District 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 12 March 2004 and on 26 October 2004, the Court of Appeals heard oral argument on this matter. On 21 July 2005, the Court of Appeals sent the claim back down to the District Court for a rehearing. 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 and responsible for Alfa 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 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 — Chief Executive Officer of Alfa Bank, member of the Board of Directors and a member of the Executive Board of Alfa Bank; Chief Executive Officer of Alfa Bank; 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.

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 from 1995 until 2002; Russian Career Magazine has named Mr. Khvesyuk as one of 50 best Russian corporate lawyers in 2001.

Alexander Lukanov — Chairman of the Supervisory Board of CJSC Alfa Bank (Ukraine) and Deputy Chairman of the Executive Board of OJSC Alfa Bank; formerly Head of Corporate Banking; Mr Lukanov

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 Alfa 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); PhD (Mathematical Economics), MS Economic Sciences, Moscow State University.

Nikolay Shmigol — Director of Administrative Issues, Investment Bank, formerly Directors of Operations; joined Alfa Bank in 2000; formerly Head of Treasury and General Director at UFG; BA Honours Degree in Credit and Finance, Moscow Financial Academy.

Sergei Mednov — Director of Information Technology, Alfa Bank, joined Alfa Bank in 2000; formerly Deputy Chairman for IT of the Executive Board of JSCB Probusinessbank; Computer Aided-Design Department, Moscow Aviation Institute; Credit and Finance Department, Plekhanov Russian Academy of Economics.

Simon Vine — Head of Derivatives, Managing Director, Alfa Bank, joined Alfa Bank in 1998; previously worked at American Express Bank, Refco, UBS, SocGen; MBA, Columbia Business School; MS Economics, Moscow Institute of Finance and Economics.

Dominic Gualtieri — Managing Director, Head of Equities, Alfa Bank, joined Alfa Bank in 2000; 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, Alfa Bank, joined Alfa Bank in 1999; 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.

Michael Kaplan — Head of equity research sales and sales trading business, Alfa Capital Markets (USA) Inc.; formerly Vice President of International Sales at Morgan Stanley and Head of U.S. research sales and sales trading business at Renaissance Capital; MBA in finance, Northwestern's Kellogg Graduate School of Management.

Simon Roache — Chief Executive Officer of Alfa Capital Holdings (Cyprus) Limited, London branch; formerly Executive Director at Alfa Capital Asset Management in Moscow, Vice President at Fleming Investment Management, Moscow; BA, Heriot-Watt University, Edinburgh.

Sergei Rodionov — Head of Fixed Income Department of Alfa Capital Holdings (Cyprus) Limited, London branch, formerly 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, 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 in 1991; worked as an Equity Trader at Mosbusiness Bank and IFC (1993-96), Head of Fixed Income Trading Uneximbank (1996-99).

Vladimir Tatarchuk — Head of Corporate Banking, formerly Head of Corporate Finance, 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, Member of the Executive Board, 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.

Viktor Bashkirov — Director of Retail Banking, Alfa Bank; former head of Citibank's retail division in Russia; joined Alfa Bank on 1 September 2004; Mr. Bashkirov began his career with Citibank in 1993 where his responsibilities included President of Retail Banking, Citibank (Egypt) and General Director of Citibank St. Petersburg Branch.

Alexander Silvestrov — Director of Corporate Credit, Alfa Bank; joined Alfa Bank in 1996; formerly Head of credit methodology group at JSB Tori Bank; Technological Faculty, Plekhanov Russian Academy of Economics.

Marco Salvi — Head of Investment Banking, Alfa Bank; previously Chief Executive Officer of Mercanti Finanziaria Sim, Managing Director at Majeca Ltda, Managing Director, Head of Capital Markets and Financial Products at Donaldson Lufkin and Jeanrette International; BA (Economics), MBA, University of California.

Tomasz Kazmierovski — Head of Consumer Finance, Alfa Bank; previously President of the Management Board of Inteligo Financial Services S.A., Deputy General Manager Poland NT Canal+/Cyfra+; Poznan University, Ecole Superieure de Commerce (France).

Alexander Tolchinsky — Member of the Board of Directors of Alfa Bank and Adviser to the Executive Board, previously Director of Credit Suisse First Boston, Moscow and a Partner at McKinsey & Co. Mr Tolchinsky graduated from Moscow Civil Engineering Institute and holds an MBA from the University of Michigan.

Andrew John Baxter — Chief Financial Officer, Alfa Bank; joined Alfa Bank in 2005; former Partner and Head of Moscow Office of SUN Group; Finance Director/CFO at Renaissance Capital, Moscow; Vice-President and Senior Financial Officer at The US Russia Investment Fund, Moscow; Bachelor of Commerce and bachelor of Accountancy, University of the Witwatersrand.

Mehdi Shirazee — Head of Treasury Block, Alfa Bank; joined Alfa Bank in 2005; former Director of Treasury at ABN Amro, Moscow; Vice President and Head of Money Desk at Saudi American Bank, Saudi Arabia; Vice president and Treasurer at Citibank N.A., Moscow; MBA in Finance, University of Karachi.

Maxim Shashenkov – Head of Equity Department of Alfa Capital Holdings (Cyprus) Limited, London branch, formerly Vice President at Merrill Lynch and Smith New Court; Phd Oxford University, MA Political Science, Moscow State 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	Position with Alfa Bank	Principal activities outside Alfa Banking Group
Pyotr Aven	President of Alfa Bank	Chairman of the Board of Directors of Golden Telecom, Co-Chairman of the Board of Directors of STS Media; Member of the Charity Board of the Bolshoi Theatre; Member of the Board of Alfa Finance Holdings S.A.
Alexander Gafin	Member of the Board of Directors of Alfa Bank, Director of Public Relations	Executive Director of the Bolshoi Theater Foundation; Member of the Charity Board of the Bolshoi Theatre
Mikhail Fridman	Chairman of the Board of Directors of Alfa Bank	Chairman of the Board of Directors of Alfa Group Consortium; Chairman of the Board of Directors of TNK-BP; Member of the Board of Directors of Vimpelcom; Member of the Board of Directors of Trade House Perekryostok; Member of the Board of Alfa Finance Holdings S.A.
German Khan	Member of the Board of Directors of Alfa Bank	Executive Director and Member of the Executive Board of TNK-BP; Member of the Board of Directors of Slavneft; Member of the Board of Alfa Finance Holdings S.A.
Alexei Kuzmichev	Member of the Board of Directors of Alfa Bank	Chairman of the Board of Directors of Alfa Eco Group; Member of the Board of Alfa Finance Holdings S.A.; Member of the Board of Directors of the Russian Technologies Company
Oleg Sysuev	First Deputy Chairman of the Board of Directors of Alfa Bank	Member of the Board of Directors of STS Media, Gamma Film and Trade House Perekresyostok
Petr Smida	Chief Executive Officer of Alfa Bank, member of the Board of Directors and a member of the Executive Board of Alfa Bank	None
Leonard Vid	Deputy Chairman of the Board of Directors of Alfa Bank	None

The business address of the above members of the Board of Directors of Alfa Bank is 11 Mashy Poryvaevoy Street, 107078 Moscow, Russia with the exception of Mr Smida whose business address is 12 Acad. Sakharova Prospect, 107078, Moscow, Russia.

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

Name	Principal Occupation	Principal activities outside Alfa Banking Group
Pyotr Aven	President of Alfa Bank	Chairman of the Board of Directors of Golden Telecom, Co-Chairman of the Board of Directors of STS Media; Member of the Charity Board of the Bolshoi Theatre; Member of the Board of Alfa Finance Holdings S.A.
Viktor Bashkirov	Director of Retail Banking, Alfa Bank	None
Miroslav Boublik	Chief Operating Officer, Alfa Bank	None
Todd Esposito	Financial Planning and Analysis Director, Alfa Bank	None
Mikhail Fridman	Chairman of the Board of Directors of Alfa Bank	Chairman of the Board of Directors of Alfa Group Consortium; Chairman of the Board of Directors of TNK-BP; Member of the Board of Directors of Vimpelcom; Member of the Board of Directors of Trade House Perekryostok; Member of the Board of Alfa Finance Holdings S.A.
Ildar Karimov	Deputy Chairman of the Executive Board of Alfa Bank	Member of the Board of Directors of Alfa Strakhovanie; Member of Investment Committee Alfa Capital Partners; Member of the Board of Directors of Alfa Assets Management; Member of the Board of Alfa Finance Holdings S.A.
Rushan Khvesyuk	Chairman of Executive Board of Alfa Bank	None
Alexander Lukanov	Deputy Chairman of the Executive Board of Alfa Bank	Member of Supervisory Board of Amsterdam Trade Bank; Member of Supervisory Board of Alfa Bank Ukraine
Petr Smida	Chief Executive Officer of Alfa Bank, member of the Board of Directors and a member of the Executive Board of Alfa Bank	None
Andrey Sokolov	Deputy Chairman of the Executive Board of Alfa Bank	None
Oleg Sysuev	First Deputy Chairman of the Board of Directors of Alfa Bank	Member of the Board of Directors of STS Media, Gamma Film and Trade House Perekresyostok
Vladimir Tatarchuk	Managing Director, Head of Corporate Banking and a member of the Executive Board of Alfa Bank	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:

- Pyotr Aven
- Viktor Bashkirov
- Ildar Karimov
- Andrey Sokolov
- Oleg Sysuev
- Vladimir Tatarchuk
- Mikhail Fridman

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

- Miroslav Boublik
- Rushan Khvesyuk
- Petr Smida
- Todd Esposito

The business address of Alexander Lukanov is 4/6 Desatinaya Street, 01025, Kiev, Ukraine.

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 six month period ended 30 June 2005, the total remuneration of the key management personnel of Alfa Banking Group, including pension contributions and discretionary compensation, amounted to U.S.$13.7 million (compared with U.S.$9.9 million for the six month period ended 30 June 2004).

Conflict of Interest

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer or Alfa Bank towards the Issuer or Alfa Bank and their private interests and/or other duties.

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 63.6% at 30 June 2005. 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 eleven members. ALCO is chaired by Petr Smida (CEO) and includes the following ten additional members: Andrew Baxter (CFO and First Deputy Head of ALCO), Mehdi Shirazee (Head of Treasury Block and Deputy Head of ALCO), Vladimir Tatarchuk (Head of Corporate Banking), Viktor Bashkirov (Director of Retail Banking), Marco Salvi (Head of Investment Banking), Philip Halperin (Head of Risk Management), Igor Knyazev (Treasurer), Alexander Silvestrov (Director of Corporate Credit), Igor Vasiliev (Head of Forex; a zero-weighted vote) and Igor Belozerskiy (Secretary of ALCO, also having a zero-weighted vote). 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 AND 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 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%	2,022.9	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	—	—	—	—

	31 December 2004							
	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	1.4%	113.6	0.6%	38.0	0.0%	47.7	2.5%	1.9
Mandatory cash balances with the CBR and other local banks	–	–	0.0%	107.9	0.0%	28.8	0.0%	2.8
Debt trading securities	7.9%	195.4	10.2%	128.8	4.9%	21.9	7.8%	22.3
Due from other banks	5.4%	344.9	2.1%	205.0	–	–	11.7%	20.7
Loans and advances to customers	11.2%	2,483.4	13.6%	1,326.9	8.1%	247.0	14.3%	42.8
Liabilities								
Term placements of other banks	3.4%	255.8	2.3%	77.5	3.6%	80.8	2.2%	27.2
Current and settlement accounts	0.6%	310.0	1.1%	1,233.1	0.9%	179.1	1.0%	87.9
Term deposits of customers	5.7%	1,647.0	5.2%	830.0	5.5%	175.0	9.8%	29.9
Promissory notes issued	3.8%	46.9	6.6%	156.0	6.7%	2.7	13.0%	0.6
Other borrowed funds	8.2%	638.6	7.4%	68.3	—	—	—	—

	30 June 2005							
	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	2.7%	343.5	8.4%	70.4	2.1%	88.9	3.8%	6.6
Mandatory cash balances with central banks	–	–	0.0%	137.8	0.0%	27.0	0.0%	6.7
Debt trading securities	6.9%	120.8	8.2%	194.7	4.1%	20.1	8.4%	10.6
Due from other banks	3.1%	388.9	7.4%	197.6	–	–	4.1%	18.8
Loans and advances to customers	11.4%	2,781.2	12.7%	1,751.5	8.0%	279.9	12.4%	75.3
Liabilities								
Due to other banks	4.2%	216.6	5.7%	146.5	3.5%	141.2	2.2%	33.9
Current and settlement accounts	0.4%	1,202.5	0.0%	757.1	1.1%	224.2	0.0%	68.0
Term deposits of customers	4.7%	1,068.5	4.2%	1,100.7	3.9%	231.6	10.3%	37.5
Promissory notes issued	4.7%	81.8	3.5%	225	5.7%	4.1	0.0%	0.0
Other borrowed funds	8.3%	1242.9	7.5%	2.1	–	–	–	5.0

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

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. As at 30 June 2005, 90.1% 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 73.3%. Loans with shorter or the same contractual maturity as corresponding funding sources help to provide flexibility and stability to Alfa Banking Group's funding.

The following table shows Alfa Banking Group's banking assets and liabilities by residual contractual maturity as at 30 June 2005 (expressed in U.S.$000s):

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1,177,318	–	–	–	–	1,177,318
Mandatory cash balances with central banks	171,423	–	–	–	–	171,423
Trading securities	651,306	–	–	–	–	651,306
Due from other banks	575,707	28,721	–	846	–	605,274
Loans and advances to customers	284,001	1,120,201	1,688,270	1,795,449	–	4,887,921
Investments	–	–	–	–	130,032	130,032
Other assets and receivables	68,114	208,745	1,071	39	92,187	370,156
Premises and equipment and intangible assets	–	–	–	–	141,268	141,268
Deferred tax asset	–	–	–	–	16,251	16,251
Total assets	2,927,869	1,357,667	1,689,341	1,796,334	379,738	8,150,949
Liabilities						
Due to other banks	235,783	118,709	26,364	157,298	–	538,154
Customer accounts	2,370,771	1 863,284	327,223	128,802	–	4,690,080
Promissory notes issued	53,268	171,684	70,953	14,923	–	310,828
Other borrowed funds	17,449	302,790	531,089	398,711	–	1,250,039
Other liabilities and payables	289,300	261,988	1,381	2,876	–	555,545
Deferred tax liability	–	–	–	–	30,168	30,168
Total liabilities	2,966,571	2,718,455	957,010	702,610	30,168	7,374,814
Net liquidity gap	(38,702)	(1,360,788)	732,331	1,093,724	349,570	776,135
Cumulative liquidity gap	(38,702)	(1,399,490)	(667,159)	426,565	776,135	–

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 or less than one month, diversification of these balances by number and type of customers, and the past experience of Alfa Banking Group, indicate 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.

FOREIGN CURRENCY MANAGEMENT

As at 30 June 2005, Alfa Banking Group had the following positions in currencies (expressed in U.S.$000s):

	U.S.$	RUR	EURO	Other Currencies	Total
Assets					
Cash and cash equivalents	647,409	356,258	137,821	35,830	1,177,318
Mandatory cash balances with central banks	—	137,755	26,974	6,694	171,423
Trading securities	426,038	194,657	20,055	10,556	651,306
Due from other banks	388,858	197,617	—	18,799	605,274
Loans and advances to customers	2,781,200	1,751,482	279,932	75,307	4,887,921
Investments	130,032	—	—	—	130,032
Other assets and receivables	213,396	101,293	38,669	16,798	370,156
Premises and equipment and intangible assets	—	110,696	1,080	29,492	141,268
Deferred tax asset	—	16,251	—	—	16,251
Total assets	4,586,933	2,866,009	504,531	193,476	8,150,949
Liabilities					
Due to other banks	216,629	146,452	141,196	33,877	538,154
Customer accounts	2,270,969	1,857,793	455,774	105,544	4,690,080
Promissory notes issued	81,784	224,983	4,057	4	310,828
Other borrowed funds	1,242,946	2,086	—	5,007	1,250,039
Other liabilities and payables	375,449	144,073	32,648	3,375	555,545
Deferred tax liability	—	30,168	—	—	30,168
Total liabilities	4,187,777	2,405,555	633,675	147,807	7,374,814
Net balance sheet position	399,156	460,454	(129,144)	45,669	776,135
Off-balance sheet net notional position	532,604	(309,785)	(10,520)	(298,780)	(86,481)
Credit related commitments	609,151	182,510	157,994	3,989	953,644

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 26 to the audited consolidated financial statements of ABH Financial for the six month period ended 30 June 2005).

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. The financial and other information included in this Prospectus has, except where expressly stated otherwise, been derived from the consolidated financial statements of ABH Financial and not from the financial statements of Alfa Bank. Alfa Bank generates a large part of the revenues, assets, liabilities, expenses and cash flows of Alfa Banking Group. ABH Financial is an indirect parent company of Alfa Bank. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. ABH Financial will not guarantee the Notes and has no obligation with respect to the Notes.

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.

The rate of interest charged on a loan depends on the credit risk classification and the maturity. As at 30 June 2005, effective average interest rates were 11.4% for U.S. dollar denominated loans to customers and 12.7% for Rouble loans to customers.

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

The following table provides a breakdown of Alfa Banking Group's loan portfolio as at 31 December 2003 and 2004 and 30 June 2005:

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Loans to customers	3,642.0	96.5	4,297.9	88.3	5,118.4	89.4
Due from other banks[1]	131.6	3.5	570.6	11.7	605.3	10.6
Provision for loan impairment[2]	(175.7)		(197.8)		(230.4)	
Total	3,597.9	100.0	4,670.7	100.0	5,493.3	100.0

Notes:

(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 30 June 2005, Alfa Banking Group had 24 borrowers with aggregate loan amounts equal to or above U.S.$50.0 million. The aggregate amount of these loans is U.S.$2,421.1 million or 47.3% of the gross loans to customers' portfolio. Loans to related parties comprised U.S.$115.5 million, around 2.3% 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 30 June 2005, which together accounted for 28.6% 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
RAO UES Group	309.4	–	–	309.4
Svyazinvest Group	205.1	–	–	205.1
Rusneft	150.2	–	–	150.2
Suek	143.7	–	–	143.7
EAM Group	125.6	–	–	125.6
Urals Steel Group	123.4	–	13.8	137.2
Kuzbasrazresugol	106.0	–	–	106.0
Azovstal	99.1	–	–	99.1
Severnaya Verf	93.1	1.4	–	94.5
UGMK Group	92.4	–	–	92.4
Total	1,448.0	1.4	13.8	1,463.2

Note:
All figures in U.S.$ millions

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

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Up to U.S.$5 million	761.0	20.8	1,030.4	24.0	752.6	14.7
U.S.$5 million up to U.S.$10 million	302.5	8.3	308.1	7.2	428.9	8.4
U.S.$10 million up to U.S.$20 million	234.5	6.4	290.6	6.7	682.1	13.3
U.S.$20 million up to U.S.$30 million	180.4	5.0	259.8	6.0	455.9	8.9
U.S.$30 million up to U.S.$40 million	285.5	7.9	205.4	4.8	202.5	4.0
U.S.$40 million up to U.S.$50 million	135.2	3.7	274.6	6.4	175.3	3.4
Over U.S.$50 million	1,742.9	47.9	1,929.0	44.9	2,421.0	47.3
Total loans outstanding gross	3,642.0	100.0	4,297.9	100.0	5,118.3	100.0
Provision for loan impairment	(175.7)		(197.8)		(230.4)	
Total loans outstanding net	3,466.3		4,100.1		4,887.9	

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

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Demand and less than one month	170.3	4.9	199.6	4.9	284.0	5.8
1-6 months	956.9	27.6	1,267.1	30.9	1,120.2	22.9
6-12 months	1,431.5	41.3	1,237.6	30.2	1,688.3	34.5
More than one year	907.6	26.2	1,395.8	34.0	1,795.4	36.8
No stated maturity	—	—	—	—		
Total loans to customers	3,466.3	100.0	4,100.1	100.0	4,887.9	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:

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Sector						
Manufacturing and construction	1,482.3	40.7	1,881.5	43.8	2,374.4	46.4
Energy and oil and gas	1,052.2	29.0	1,065.9	24.8	1,107.1	21.6
Trade and commerce	529.5	14.5	643.0	15.0	799.3	15.6
Telecommunications	205.7	5.6	198.9	4.6	232.6	4.5
Finance and investment companies	98.8	2.7	86.6	2.0	117.0	2.3
Individuals	49.9	1.4	46.1	1.1	60.0	1.2
Other	223.6	6.1	375.9	8.7	428.0	8.4
Total loans and advances to customers (aggregate amount)	3,642.0	100.0	4,297.9	100.0	5,118.4	100.0

	As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%
Region				
Russia	3,710.5	90.5	4,291.9	87.8
CIS (excluding Russia)	268.0	6.6	454.0	9.3
Europe	116.6	2.8	101.5	2.1
USA	4.9	0.1	34.2	0.7
Other	0.1	—	6.3	0.1
Total	4,100.1	100.0	4,887.9	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 2003, 31 December 2004 and 30 June 2005:

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
U.S. dollars	2,022.9	58.3	2,483.4	60.6	2,781.2	57.0
Roubles	1,305.2	37.7	1,326.9	32.4	1,751.5	35.8
Euro	101.7	2.9	247.0	6.0	279.9	5.7
Other Currency	36.5	1.1	42.8	1.0	75.3	1.5
Total	3,466.3	100.0	4,100.1	100.0	4,887.9	100.00

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.

The Main Credit Committee is composed of 11 board members and the heads of the Risk Management, Legal, Treasury, Corporate Finance, Credit, Capital Markets and Security Departments. The Supplementary Credit Committee makes the final decision on all loans of under 2 years in an amount not exceeding 2.5% of Alfa Bank's shareholder equity and loans of under 3 years in an amount not exceeding 0.25% of Alfa Bank's shareholder equity. It is comprised of nine heads of relevant departments and one board member. The Main Credit Committee's competence covers all matters not covered by the Supplementary Credit Committee. 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 ALCO 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 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:

	As at 31 December 2003		
Impairment provision percentage group	**Principal amount outstanding (U.S.$ million)**	**Impairment provision (U.S.$ million)**	**Effective provisioning rate (%)**
0-5%	2,616.8	76.5	2.9
6-20%	994.0	68.0	6.8
21-50%	—	—	—
51-100%	31.2	31.2	100.0
Total	3,642.0	175.7	4.8

	As at 31 December 2004		
Impairment provision percentage group	**Principal amount outstanding (U.S.$ million)**	**Impairment provision (U.S.$ million)**	**Effective provisioning rate (%)**
0-5%	3,344.5	104.5	3.1
6-20%	927.1	70.5	7.6
21-50%	—	—	—
51-100%	26.3	22.8	86.7
Total	4,297.9	197.8	4.6

Impairment provision percentage group	As at 31 December 2005		
	Principal amount outstanding (U.S.$ million)	Impairment provision (U.S.$ million)	Effective provisioning rate (%)
0-5%	4,569.9	162.1	3.5
6-20%	518.9	41.8	8.1
21-50%	0.9	0.5	55.6
51-100%	28.7	26.0	90.6
Total	5,118.4	230.4	4.5

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

	Period ended		
	31 December		30 June
	2003	2004	2005
	U.S.$ in million		
Balance at 1 January	134.9	175.7	197.8
Charge to provision for loan impairment during the year	42.1	24.0	32.7
Loans written off during the period as uncollectable	(1.3)	(1.9)	(0.1)
Acquisition of subsidiaries	—	—	—
Balance at end of the period	175.7	197.8	230.4
Total customer loans portfolio, gross	3,642.0	4,297.9	5,118.4
Effective provisioning level, %	4.8	4.6	4.5

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

	As at 31 December 2003			As at 31 December 2004			As at 30 June 2005		
	Gross loans	Provision		Gross loans	Provision		Gross loans	Provision	
	(U.S.$ million)		%	(U.S.$ million)		%	(U.S.$ million)		%
Individuals	6.3	(6.3)	100	10.6	(9.3)	88	21.0	(7.5)	35
Trade	7.2	(7.2)	100	8.9	(7.4)	83	10.9	(8.4)	77
Food	0.3	(0.3)	100	—	—	—	4.9	(3.8)	77
Construction	3.4	(3.4)	100	2.8	(1.7)	61	3.6	(2.8)	77
Agriculture	0.1	(0.1)	100	0.1	(0.1)	100	0.1	(0.1)	78
Finance	1.1	(1.1)	100	1.1	(0.6)	55	—	—	—
Machine building	1.3	(1.3)	100	—	—	—	—	—	—
Other	11.5	(11.5)	100	9.5	(8.9)	94	7.4	(5.7)	77
Total	31.2	(31.2)	100	33.0	(28.0)	85	47.9	(28.3)	59

SECURITIES PORTFOLIO

The following table illustrates Alfa Banking Group's securities trading portfolio (debt and equity), by value and as a percentage of the portfolio, as at 31 December 2003, 31 December 2004 and 30 June 2005:

	As at 31 December 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Corporate shares	35.1	5.1	331.1	46.2	287.6	44.1
Corporate Bonds	72.7	10.5	109.7	15.3	121.9	18.7
Corporate Eurobonds	183.3	26.4	79.7	11.1	104.1	16.0
Municipal Bonds	24.0	3.4	15.3	2.1	45.6	7.0
Promissory notes	—	—	—	—	28.1	4.3
Russian Federation Eurobonds	305.8	44.0	91.3	12.8	20.8	3.2
Eurobonds of other states	52.6	7.6	12.5	1.7	20.8	3.2
ADRs and GDRs	6.3	0.9	17.5	2.4	3.8	0.6
Other securities	14.8	2.1	60.0	8.4	18.6	2.9
Total	694.6	100.0	717.1	100.0	651.3	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. Substantially all of Alfa Banking Group's related party transactions have been priced predominantly at market rates.

LIMITS ON RELATED PARTY TRANSACTIONS

Alfa Banking Group regularly implements new (lower) limits on related party transactions. As at 30 June 2005, Alfa Banking Group has imposed a total limit on lending and credit related commitments to TNK of U.S.$150 million and a total limit on lending and credit related commitments to all related parties of 40% of Alfa Banking Group's shareholder capital. As at 30 June 2005, related parties' guarantees issued by Alfa Banking Group amounted to U.S.$129.8 million compared to U.S.$96.9 million as at 31 December 2004. Similarly, as at 30 June 2005, related parties' loans amounted to U.S.$115.5 million as compared with U.S.$90.4 million as at 31 December 2004. As at 30 June 2005, total gross loans to customers and guarantees outstanding with related parties comprised 4.3% of total gross loans to customers and guarantees.

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 2003		As at 31 December 2004		As at 30 June 2005	
	U.S.$ million	%	U.S.$ million	%	U.S.$ million	%
Trading Securities	33,099	5	12,603	2	11,648	1.8
Loans to customers						
Gross loans outstanding at period end	104,482	3	90,418	2	115,522	2.3
Receivables	10,252	6	16,083	6	4,743	1.3
Customer accounts						
Outstanding balance at period end	562,982	17	1,199,046	27	798,655	17.0
Promissory notes issued	49,982	8	3,848	2	20,938	6.7
Payables	15,495	8	12,119	3	2,455	0.4
Off balance sheet						
Guarantees issued by Alfa Banking Group	46,004	12	96,901	16	129,784	24.0
Import letters of credit	13,536	18	6,101	4	2,972	1.7
Export letters of credit	—	—	—	—	—	—
Fee and commission income	24,347	18	5,983	4	2,809	3.8
Fee and commission expense	1,684	4	—	—	—	—
Interest income	37,909	8	7,938	1	8,942	2.8
Interest expense	7,953	3	28,684	12	16,725	12.6
Other income	2,126	N/A	7,218	N/A	136	N/A
Other expenses	6,108	N/A	1,307	N/A	224	N/A

For the six month period ended 30 June 2005, the total remuneration of key management personnel, including pension contribution, and discretionary compensation amounted to U.S.$13.7 million (compared to U.S.$9.9 million for the six month period ended 30 June 2004).

The following table sets out information on loans and guarantees and on customer accounts with respect to related parties as at 31 December 2003, 31 December 2004 and 30 June 2005:

	As at		
	31 December		30 June
	2003	2004	2005
	U.S.$ million		
Loans			
Perekriostok	31,584	5,070	65,232
Alfa Telecom	—	20,460	23,532
CTC Media	—	24,000	18,169
Alfa Eco Group	—	18,054	700
TNK Group and affiliated companies	52,369	12,785	—
Gum Holdings Limited	17,259	—	—
Other	3,270	10,049	7,889
Total	104,482	90,418	115,522

	As at		
	31 December		30 June
	2003	2004	2005
	U.S.$ million		
Guarantees			
TNK Group and affiliated companies	45,119	96,883	128,859
Other	885	18	925
Total lending and guarantees	46,004	96,901	129,784

	As at		
	31 December		30 June
	2003	2004	2005
	U.S.$ million		
Customer accounts			
CTF Holdings Limited	—	221,717	191,592
Individual Shareholders	—	221,223	191,423
TNK Group and affiliated companies	153,690	165,598	169,432
Alfa Telecom	—	—	109,160
Alfa Finance Holdings S.A.	—	—	46,554
Alfa Eco Group	88,491	22,201	17,615
Alfa Petroleum Holdings Limited	250,625	490,821	5,990
Vimplecom Group	22,186	22,144	1,534
Other	47,990	55,342	65,355
Total	562,982	1,199,046	798,655

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;
- changes in ratio limits, such as reducing the N2 and N3 limits from 20% and 70% to 15% and 50%, respectively; and
- repeal of N8, N9, N10, N11, N11.1, N13 and N14 ratios.

In April 2005, the CBR repealed the general liquidity ratio (N5).

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 10.6% as at 1 July 2005.

The following table sets out Alfa Bank's mandatory economic ratios calculated in accordance with the requirements of the CBR as at 1 January 2003, 2004, 2005 and as at 1 July 2005 and based on RAR:

	CBR minimum/ maximum	Alfa Bank Ratios As at 1 January			(Unaudited values) as at 1 July
	ratio requirements	2003	2004	2005	2005
Mandatory Economic Ratios					
Capital adequacy ratio (N1)	N1 — Min 10	15.4	13.7	12.4	10.6
Bank liquidity ratios (N2, N3, N4 and N5)	N2 — Min 15	47.7	69.0	35.5	31.3
	N3 — Min 50	83.8	89.4	65.9	58.1
	N4 — Max 120	50.5	47.4	62.4	64.2
	N5 — Min 20	44.9	45.9	25.3	—
Maximum amount of risk per borrower or per group of related borrowers (N6)	N6 — Max 25	24.6	21.1	—	—
Maximum amount of large credit risks (N7)	N7 — Max 800	376.4	393.4	297.1	423.8
Maximum amount of risk per single creditor (depositor) (N8, N9 and N9.1)	N8 — Max 25	20.0	47.1	—	—
	N9 — Max 20	0	0	—	—
	N9.1 — Max 50	0	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	0.1	—	—
	N10.1 — Max 3	0	0.1	0	0
Maximum amount of bank deposits attracted from individuals (N11 and N11.1)	N11 — Max 100	108.5	139.8	—	—
	N11.1 — Max 400	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	0
	N12.1 — Max 5	0	0	—	—
Maximum amount of the bank's bill-of-exchange liabilities (N13)	N13 — Max 100	86.9	70.1	—	—
Liquidity ratios under transactions with precious metals (N14)	N14 — Min 10	N/A	N/A	—	—

Note:
All figures are in percentages.

If Alfa Bank were required to calculate its capital adequacy, based on IFRS financial statements, under the BIS Guidelines regarding solvency and capitalisation no assurances can be given that, without any appropriate remedial action, Alfa Bank's capital adequacy would satisfy such guidelines.

ALFA BANKING GROUP

Alfa Banking Group also complies with international standards with respect to capital adequacy. Details of Alfa Banking Group's capital adequacy as at 31 December 2003, 31 December 2004 and 30 June 2005, calculated in accordance with the BIS Guidelines and based on the IFRS consolidated financial statements, are set out below:

	As at 31 December		As at 30 June
	2003	2004	2005
	(U.S.$ million — except percentages)		
Paid up share capital	160.8	160.8	160.8
Retained earnings	358.2	542.6	609.0
Tier I Capital	519.0	703.4	769.8
Tier II Capital[1]	14.7	4.1	3.9
Total Capital	533.7	707.5	773.7
Risk weighted assets	5,186.8	6,812.8	7,846.3
Capital adequacy ratios			
Tier 1 capital adequacy ratio (%)[2]	10.0	10.3	9.8
Total capital adequacy ratio (%)[2]	10.3	10.4	9.9

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

The financial and other information included in this Prospectus has, except where expressly stated otherwise, been derived from the consolidated financial statements of ABH Financial and not from the financial statements of Alfa Bank. Alfa Bank generates a large part of the revenues, assets, liabilities, expenses and cash flows of Alfa Banking Group. ABH Financial is an indirect parent company of Alfa Bank. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. ABH Financial will not guarantee the Notes and has no obligation with respect to the Notes.

	Period ended		
	31 December		30 June[5]
	2003	2004	2005
Combined Key Ratios			
Return on shareholders' equity[1]	21.6	24.4	23.6
Operating expenses/operating income before provision for loan impairment	65.9	64.3	56.2
Provision for loan impairment for loans to customers/loans to customers	4.8	4.6	4.5
Profitability Ratios			
Operating expenses/net interest income	126.4	112.3	90.2
Profit after taxation/total assets	1.8	2.2	2.1
Balance Sheet Ratios			
Customer accounts/total assets	57.8	63.9	57.5
Total net loans to customers/total assets	58.9	58.4	60.0
Total shareholders' equity/total assets	9.3	10.1	9.5
Liquid assets[2]/customer accounts	51.1	50.1	51.3
Liquid assets[2]/liabilities of up to one month	64.2	81.1	81.0
Capital Adequacy Ratios[3]			
Total capital adequacy ratio	10.3	10.4	9.9
Tier 1 capital adequacy ratio	10.0	10.3	9.8
Credit quality ratios			
Overdue loans to customers/total loans to customers	0.9	0.8	0.9
Provisions for loan impairment for loans to customers/overdue loans to customers	564.1	600.2	481.0
Exchange rates — Roubles per U.S.$1			
Period end	29.4545	27.7487	28.6721
Average for the period	30.6875	28.8150	27.9595
Inflation and growth rates			
CPI	12.0	11.7	8.0
GDP	7.3	7.1	5.7

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.

(4) All figures in per cent except exchange rates.

(5) Annualised.

SUBORDINATED LOAN AGREEMENT

THIS SUBORDINATED LOAN AGREEMENT is made on 7 December, 2005.

BETWEEN:

(1) **OPEN JOINT-STOCK COMPANY "ALFA-BANK"**, a company incorporated under the laws of Russia whose registered office is at 27 Kalanchyovskaya Street, Moscow, 107078, Russian Federation (the "**Borrower**");

(2) **ABH Financial Limited**, a company incorporated under the laws of the British Virgin Islands whose registered office is at P.O. Box 3339, Geneva Place, 333 Waterfront Drive, Road Town, Tortola, British Virgin Islands ("**ABH Financial**"); and

(3) **Alfa Bond Issuance** PLC, a company incorporated under the laws of Ireland, whose registered office is at 85 Merrion Square, Dublin 2, Ireland (the "**Lender**").

WHEREAS

(**A**) The Lender has at the request of the Borrower made available to the Borrower a subordinated loan facility in the amount of U.S.$225,000,000 on the terms and subject to the conditions of this Agreement.

(**B**) It is intended that, concurrently with the extension of the Loan under this subordinated loan facility, the Lender will issue certain loan participation notes in the same aggregate nominal amount and bearing the same rate of interest as such Loan (the "**Notes**").

NOW IT IS HEREBY AGREED as follows.

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

"**Account**" means the account in the name of the Lender with JPMorgan Chase Bank, N.A., London, with payment being made to JPMorgan Chase, N.A., New York (Swift: CHASUS33), for account of JPMorgan Chase Bank, N.A., London (Account number: 601-0-962009) for further credit to Alfa Bond Issuance PLC (Account number: 32659001), as notified by the Lender in writing to the Borrower, or such other account as may from time to time be agreed by the Lender and the Borrower with the Agreed Funding Source (as defined below), or any assignee or transferee appointed in connection with the Agreed Funding (as defined below), and notified in writing to the Borrower at least five Business Days in advance of such change.

"**Additional Amounts**" has the meaning set forth in Clause 8.1 (*Additional Amounts*).

"**Advance**" has the meaning set out in Clause 4.1 (*Drawdown*).

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purpose of this definition, "control" when used with respect to any Person means 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 provided that beneficial ownership of 10 per cent. or more of the Voting Stock of a Person shall be deemed to be control; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state.

"**Agreed Funding**" shall mean the Indebtedness (including in the form of securities), incurred to the Agreed Funding Source.

"**Agreed Funding Source**" means any Person (including a designated representative of such Person) to whom the Lender owes any Indebtedness (including indebtedness in respect of securities), which Indebtedness was incurred solely and expressly to fund the Loan.

"**Agreement**" means this subordinated loan agreement as originally executed or as it may be amended from time to time.

"**Alfa Banking Group**" means ABH Financial and its Subsidiaries taken as a whole.

"**Assignment**" means the assignment by the Lender in favour of the Trustee of the rights of the Lender under this Agreement.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, London and Ireland.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued.

"**Central Bank**" or "**CBR**" means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

"**Closing Date**" means 9 December 2005.

"**Compliance Certificate**" means a certificate in the form attached as the Schedule to this Agreement.

"**Default**" means any event which is, or after notice given hereunder or the passage of time or the making of any determination would be, an Event of Default.

"**Dispute**" has the meaning assigned to it in Clause 20.2 (*Jurisdiction*).

"**Dollars**", "**U.S. Dollars**" and "**U.S.$**" mean the lawful currency of the United States of America.

"**Event of Default**" has the meaning assigned to such term in Clause 13 (*Events of Default*).

"**Facility**" means the subordinated term loan facility granted by the Lender to the Borrower as specified in Clause 2 (*Facility*).

"**Finance Documents**" means this Agreement and the other agreements and deeds relating to the issuance of the Agreed Funding, including any subscription agreement related to such Agreed Funding to which the Lender is a party.

"**Group**" means the ABH Financial and its Subsidiaries from time to time taken as a whole, and a "**member of the Group**" means any of the Borrower or any of its Subsidiaries from time to time.

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

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for.

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, monies borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan

stock or any other similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any 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 the Borrower (with the prior written consent of the Lender), provided it is not an Affiliate of the Borrower or ABH Financial or a Material Subsidiary.

"**Initial Interest Term**" means the period from and including the Closing Date to but excluding the Reset Date.

"**Interest Determination Date**" means the second Business Day immediately preceding the Reset Date.

"**Interest Payment Date**" means 9 June and 9 December of each year in which the Loan remains outstanding, commencing on 9 June 2006 and ending on the Repayment Date.

"**Interest Period**" means each period from and including an Interest Payment Date (or, in the case of the first Interest Period, the Closing Date) to but excluding the next Interest Payment Date (or, in the case of the first Interest Period, the first Interest Payment Date).

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction) and any title retention agreement having a similar effect.

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time.

"**Lowest Rating**" means, in respect of any Rated Security or any corporate rating of the Borrower or ABH Financial, 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 Borrower or ABH Financial, 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.

"**Material Adverse Effect**" means a material adverse effect on the business, operations, property or condition (financial or otherwise) or prospects of ABH Financial and its Subsidiaries taken as a whole or on the Borrower's or ABH Financial's ability to perform or comply with its obligations under this Agreement or the Finance Documents or on the validity or enforceability hereof or thereof or on the rights and remedies of any person hereunder or 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 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 therefore, the Borrower or ABH Financial shall provide the Lender 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 which shall, in the absence of manifest error, be conclusive and binding on the Lender.

"**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 (as defined in Clause 12.6 (*Limitations on Merger and Consolidation*)), 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, 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 (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 ABH Financial or the Borrower 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;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower.

"**Opinion of Counsel**" means a written opinion from international legal counsel who is reasonably acceptable to the Borrower (and, following the execution of any other agreements entered into in connection with the Agreed Funding Source, to the party designated by such agreement).

"**Paying Agent**" means the Principal Paying Agent or such other paying agent as may be appointed from time to time in connection with the Agreed Funding.

"**Permitted Disposal**" means the sale, lease, transfer or other disposition of any of the assets of the Group referred to in Note 11 (investments) to the audited consolidated interim financial statements of ABH Financial for the six months ended 30 June 2005.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Principal Paying Agent**" means JPMorgan Chase Bank, N.A. or any other principal paying agent appointed from time to time in connection with the Agreed Funding.

"**Proceedings**" has the meaning assigned to it in Clause 20.2 (*Jurisdiction*).

"**Prospectus**" means the preliminary prospectus dated 22 November 2005 and the final prospectus dated 7 December 2005 in respect of the Agreed Funding.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto.

"**Rate of Interest**" means the Initial Rate of Interest or the Step Up Rate of Interest, as the case may be and as such terms are defined in Clause 5.1 (*Rate of Interest*).

"**Rated Security**" means the Agreed Funding, any of the notes issued under the US$1 billion Euro Medium Term Note Programme entered into by certain Subsidiaries of ABH Financial so long as they shall have an effective rating from any Rating Agency and, if there is no such rating, all unsecured and unsubordinated Indebtedness of any such Subsidiary, ABH Financial or the Borrower 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 Services, 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 Borrower with the prior written approval of the Lender.

"**Regulation No. 215-P**" means Regulation No. 215-P "On the Methodology of Calculation of Net Worth (Capital) of Credit Organisations" dated 10 February 2003 issued by the CBR, as the same may be amended or replaced from time to time.

"**Related Person**" of any Person means any other Person directly or indirectly owning:

(1) 5 per cent, or more of the outstanding Voting Stock of such Person (or, in the case of a Person that is not a corporation, five per cent or more, of the equity interest in such Person); or

(2) 5 per cent, or more of the voting power over Voting Stock of such Person.

"**Repayment Date**" means 9 December 2015.

"**Reset Date**" means 9 December 2010.

"**Rouble**" means the lawful currency of Russia.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "**Russian**" shall be construed accordingly.

"**Same-Day Funds**" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

"**Security**" means the security granted by the Lender to the Trustee over rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee.

"**Senior Creditors**" means all creditors of the Borrower other than creditors of the Borrower whose claims are in respect of (i) the share capital of the Borrower (including preference shares) or (ii) other obligations equal with or junior to the claims of the Lender pursuant to Russian law.

"**Step Up Interest Term**" means the period from and including the Reset Date to but excluding 9 December 2015.

"**Subsidiary**" means, in relation to any Person, 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.

"**Tax Indemnity Amounts**" has the meaning set out in Clause 8.2 (*Tax Indemnity*).

"**Taxes**" means any present and future tax, duty, levy, impost, assessment or other governmental charge or withholding of any nature (including penalties, interest and other liabilities related thereto).

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*Additional Amounts*).

"**Trust Deed**" means the trust deed to be entered into on or about 9 December 2005 in connection with the Agreed Funding.

"**Trustee**" means J.P. Morgan Corporate Trustee Services Ltd. or any other Person appointed as trustee for the Agreed Funding Source from time to time.

"**U.S. Treasury Rate**" means:

(a) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which established a yield for actively traded United States treasury notes adjusted to constant maturity under the caption "Treasury Constant Maturities", with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date (if no maturity falls within three months before or after such time period, yields for the two published maturities most closely corresponding to such time period shall be determined and the US Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month); or

(b) in the event that such yield referred to in (a) above does not appear in such statistical release or any such successor publication during the week preceding the Interest Determination Date, the yield determined by the Principal Paying Agent as follows:

    (i) the Principal Paying Agent shall request the principal New York office of each of four primary United States government securities dealers to provide a quotation of the yield it offers for United States treasury notes with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date, and determine the average of such quotations (rounded, if necessary, to the nearest one thousandth of a percentage point, 0.0005 per cent. being rounded upwards); and

    (ii) if the Principal Paying Agent is unable to obtain quotations and determine the yield pursuant to sub-paragraph (b)(i) above, the Principal Paying Agent shall determine, in the manner set forth in sub-paragraph (b)(i) above, the latest calculable yield for United States treasury notes with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date on the latest Business Day prior to the Interest Determination Date.

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.2.1 all references to "Clause" or "sub-clause" are references to a Clause or sub-clause of this Agreement;

1.2.2 the terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.2.3 words importing the singular number include the plural and vice versa;

1.2.4 the headings are for convenience only and shall not affect the construction hereof;

1.2.5 the "equivalent" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) Roubles and the second currency is (ii) U.S. Dollars (or vice versa), by the Central Bank at or about 10.00 a.m. (New York time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

1.2.6 a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly); and

1.2.7 the "Lender" or the "Borrower" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests.

2. FACILITY

On the terms and subject to the conditions set forth herein, the Lender hereby grants to the Borrower a single disbursement term loan facility in an aggregate amount of U.S.$225,000,000. No later than one Business Day prior to the Closing Date, the Borrower shall pay a fee (the "**Facility Fee**") to the Lender in connection with the arrangement of the Facility and certain costs and expenses as set out in a side letter between the Lender and the Borrower dated 7 December, 2005.

3. SUBORDINATION OF THE LOAN

3.1 Subordination

The claims of the Lender against the Borrower in respect of the principal of, and interest on, the Loan will be subordinated, in the event of the winding up of the Borrower or in the event of the administration of the Borrower where the administrator makes a distribution to creditors, to the claims of Senior Creditors in accordance with the Federal Law "On Insolvency (Bankruptcy) of Credit Organisations" No. 40-FZ dated 25 February 1999 (as amended or superseded from time to time) and will rank at least *pari passu* with the claims of other subordinated creditors of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of (a) the Borrower's share capital (including preference shares) and (b) all other obligations ranking junior to the claims of the Lender pursuant to applicable law or otherwise.

The Lender shall not be entitled to offset any liabilities of the Borrower under this Agreement against any liabilities owing by the Lender to the Borrower.

3.2 Reclassification

If, by the date falling 60 days after the date of this Agreement (the "**Approval Date**"), the CBR has not finally and unconditionally approved this Agreement and the Loan as a subordinated loan eligible for inclusion into own funds (capital) ("**Own Funds**") of the Borrower within the meaning of Regulation No. 215-P (the "**Approval**"), the Loan shall be treated as senior in priority to any subordinated debt or class of equity of the Borrower and Clause 3.1 shall be disregarded.

4. DRAWDOWN

4.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make an advance of U.S.$225,000,000 (the "**Advance**") to the Borrower and the Borrower shall make a single drawing in the full amount of the Advance.

4.2 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the full amount of the Advance to the Borrower's account no. 400927098, SWIFT CHASUS33, Account name: Alfa Bank Moscow ALFARUMM in Same-Day Funds.

5. INTEREST

5.1 Rate of Interest

The Borrower will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 8.625 per cent. per annum (the "**Initial Rate of Interest**") during the Initial Interest Term and at a rate equal to the US Treasury Rate plus 6.28 per cent. per annum (the "**Step Up Rate of Interest**") during the Step Up Interest Term.

5.2 Payment of Interest

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid semi-annually in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is withheld, refused or not made, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

5.3 Calculation of Interest

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying either the Initial Rate of Interest or the Step Up Rate of Interest, as the case may be, to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days actually elapsed.

6. REPAYMENT AND PREPAYMENT

6.1 Repayment

Except as otherwise provided herein:

(a) the Borrower shall repay the Loan and, to the extent not already paid in accordance with Clause 5.2 (*Payment of Interest*), any accrued interest not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date;

(b) the Borrower shall not prepay all or any part of the Loan (except with the prior consent of the CBR); and

(c) this Agreement may not be terminated earlier than the Reset Date.

6.2 Prepayment Option

Notwithstanding the provisions of Clause 6.1 above, the Borrower may prepay the Loan either (a) subject to the prior consent of the CBR, on the Reset Date, (b) if the CBR does not unconditionally approve this Agreement and the Loan as Own Funds on or before the Approval Date or (c) at any time after the Approval Date, if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) Regulation No. 215-P or other applicable requirements of the CBR this Agreement and the Loan would cease to qualify as Own Funds; provided that notice thereof, together, in the case of a prepayment in accordance with Clause 6.2(b) or 6.2(c) only, with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment, shall be given to the Lender not more than 60 nor less than 30 days prior to the date of prepayment. Following the delivery of such notice and, if applicable, such Officers' Certificate, the Borrower shall be bound on the prepayment date specified therein to repay the Loan (in whole but not in part) at the principal amount thereof in the case of a prepayment pursuant to Clause 6.1(a) or (c) or at 101 per cent. of the principal amount thereof in the case of a prepayment pursuant to Clause 6.1(b), together with interest accrued to the date of repayment.

6.3 Prepayment in the Event of Taxes or Increased Costs

If the Borrower is required to pay any Additional Amount as provided by Clause 8.1 (*Additional Amounts*) or any Tax Indemnity Amount as provided by Clause 8.2 (*Tax Indemnity*), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Change in Law; Increase in Cost*), and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, on or after the Reset Date (without premium or penalty), if it obtains the prior consent of the CBR, upon not more than 60 nor less than 30 days prior notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) on the date specified in the notice, together with any amounts then payable under Clauses 8.1 (*Additional Amounts*), 8.2 (*Tax Indemnity*) or 10 (*Change in Law; Increase in Cost*) and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date.

Prior to giving any such notice in the event of the Borrower being obliged to make an additional payment as referred to in this Clause 6.3, the Borrower shall address and deliver to the Lender an Officers' Certificate confirming that the Borrower would be required to make such payment and that the obligation to make such payment cannot be avoided by the Borrower taking reasonable measures available to it.

6.4 Prepayment in the Event of Illegality

If, at any time, by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of any agency of any state after the date of this Agreement the Lender reasonably determines (such determination being accompanied, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Agreed Funding to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an "**Event of Illegality**"), then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; *provided, however,* that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which the Lender so notified the Borrower. If such a basis has not been determined within such 30 days (or on such earlier date as the Lender shall certify to be necessary to comply with such requirements), then upon written notice by the Lender to the Borrower the Borrower shall, subject to the prior consent of the CBR, prepay the Loan (without penalty or premium), in whole but not in part (together with interest accrued to the date of repayment) on the next Interest Payment Date or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

6.5 Payment of Other Amounts and Costs of Prepayment

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of this Clause 6, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement.

6.6 Provisions Exclusive

The Borrower shall not prepay or repay the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

7. PAYMENTS

7.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any payments made in connection with Clause 6 (*Repayment and Prepayment*) one Business Day prior to the date on which such prepayment or repayment is due to be made, in Same-Day Funds to the Account.

The Borrower shall, before 10.00 a.m. New York City time on the second Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any payments made in connection with Clause 6 (*Repayment and Prepayment*) two Business Days prior to the date on which such prepayment or repayment is due to be made, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the irrevocable payment instructions relating to such payment.

The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than for payments to be made in accordance with this Agreement and the Finance Documents.

7.2 No Set-Off or Counterclaim

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

7.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 7.1 (*Making of Payments*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

8. TAXES

8.1 Additional Amounts

All payments made by the Borrower under or in respect of this Agreement shall be made (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia or Ireland. If the Lender or Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Ireland, as the case may be, references to

jurisdiction in this Clause 8.1 shall be construed as references to Russia and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Finance Documents over certain rights, benefits and/or obligations under this Agreement, references in this Clause 8.1 to "Ireland" shall be construed as references to the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower is required by applicable law to make any deduction or withholding from any payment under or in respect of this Agreement for or on account of any such Taxes referred to in the preceding paragraph of this Clause 8.1, it shall, on the date such payment is made, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives and retains a net amount in Dollars equal to the full amount which it would have received and retained had such deduction or withholding not been required and shall promptly account to the relevant authorities (within the time specified by legislation) for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under or in respect of any Agreed Funding (other than in relation to tax on the Lender's own net income, profit or gains), the Borrower shall on demand pay to the Lender an amount in Dollars equal to the loss, liability or cost which the Lender, or as the case may be, Trustee has or will have (directly or indirectly) suffered for or on account of Tax by the Lender.

This Clause 8.1 shall not apply to any taxes on income, profit or capital gains payable by the Lender.

8.2 Tax Indemnity

Without prejudice to the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Agreed Funding) to make any withholding or deduction for or on account of any Taxes from any payment pursuant to any Agreed Funding, the Borrower agrees to pay to the Lender, no later than one Business Day prior to the date on which payment is due to the Agreed Funding Source, an additional amount equal to such Additional Amount as is required to be paid by the Lender pursuant to the terms and conditions of such Agreed Funding; *provided, however,* that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Agreed Funding Source is not entitled to such additional amounts pursuant to the terms and conditions of the Agreed Funding, repay such additional amounts to the Borrower (it being understood that none of the Lender, or any Paying Agent shall have any obligation to determine whether any Agreed Funding Source is entitled to such additional amount).

Without prejudice to, and without duplication of the provisions of Clause 8.1 (*Additional Amounts*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Agreed Funding Source) on account of Tax (other than Taxes on income, profit or capital gains payable by the Lender) in respect of this Loan or in respect of the Agreed Funding imposed by any Taxing Authority in which the Lender is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax properly payable) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 8.2 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.2 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

8.3 Tax Credits and Refunds

If an Additional Amount is paid under Clause 8.1 (*Additional Amounts*) or a Tax Indemnity Amount is paid under Clause 8.2 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received or been granted a credit against, a relief, remission for, or a repayment of any Taxes, then if and to the extent that the Lender determines that such credit, relief, remission or repayment (a "**Tax Benefit**") is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or as the case may be in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be paid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost.

Nothing contained in this Clause 8.3 shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business.

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives and retains such a payment ("**Russian Tax Payment**") from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received and retained that payment (and the amount of such payment); whereupon, provided that the Borrower has notified the Lender in writing of the details of an account (the "**Borrower Account**") to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the Borrower Account.

8.4 Tax Treaty Relief

The Lender, at the cost of the Borrower, shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clause 8.5 (*Delivery of Forms*).

8.5 Delivery of Forms

The Lender shall, at the cost of the Borrower and within 30 days of the request of the Borrower, use its best efforts to deliver to the Borrower a certificate issued by the Revenue Commission in Ireland (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming the status of the Lender as a resident of Ireland for tax purposes for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower at the cost of the Borrower such duly completed application form and, if required, any other documents, together with a power of attorney prepared by the Borrower with an independent English translation thereof authorising the Borrower to make the relevant filings with the Russian tax authorities and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or,

as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form and, if required, other documents provided by the Lender referred to in this Clause 8.5 shall at the cost of the Borrower be duly signed by the Lender and stamped or otherwise approved by the Revenue Commissioners in Ireland and the power of attorney shall at the cost of the Borrower be duly signed and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 8.5 has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's Rouble bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such Rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such Rouble bank account.

8.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.4 (*Prepayment in the event of Illegality*), 8.1 (*Additional Amounts*) or 8.2 (*Tax Indemnity*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party in writing and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstance, including the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents); *provided, however,* that the Lender shall, in no circumstances, be required to undertake any expense prior to being ensured to its satisfaction that it will be reimbursed therefor.

8.7 Lender Notification

The Lender agrees promptly, upon becoming actually aware thereof, to notify the Borrower if it ceases to be resident in Ireland or a Qualifying Jurisdiction or if any of the representations set forth in Clause 11.3 (*Lender's Representations and Warranties*) are no longer true and correct.

9. CONDITIONS PRECEDENT

The obligation of the Lender to make the Advance shall be subject to the conditions precedent that as at the Closing Date (a) the representations and warranties set out in Clause 11.1 (*Borrower's Representations and Warranties*) are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no Default or Event of Default shall have occurred, (c) the Lender shall have received the full funding of the Advance from the Agreed Funding Source and that funding shall be and remain available in full to be on-lent to the Borrower and (d) the Lender shall have received in full the Facility Fee pursuant to Clause 2 hereof.

10. CHANGE IN LAW; INCREASE IN COST

10.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial

practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority which:

10.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clause 8.1 (*Additional Amounts*)); or

10.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clause 8.1 (*Additional Amounts*)); or

10.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility, is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

(A) the Lender shall, as soon as practicable after becoming actually aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(B) the Borrower, in the case of Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; *provided, however,* the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement,

provided, however, that this Clause 10.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 8.1 (*Additional Amounts*) or Clause 8.2 (*Tax Indemnity*).

10.2 Lender Tax Event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on the Agreed Funding

(having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines would be necessary to ensure the Lender receives the amount it would have received and retained had such deduction or withholding not been required. The Borrower's obligation to pay such additional amounts shall survive the termination of this Agreement.

10.3 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 10.1 (*Compensation*) or 10.2 (*Lender Tax Event*) the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 10.3 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

11. REPRESENTATIONS AND WARRANTIES

11.1 Borrower's Representations and Warranties

The Borrower represents, warrants (and, where relevant, undertakes) to the Lender as follows:

11.1.1 that (i) the Borrower and each of its Subsidiaries is duly incorporated, and validly existing under the laws of the jurisdiction of its incorporation with full power and capacity to own or lease its property and assets and to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it; (ii) the Borrower is an authorised Russian bank with a general banking licence and is in full compliance with the mandatory economic ratios and reserves requirements set by the CBR for authorised Russian banks; (iii) the Borrower has full power and capacity to borrow the Advance, to execute this Agreement and the Finance Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein; and (iv) the Borrower has taken all necessary action to approve and authorise the same;

11.1.2 that the execution and delivery of this Agreement and the Finance Documents and the undertaking and performance by the Borrower of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the constitutive documents of the Borrower, any agreement or instrument to which it or any of its Subsidiaries is a party or by which any of its their respective properties are bound or in respect of Indebtedness in relation to which the Borrower or any of its Subsidiaries is a surety or any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental authority, domestic or foreign, having jurisdiction over the Borrower, any such Subsidiary or any of its or their respective properties;

11.1.3 that this Agreement constitutes and, upon due execution and delivery by or on behalf of the Borrower, the Finance Documents will constitute legal, valid, binding and enforceable obligations of the Borrower;

11.1.4 that (i) the Loan will constitute direct, unconditional, unsecured, subordinated obligations of the Borrower which will at all times rank *pari passu* without any preference amongst themselves and at least *pari passu* without any preference with all other present and future outstanding unsecured and subordinated obligations of the Borrower, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and (ii) based on the preliminary view of CBR, the Borrower reasonably believes that the liabilities of the Borrower under the Loan and this Agreement shall qualify as Own Funds;

11.1.5 that all authorisations, consents and approvals required by the Borrower in connection with this Agreement, the borrowing of the Advance and the execution of the Finance Documents and the performance by the Borrower of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;

11.1.6 that all payments of principal and interest in respect of the Advance, and all other payments by the Borrower under this Agreement and each Finance Document, may be made free and clear of, and without withholding or making any deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation or Ireland or any political subdivision or authority thereof or therein having power to tax; and that the execution, delivery and enforceability of this Agreement is not subject to any tax duty, fee or other charge including, without limitation, any registration or transfer tax, stamp duty or similar levy imposed by or within Russia or any political subdivision or authority thereof or therein having power to tax;

11.1.7 that the Borrower's non-consolidated audited financial statements for the three years ended 31 December 2004 and the six months ended 30 June 2005 were prepared in accordance with the requirements of Russian law and with Russian accounting principles, consistently applied and, under Russian accounting rules, give a true and fair view of the financial condition of the Borrower and the results of operations and changes in financial position of the Borrower as at the date and for the periods in respect of which they were prepared;

11.1.8 save as disclosed, that there are no litigation or arbitration proceedings against or affecting the Borrower, any of its Subsidiaries or any of its their respective assets or revenues, nor is the Borrower aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the Loan;

11.1.9 that since 31 December 2004, there has been no change (nor any development or event involving a prospective change of which the Borrower is, or might reasonably be expected to be aware) which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of the Borrower or the Borrower and its Subsidiaries taken as a whole;

11.1.10 that: (i) no breach of any covenant contained herein has occurred and (ii) no Default has occurred;

11.1.11 that the Borrower is in compliance with all respects with all material applicable provisions of law;

11.1.12 that neither the Borrower nor any of its Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened against the Borrower or any of its Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, conservator, custodian, trustee or similar officer of any or all of its or their assets or revenues;

11.1.13 that there are no material strikes or other employment disputes against the Borrower which are pending or threatened;

11.1.14 that in any proceedings taken in Russia in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation to this Agreement will be recognised and enforced in Russia after compliance with the applicable procedural rules and all other legal requirements in Russia;

11.1.15 that neither it nor any of its Subsidiaries has any material overdue tax liabilities other than those disclosed to the Lender prior to the date hereof or which are being contested in good faith;

11.1.16 that all material licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Borrower and any of its Subsidiaries to own its assets and carry on its business are in full force and effect; and

11.1.17 that Alfa Bank has not issued and will not issue, without the prior consent of the Joint Lead Managers (as defined in the Subscription Agreement), any press or other public announcement referring to the proposed issue of the Notes unless the announcement adequately discloses the fact that stabilising action may take place in relation to the Notes to be issued and Alfa Bank authorises the Joint Lead Managers to make adequate public disclosure of the information required by the Financial Services Authority's Code of Market Conduct (MAR2): Price Stabilising Rules.

11.2 ABH Financial's Representations and Warranties

ABH Financial represents, warrants (and, where relevant, undertakes) to the Lender and as follows:

11.2.1 that (i) ABH Financial and each of its Subsidiaries is duly incorporated, and validly existing under the laws of the jurisdiction of its incorporation with full power and capacity to own or lease its property and assets and to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it; and (ii) ABH Financial has full power and capacity to execute this Agreement and the Finance Documents, and to undertake and perform the obligations expressed to be assumed by it herein and therein, and ABH Financial has taken all necessary action to approve and authorise the same;

11.2.2 that the execution and delivery of this Agreement and the Finance Documents and the undertaking and performance by ABH Financial of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the constitutive documents of ABH Financial, any agreement or instrument to which it or any of its Subsidiaries is a party or by which any of their respective properties are bound or in respect of Indebtedness in relation to which ABH Financial or any of such Subsidiaries is a surety or any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental authority, domestic or foreign, having jurisdiction over ABH Financial, any such Subsidiary or any of its or their respective properties;

11.2.3 that this Agreement constitutes and, upon due execution and delivery by or on behalf of ABH Financial, the Finance Documents will constitute legal, valid, binding and enforceable obligations of ABH Financial;

11.2.4 that all authorisations, consents and approvals required by ABH Financial in connection with the execution of this Agreement and the Finance Documents and the performance by ABH Financial of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;

11.2.5 that all payments by ABH Financial under this Agreement and the Finance Documents may be made free and clear of, and without withholding or making any deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Ireland, or Russia or any political subdivision or authority thereof or therein having power to tax; and that the execution, delivery and enforceability of this Agreement is not subject to any tax duty, fee or other charge including, without limitation, any registration or transfer tax, stamp duty or similar levy imposed by or within the British Virgin Islands or any political subdivision or authority thereof or therein having power to tax;

11.2.6 that ABH Financial's consolidated audited financial statements for the three financial years ended 31 December 2004 and the six months ended 30 June 2005 were prepared in accordance with IFRS consistently applied and give (in conjunction with the notes thereto) a fair and true view of the consolidated financial condition of ABH Financial and of the Alfa Banking Group and the consolidated results of operations and changes in financial position

of ABH Financial and of the Alfa Banking Group as at the date and for the periods in respect of which they were prepared;

11.2.7 that, there are no litigation or arbitration proceedings against or affecting ABH Financial, any of its Subsidiaries or any of its or their respective assets or revenues, nor is ABH Financial aware of any pending or threatened proceedings of such kind, which are or might be material in the context of this Agreement;

11.2.8 that, since 30 June 2005, there has been no change (nor any development or event involving a prospective change of which ABH Financial is, or might reasonably be expected to be aware) which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of ABH Financial or the Alfa Banking Group;

11.2.9 that (i) Alfa Banking Group have not breached in any respect which is material in the context of the Loan, tax law, or regulation in any of the jurisdictions in which Alfa Banking Group entities operate; and (ii) the level of provisioning and reserves for potential tax liability by ABH Financial (A) in its most recently published audited consolidated financial statements (whether annual or interim) was, to the best of its knowledge and belief, sufficient to meet its tax liabilities in respect of the financial period to which those financial statements relate (the "**Relevant Financial Period**") and (B) for any financial period falling in each of the three financial years immediately preceding the Relevant Financial Period was, to the best of its knowledge and belief, sufficient to meet its tax liabilities for each such Relevant Financial Period; and

11.2.10 that ABH Financial has not issued and will not issue, without the prior consent of the Joint Lead Managers (as defined in the Subscription Agreement), any press or other public announcement referring to the proposed issue of the Notes unless the announcement adequately discloses the fact that stabilising action may take place in relation to the Notes to be issued and ABH Financial authorises the Joint Lead Managers to make adequate public disclosure of the information required by the Financial Services Authority's Code of Market Conduct (MAR2): Price Stabilising Rules.

11.3 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

11.3.1 that the Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute this Agreement and the Finance Documents and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

11.3.2 that the execution of this Agreement and the Finance Documents and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety;

11.3.3 that this Agreement and the Finance Documents have been or will be duly executed and delivered and constitute legal, valid and binding obligations of the Lender and enforceable against the Lender in accordance with their respective terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and subject, as to enforcement, to general principles of equity;

11.3.4 that all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and the Finance Documents and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect; and

11.3.5 (i) that the Lender is a limited liability company incorporated under Irish law, registered under number 410510 by the Irish Registrar of Companies under the Irish Companies Act 1963-2005 in the Companies Register of Ireland and having its registered office and its principal establishment in Ireland. As such it will be considered as resident in Ireland for tax purposes. The Lender will thus be liable to Irish taxes on its Irish source income as well as on its foreign source income. The Lender may also benefit from the network of tax treaties signed by Ireland, including the double tax treaty between Ireland and Russia. At the date hereof, it does not have a permanent establishment in Russia and the representation given in this Clause 11.3.5(i) is on the assumption that the entering into of this Agreement does not cause the Lender to be considered resident in Russia for tax purposes nor to have a permanent establishment there; and

(ii) that the Lender will book the Loan on the asset side of its balance sheet under "Loans and advances to customers" and any arrangements with the Agreed Funding Source as a liability under "Current liabilities".

12. COVENANTS

12.1 Limitation on Affiliate Transactions

Neither the Borrower nor ABH Financial shall, and each 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 transaction (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 obligations, 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 Person 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 Person resolving that the Affiliate Transaction or series of related Affiliate Transactions complies with the requirements of this Clause 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 the Borrower, approved by any relevant managing body of the Borrower, adopted in good faith and in accordance with the relevant requirements of the laws of the Russian Federation and the Borrower's constitutive documents and that a copy (in English) of such resolution has been delivered to the Lender, provided in any case that if the fair market value as determined by the Board of Directors of the relevant Person of an Affiliate Transaction is in excess of 5% of ABH Financial's consolidated shareholders' equity, determined in accordance with IFRS from the latest published annual consolidated audited accounts of ABH Financial, 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 Lender) that such Affiliate Transaction is fair to the relevant Person, from a financial point of view; such written opinion of an Independent Appraiser may be relied upon by the Lender without further enquiry or evidence and, if so relied on, 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 Person that 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 Borrower, ABH Financial or the relevant Material Subsidiary, as the case may be.

Any assessment of fair market value by a Board of Directors, as contemplated by this Clause, shall be made by the relevant Board of Directors acting in good faith. In addition, the Borrower and ABH Financial shall procure that the level of Affiliate Transactions should not at any time exceed the annual limits set by the Board of Directors of the relevant Person. For the purposes of this Agreement, 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 Clause does not apply to compensation or employee benefit arrangements with any officer or director of the Borrower, ABH Financial or a Material Subsidiary, as the case may be, arising as a result of their employment contract.

12.2 Limitation on Restricted Payments

12.2.1 Subject to sub-clause 12.2.2 below, the Borrower and ABH Financial will not, and will not permit any Material Subsidiary to, directly or indirectly:

(i) 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 or distributions payable to either the Borrower or ABH Financial; or

(ii) voluntarily purchase, redeem or otherwise retire for value any capital stock or subordinated debt of either the Borrower or ABH Financial, other than capital stock owned by either the Borrower or ABH Financial or subordinated debt payable to the Borrower or ABH Financial, which ranks junior to the claims of the Lender pursuant to applicable laws or otherwise.

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

12.2.2 Notwithstanding sub-clause 12.2.1 above, ABH Financial may make Restricted Payments if at the time of each such payment no 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 IFRS.

12.3 Maintenance of Authorisations

The Borrower and ABH Financial shall ensure that they and each 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 or of any other relevant jurisdiction 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 or of any other relevant jurisdiction.

12.4 Limitations on Change of Business

The Borrower and ABH Financial shall not, and shall procure that no Material Subsidiary shall, make any material change to the general nature or scope of its business from that carried on as of the Closing Date.

12.5 Limitation on Sale of Assets

The Borrower and ABH Financial shall not and shall ensure that no Material Subsidiary shall, in any financial year, sell, lease, transfer or otherwise dispose of, by one or more transaction 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 total assets of the ABH Financial (as determined by reference to the latest audited consolidated financial statements of the ABH Financial) to any person (other than the Borrower or 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 Clause 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 the Borrower or any company incorporated in Russia, approved by any relevant managing body of such company, adopted in good faith and in accordance with the relevant requirements of the laws of the Russian Federation and the company's constitutive documents and that a copy (in English) of such resolution has been delivered to the Lender.

12.6 Limitation on Merger and Consolidation

The Borrower and ABH Financial shall not and shall procure that no other Material Subsidiary shall, without the prior consent of the Lender, enter into an 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 Lender 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.

12.7 Limitation on Restrictions on Distributions from Material Subsidiaries

The Borrower and ABH Financial will not permit any Material Subsidiaries to create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any such 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 the Borrower or ABH Financial; or (iii) transfer any of its property or assets to the Borrower or ABH Financial other than encumbrances or restrictions existing under the Finance Documents and any other agreements in effect prior to the date hereof and advised in writing to the Lender.

12.8 Financial Information

(a) Each of the Borrower and ABH Financial hereby undertakes that so long as the Loan or any other sum owing hereunder remains outstanding it shall deliver to the Lender, the Trustee and the Agreed Funding Source (i) within six months after the end of each of its financial years, copies of its audited financial statements for such financial year, together with the report thereon and (ii) within three months of 30 June in each year, copies of the Borrower's semi annual unaudited or, if any, audited financial statements for such interim period, and (iii) within three months of 30 June in each year, copies of ABH Financial's semi annual audited consolidated financial statements for such interim period each prepared in accordance with accounting principles consistently applied with the corresponding financial statements for the preceding period.

(b) Each of the Borrower and ABH Financial hereby undertakes that it shall deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries and ABH Financial and its Subsidiaries as the Lender may reasonably request including providing certificates to the Trustee as contemplated in the Finance Documents.

(c) Each of the Borrower and ABH Financial undertakes to furnish to the Lender and the Trustee such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Agreed Funding may, from time to time, be listed or admitted to trading) may require in connection with the listing or admission to trading on such stock exchange or relevant authority of such Agreed Funding.

12.9 Compliance Certificate

(a) Each of the Borrower and ABH Financial shall deliver to the Lender (a) upon the occurrence of a Default or an Event of Default, and (b) at the same time as it dispatches to the Lender and the Trustee the annual and semi-annual consolidated financial statements for ABH Financial, written notice in

the form of a Compliance Certificate stating that to the best of the relevant officers' knowledge (i) the Borrower, ABH Financial and the Material Subsidiaries kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Agreement and (ii) neither the Borrower, ABH Financial nor any of its Material Subsidiaries is in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which they have knowledge).

(b) With each set of financial statements delivered pursuant to Clause 12.8 (*Financial Information*), the Borrower and ABH Financial shall deliver to the Lender any report delivered by the auditors in connection with the financial statements.

12.10 Capital Treatment

To the extent that any part of the Loan is to be treated as Own Funds by the Borrower, the Borrower will use its best efforts to procure that the CBR issue a final conclusion (*zakluchenie*) for such treatment, and will provide all relevant information about the Loan to the CBR as may be necessary for the issuance of such final conclusion (*zakluchenie*).

13. EVENTS OF DEFAULT

13.1 Payment Default

If the Borrower fails to pay within seven days any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein, the Lender may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable law for the winding up of the Borrower and/or to prove for its debt, and claim, in any liquidation of the Borrower.

13.2 Winding-up

On occurrence of any of the following events:

13.2.1 the Borrower seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of the Borrower;

13.2.2 the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennaya administratsiya)* or reorganisation (*reorganizatsiya*) with respect to the Borrower as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999 (as amended or replaced from time to time);

13.2.3 any judicial liquidation, dissolution, administration or winding-up in respect of the Borrower;

13.2.4 the shareholders of the Borrower approving any plan of dissolution, administration or winding-up of the Borrower; or

13.2.5 any event occurring which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

the Lender may give notice to the Borrower that the Loan is, and it shall accordingly become, due and repayable (subject to and in accordance with the provisions of Clause 3.1 above) at the principal amount thereof together with any interest accrued to the date of repayment, and the Lender may prove for such debt, and claim, in the liquidation of the Borrower.

13.3 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is a Default or an Event of Default, its status and what action the Borrower is taking or proposes to take with respect thereto.

13.4 Proceedings

In addition to its rights under Clauses 13.1 and 13.2, the Lender may institute such other proceedings against the Borrower as it may think fit to enforce any obligation, condition or provision binding on the Borrower under this Agreement (other than any obligation for payment of any principal or interest in respect of the Loan contemplated by Clause 13.1) provided that the Borrower shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Loan sooner than the same would otherwise have been payable by it or (ii) any damages.

14. DEFAULT INTEREST AND INDEMNITY

14.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 7 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "unpaid sum") is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 14 (*Default Interest and Indemnity*)) be selected by the Lender (but shall in any event not be longer than one month).

14.2 Default Interest

During each such period relating thereto as is mentioned in Clause 14.1 (*Default Interest Periods*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Rate of Interest applicable at the time.

14.3 Payment of Default Interest

Any interest which shall have accrued under Clause 14.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

14.4 Indemnification

The Borrower undertakes to the Lender that if the Lender or any director, officer or employee of the Lender (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, Taxes, legal fees and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action and damages (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Agreed Funding and/or such Agreed Funding being outstanding (other than in relation to tax on its own net income, profits or gains), the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses (including any applicable taxes thereon) which may be incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Agreement.

14.5 Independent Obligation

Clause 14.4 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement and the other Finance Documents to which it is a party or any other obligations of the Borrower in connection with the issue of the Agreed Funding by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

14.6 Evidence of Loss

A certificate of the Lender setting forth the amount of the Loss described in Clause 14.4 (*Indemnification*) and specifying in full detail the basis therefore and calculations thereof shall, in the absence of manifest error, be conclusive evidence of the amount of such loss, cost, charges and expenses.

14.7 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in Dollars. Any obligation of the Borrower not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount of Dollars that may be so purchased exceeds the amount originally due, the Lender shall promptly repay the amount of the excess to the Borrower.

15. SURVIVAL

The obligations of the Borrower and the Lender pursuant to Clauses 8 (*Taxes*), 14.4 (*Indemnification*) and 14.7 (*Currency Indemnity*) shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan.

16. GENERAL

16.1 Evidence of Debt

The entries made in the Account referred to in Clause 7.1 (*Making of Payments*) shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

16.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

16.3 Prescription

Subject to the Lender having previously received from the Borrower the relevant principal amount or interest amount, the Lender shall repay to the Borrower the principal amount or the interest amount in

respect of any Agreed Funding upon the relevant certificates pertaining thereto becoming void pursuant to their terms and conditions (as confirmed to the Lender by the Trustee).

17. FEES, COSTS AND EXPENSES

17.1 Costs relating to Preservation of Rights

The Borrower shall, from time to time on demand of the Lender, reimburse the Lender for all properly documented out-of-pocket costs and expenses (including legal fees) together with any VAT (properly payable thereon) incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement.

17.2 Lender's Costs

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 17.1 (*Costs relating to Preservation of Rights*)) compensate the Lender for all properly documented out-of-pocket costs and expenses (including telephone, fax, copying and travel costs) (together with any taxes properly payable thereon) it may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

17.2.1 the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

17.2.2 the occurrence of any event which is a Default or an Event of Default; or

17.2.3 any amendment or proposed amendment to this Agreement requested by the Borrower.

18. NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by facsimile, by hand or by courier addressed as follows:

18.1.1 if to the Borrower:

27 Kalanchyovskaya Street
107078 Moscow
Russia
Fax: +7 095 788 6717
Attention: Artur Saribekov
Fax: +7 095 786 4274
Attention: Head of Compliance

18.1.2 if to the Lender:

85 Merrion Square
Dublin 2
Ireland
Fax: +353 1614 6250
Attention: TMF Administration Services Ltd.

18.1.3 if to the Trustee:

9 Thomas More Street
London E1W 1YT
United Kingdom
Fax: +44(0) 20 7777 5420
Attention: Manager, Worldwide Securities Services

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 18 shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, provided *however,* that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day, shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

19. ASSIGNMENT

19.1 This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment pursuant to the grant of the Security referred to in Clause 19.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

19.2 The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other party.

19.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except to the Trustee by granting the Security or pursuant to and in compliance with Clause 25 of the Trust Deed.

20. LAW AND JURISDICTION

20.1 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

20.2 Jurisdiction

The Borrower hereby irrevocably agrees for the benefit of the Lender that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

20.3 Appropriate Forum

Each of the parties to this Agreement irrevocably waives any objection which it may 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 agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction (to the extent permitted by law).

20.4 Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any party to this Agreement or the Trustee to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction to the extent permitted by any applicable law.

20.5 Service of Process (Borrower)

The Borrower hereby agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the Borrower's representative offices (attention: Simon Roache) at City Tower,

Level 21, 40 Basinghall Street, London EC2V 5DE or, if different, its registered office for the time being or at any address of the Borrower in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Borrower's behalf, the Borrower shall, on written demand, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

20.6 Service of Process (Lender)

The Lender hereby agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the Borrower's process agent being Alfa Capital Holdings (Cyprus) Limited, London branch, City Tower, Level 21, 40 Basinghall Street, London EC2V 5DE. If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on written demand, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

20.7 Waiver of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before making of a judgment or award or otherwise) or other legal process including in relation to enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

21. ARBITRATION

In the case of any Dispute, the Lender may elect, by notice in writing to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the London Court of International Arbitration.

22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

23. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

24. SCHEDULE

The Schedule to this Agreement constitutes an integral part hereof.

25. SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

26. LIMITED RECOURSE AND NON PETITION

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the Managers (as defined in Subscription Agreement) pursuant to the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, the Borrower shall not be entitled to institute, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) in relation to the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

SCHEDULE 1

FORM OF COMPLIANCE CERTIFICATE

To: Alfa Bond Issuance PLC

From: Borrower/ABH Financial Limited

Dated:

Dear Sirs

OPEN JOINT-STOCK COMPANY "ALFA-BANK"

U.S.$225,000,000 Subordinated Loan Agreement dated 7 December, 2005 (the "Loan Agreement")

1. We refer to the Loan Agreement. This is a Compliance Certificate for the purposes of Clause 12.9 (*Compliance Certificate*) of the Loan Agreement.

2. We confirm that (i) we have kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in the Loan Agreement and (ii) neither we nor any Material Subsidiary is in default in the performance or observance of any of the terms, provisions and conditions of the Loan Agreement.

Signed: ....

[principal executive officer/officer
principal accounting officer/of the Borrower/ABH Financial
principal financial officer/of the Borrower/ABH Financial]

cc: [●]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above

For and on behalf of OPEN JOINT-STOCK COMPANY "ALFA-BANK"

By: .....
Title:

By: .....
Title: Chief Accountant

For and on behalf of ABH FINANCIAL LIMITED

By: .....
Title:

Signed by a duly authorised attorney of ALFA BOND ISSUANCE PLC

By: .....
Title:

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global 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 "Summary of Provisions Relating to the Notes in Global Form".

The U.S.$225,000,000 8.625% Subordinated Loan Participation Notes due 2015 (the "Notes", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (Further Issues) and forming a single series with the Notes) of Alfa Bond Issuance PLC (the "Issuer") are constituted and secured by a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the "Trust Deed") dated 9 December 2005 between the Issuer and J.P. Morgan Corporate Trustee Services Ltd. as trustee (the "Trustee", which expression shall include its successor(s)) for the holders of the Notes (the "Noteholders") and the holders of the interest coupons appertaining to the Notes ("the Couponholders" and the "Coupons", respectively). The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$225,000,000 subordinated loan (the "Subordinated Loan") to Open Joint-Stock Company "ALFA-BANK" ("Alfa Bank"). The Issuer and Alfa Bank have recorded the terms of the Subordinated Loan in an agreement dated 7 December 2005 (such agreement as modified and/or restated and/or supplemented from time to time, the "Subordinated Loan Agreement") between the Issuer and Alfa Bank.

The statements in these Terms and Conditions relating to the obligations of the Issuer to pay principal, interest and additional amounts, if any, due in respect of the Notes, are subject to Clause 7 (Payments) of the Subordinated Loan Agreement and Condition 3 (Status and Limited Recourse). Where any amount of principal or interest or any additional amounts, if any, payable pursuant to Condition 9 (Taxation) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to the sums of principal, interest and additional amounts, if any, actually received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement.

Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of Alfa Bank. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and an agency agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "Paying Agency Agreement") dated 9 December 2005 between the Issuer, JPMorgan Chase Bank, N.A. 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 other paying agents named therein and, together with the Principal Paying Agent, the "Paying Agents", which expression includes any additional or successor paying agents, appointed from time to time in connection with the Notes) and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at 9 Thomas More Street, London E1W 1YT, United Kingdom, and at the specified office of each Paying Agent. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM AND DENOMINATION

1.1 Form and Denomination.

The Notes are in bearer form, serially numbered in the denomination of U.S.$100,000 and integral multiples of U.S.$1,000 thereafter, each with Coupons attached on issue.

2. TITLE

2.1 Title

Title to the Notes and the Coupons will pass by delivery.

2.2 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall note be required to obtain any proof thereof or as to the identity of such bearer.

3. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes for financing the Subordinated Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest, additional amounts and tax indemnity amounts, if any, actually received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement (less any amounts in respect of the Reserved Rights), the right to receive which is, inter alia, being charged by way of security to the Trustee by virtue of the charge as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes equivalent to the sums actually received by or for the account of, the Issuer by way of principal, interest, additional amounts or tax indemnity amounts, if any, pursuant to the Subordinated Loan Agreement (less any amounts in respect of the Reserved Rights) will be made pro rata among all Noteholders (subject to Condition 9 (Taxation)), on the corresponding payment dates (as provided in the Subordinated Loan Agreement) of, and in the currency of, and subject to the conditions attaching to, the equivalent payment in accordance with the Subordinated Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Alfa Bank.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by Alfa Bank of its obligations under the Subordinated Loan Agreement or the recoverability of any sum of principal, interest, additional amounts or tax indemnity amounts, if any, due or to become due from Alfa Bank under the Subordinated Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of Alfa Bank;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of Alfa Bank under or in respect of the Subordinated Loan Agreement;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by any Paying Agent of its obligations under the Paying Agency Agreement;

(v) the financial servicing and the performance of the terms of the Notes depend solely and exclusively upon performance by Alfa Bank of its obligations under the Subordinated Loan Agreement, its covenant to pay under the Subordinated Loan Agreement and its credit and financial standing;

(vi) the Issuer (and the Trustee) will rely on self-certification by Alfa Bank and certification by third parties as a means of monitoring whether Alfa Bank is complying with its obligations under the Subordinated Loan Agreement and shall not otherwise be responsible for investigating any aspect of Alfa Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Charge (as defined in Condition 4 (Security)) and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Charge (as defined in Condition 4 (Security)) whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and

(vii) the Issuer will not be responsible for any withholding or deduction or for any payment on account of taxes (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under the Subordinated Loan Agreement, which will or may affect payments made or to be made by Alfa Bank under the Subordinated Loan Agreement, save to the extent that it has received additional amounts or tax indemnity amounts under the Subordinated Loan Agreement in respect of such withholding or deduction; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in the Subordinated Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Subordinated Loan Agreement or the Subordinated Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Subordinated Loan Agreement or have direct recourse to Alfa Bank except through action by the Trustee under the Charge (as defined in Condition 4 (Security)). Neither the Issuer nor the Trustee shall be required to take proceedings to enforce payment under the Subordinated Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from Alfa Bank in respect of principal, interest, additional amounts or tax indemnity, as the case may be, pursuant to the Subordinated Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of Alfa Bank and no other assets of the Issuer will be available to the Noteholders.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general 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 unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by Alfa Bank under the Subordinated Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy pro tanto the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Terms and Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property (as defined in Condition

4 (Security)) in accordance with Clause 8 (Application of Moneys received by the Trustee) of the Trust Deed. After realisation of the security which has become enforceable and distribution of the proceeds in accordance with Clause 8 (Application of Moneys received by the Trustee) of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, none of the Trustee or the Noteholders (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, except to the extent that such person acts in bad faith or is negligent in the context of its obligation.

4. SECURITY

The obligation of the Issuer under the Notes are secured under the Trust Deed by the following security (together referred to as the "Charge"):

(i) a charge and pledge by way of first fixed security to the Trustee of all its rights to principal, interest and other amounts paid and payable by Alfa Bank to the Issuer as lender in respect of the Subordinated Loan under the Subordinated Loan Agreement;

(ii) a charge and pledge by way of first fixed security to the Trustee of the right to receive all sums which may be paid or be or become payable by Alfa Bank under any claim, award or judgment relating to the Subordinated Loan Agreement;

(iii) a charge and pledge by way of first fixed security to the Trustee of all its rights, title and interest in and to all sums of money now or in the future deposited in an account in the name of the Issuer with JPMorgan Chase Bank, N.A., London account number 32659001 together with the debts represented thereby (excluding interest from time to time earned on the Account so long as the amount in the Account excluding interest is sufficient to satisfy the obligations under the Trust Deed, if any, and if otherwise, the Charge will include any interest from time to time earned on the Account) (the "Account"); and

(iv) an assignment with full title guarantee to the Trustee of all its rights, title and benefits and interest in, to and under the Subordinated Loan Agreement (including, without limitation, the right to declare the Subordinated Loan immediately due and payable and to take proceedings to enforce obligations of Alfa Bank thereunder) other than as set out above (together with (i), (ii) and (iii) above but subject to the Reserved Rights (as defined below), the "Charged Property");

provided that there shall be excluded from the Charge the Issuer's right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Subordinated Loan Agreement: Clause 10 (Change in Law; Increase in Cost), Clause 17 (Fees, Costs and Expenses) and (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Subordinated Loan Agreement) Clause 14.7 (Currency Indemnity) (such rights being referred to in these Terms and Conditions as the "Reserved Rights").

5. ISSUER'S COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or

any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Subordinated Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 16 (Notices).

6. INTEREST

6.1 Accrual of Interest

On each Interest Payment Date the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. Under the Subordinated Loan Agreement, interest accrues on the Subordinated Loan at a rate of 8.625 per cent. per annum (the "Initial Rate of Interest") up to, but excluding, 9 December 2010 and, thereafter, at a rate per annum equal to the U.S. Treasury Rate (as defined in the Subordinated Loan Agreement) plus 6.28 per cent. per annum (the "Step Up Rate of Interest"), up to but excluding 9 December 2015 (as set out in Clause 5 (Interest) of the Subordinated Loan Agreement). The U.S. Treasury Rate will be determined on the second Business Day (as defined in the Subordinated Loan Agreement) immediately preceding 9 December 2010 as more fully set out in the Subordinated Loan Agreement (such determination being final and binding on the Issuer and the Borrower, in the absence of manifest error).

Interest will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 6.1, "Interest Payment Date" means 9 June and 9 December of each year, commencing on 9 June 2006.

6.2 Default Interest

In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on default interest from the Borrower under the Subordinated Loan Agreement (other than amounts so received forming part of the Reserved Rights), the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on default interest actually so received.

6.3 Notification to the Paying Agents and Stock Exchange

The Issuer will cause the Step Up Rate of Interest to be notified to the Paying Agents and each stock exchange (if any) on which the Notes are then listed as soon as practicable after receipt by the Issuer of notice from the Principal Paying Agent of such determination but in any event not later than the first day of the relevant Step Up Interest Period (as defined in the Subordinated Loan Agreement).

6.4 Status of Notification

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

7. REDEMPTION

7.1 Final Redemption

Unless previously prepaid pursuant to Clause 6.1 (Repayment) of the Subordinated Loan Agreement, Alfa Bank will be required to repay the Subordinated Loan on the Repayment Date (as defined in the

Subordinated Loan Agreement) and, subject to such repayment, all the Notes will be redeemed at their outstanding principal amount on the Repayment Date.

7.2 Mandatory Redemption

If the Subordinated Loan should become repayable prior to the Repayment Date pursuant to the terms of the Subordinated Loan Agreement and is repaid, the Notes will be redeemed in whole, but not in part, at any time, on giving not less than 30 days' nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (Notices) (which notice shall be irrevocable): (i) if the Subordinated Loan is repaid in full pursuant to Clause 6.2(a) or 6.2(c) (Prepayment Option), Clause 6.3 (Prepayment in the Event of Taxes or Increased Costs) or Clause 6.4 (Prepayment in the Event of Illegality) of the Subordinated Loan Agreement, at the outstanding principal amount thereof, or (ii) if the Subordinated Loan is repaid in full on or before the Approval Date pursuant to Clause 6.2(b) of the Subordinated Loan Agreement, at 101 per cent of the principal thereof, in each case together with interest accrued on the amount of principal so repaid to the date fixed for redemption (which shall be the date fixed for prepayment under Clause 6 (Repayment and Prepayment) of the Subordinated Loan Agreement.

Prior to the publication of any notice of redemption referred to in this Condition 7.2, the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating (i) that the Issuer is entitled to effect such redemption in accordance with this Condition 7.2 and (ii) the date fixed for redemption of the Notes, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the applicable condition set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 7.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7, subject as provided in Condition 8 (Payments).

8. PAYMENTS

8.1 Payments in respect of Notes

Payments of principal, interest and any additional amounts (if any) in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8.1, "business day" means a day on which the London Interbank Market is open for dealings between banks generally and commercial banks generally are open for business in Dublin, New York City and in the city where the specified office of the Principal Paying Agent is located.

8.2 Method of Payment

Payments will be made by credit or transfer to an account in U.S. dollars maintained by the payee with a bank outside the United States or, at the option of the payee, by a cheque in U.S. dollars drawn on, a bank in New York City.

8.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all unmatured Coupons, failing which the full amount of any missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the

case of part payment only, endorsement) of the missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9 (Taxation)) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 10 (Prescription)) but not thereafter.

8.4 Payments subject to Applicable Laws

Payments in respect of principal, interest and additional amounts (if any) on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9 (Taxation).

8.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment in respect of any delay if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 10 (Prescription)):

(i) is or falls after the relevant due date;

(ii) is a Business Day in the place of the specified office of the Paying Agent at which the Note is presented for payment; and

(iii) in the case of payment by credit or transfer to a U.S. dollar account in New York City as referred to above, is a Business Day in New York City.

In this Condition 8.5, "Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

8.6 Initial Paying Agents

The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain:

(i) a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive (Directive 2003/48/EC) or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive; and

(ii) so long as the Notes are listed on the London Stock Exchange, a Paying Agent having its specified office in the United Kingdom.

Notice of termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 16 (Notices).

8.7 Payment obligations limited

The obligations of the Issuer to make payments under this Condition 8 shall constitute an obligation only to account to the Noteholders and/or Couponholders on each Interest Payment Date or such other date upon which a payment is due in respect of the Notes for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement less any amounts in respect of the Reserved Rights.

9. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes or Couponholders shall be made without withholding or deduction for, or on account of, any present or future taxes, duties,

assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied by or on behalf of Ireland or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or as the case may be, Coupons in the absence of the withholding or deduction, except that no additional amounts shall be payable in respect of any Note or Coupon:

(a) presented for payment by or on behalf of a holder which is liable to the Taxes in respect of such Note by reason of his having some connection with Ireland or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax other than the mere holding of the Note or Coupon;

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(c) presented for payment by or on behalf of a holder who would be 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;

(d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if the relevant Note had been presented for payment on such 30th day; or

(e) for any Taxes, that are imposed or withheld by reason of the failure of the holder of the Note to comply with a request of, or on behalf of, the Issuer addressed to the holder to provide information concerning the nationality, residence or identity of such holder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of such Taxes.

Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders or Couponholders to the extent and at such time as it shall have actually received an equivalent amount from Alfa Bank under the Subordinated Loan Agreement.

To the extent that the Issuer does not receive from Alfa Bank such equivalent amount in full, the Issuer shall account to each Noteholder or Couponholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Subordinated Loan Agreement on or as soon as may be practicable after the date of the receipt of, in the currency of, and subject to any conditions attaching to the payment of, such additional amount to the Issuer.

In these Conditions, "Relevant Date" means the date on which the payment in question first becomes due except that if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which (the full amount of the money having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 16 (Notices).

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition or any undertaking given in addition to or in substitution for this Condition pursuant to the Trust Deed or the Subordinated Loan Agreement.

10. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and any additional amounts (if any)) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 8 (Payments).

11. 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 upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. TRUSTEE AND PAYING AGENTS

12.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking action unless indemnified to its satisfaction.

12.2 Trustee Contracting with the Issuer and Alfa Bank

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and/or Alfa Bank and/or any subsidiary of the Issuer and/or Alfa Bank and to act as trustee for the holders of any other securities issued or guaranteed by or relating to, the Issuer and/or Alfa Bank and/or any subsidiary of the Issuer and/or Alfa Bank (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

12.3 Trustee to have regard to Interests of Noteholders as one Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent provided for in Condition 9 (Taxation) and/or any undertaking given in addition to, or in substitution for, Condition 9 (Taxation) pursuant to the Trust Deed and/or the Subordinated Loan Agreement.

12.4 Paying Agents

In acting under the Paying Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume and obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

12.5 The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the

Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Noteholders to take action directly.

13. MEETING OF NOTEHOLDERS; MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION; SUBSTITUTION

13.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification or abrogation by Extraordinary Resolution of any provisions of the Subordinated Loan Agreement, these Terms and Conditions or the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; provided, however, that certain matters set out in the Trust Deed may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons present, 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, whether present or not and on all Couponholders.

13.2 Modification

The Trustee may, without the consent of the Noteholders, agree to any modification of these Terms and Conditions, the Trust Deed or the Subordinated Loan Agreement which it is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or is of a formal, minor or technical nature or is to correct a manifest or proven error.

13.3 Waiver, Authorisation and Determination

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of these Terms and Conditions or the Trust Deed by the Issuer or the Subordinated Loan Agreement by Alfa Bank, or determine that (a) any Event of Default under the Subordinated Loan Agreement or (b) any Relevant Event shall not be treated as such if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

13.4 Notification to Noteholders

Unless the Trustee agrees otherwise, any such modification, waiver or authorisation shall be notified to the Noteholders in accordance with Condition 16 (Notices) as soon as practicable thereafter.

13.5 Substitution

The Trust Deed contains provisions under which any Substitute (as defined in the Trust Deed) of the Issuer may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled.

14. ENFORCEMENT

14.1 Enforcement by the Trustee

At any time after an Event of Default (as defined in the Subordinated Loan Agreement) or a Relevant Event (as defined below) shall have been initiated or occurred and be continuing, the Trustee (subject to Condition 3 (Status and Limited Recourse) may, at its discretion and without notice, (i) in the case of an Event of Default, declare all amounts payable under the Subordinated Loan Agreement by the

Borrower to be immediately due and payable and do all such other acts in connection therewith that the Trustee or the holders may direct, or (ii) in the case of a Relevant Event, enforce the security created in the Trust Deed and exercise any rights under the Security Interests, or (iii) in either case institute such proceedings as it thinks fit or is directed so to do by the holders to enforce its and/or the holders' rights under the Trust Deed in respect of the Notes, but it shall not be bound or have any obligation to do so unless:

(i) it has been so requested in writing by the holders of at least one-quarter in outstanding principal amount of the Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Upon repayment of the Subordinated Loan the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding. The Issuer shall have limited rights to accelerate payments under the Subordinated Loan Agreement in the case of an Event of Default under the Subordinated Loan Agreement.

For the purposes of these Conditions, "Relevant Event" means any of the following events pertaining to the Issuer: (a) the failure to make any payment of principal or interest on the Notes when the same is due to be made by the Issuer in accordance with Condition 8.7 (Payment Obligations Limited), (b) the filing of any proceedings relating to the liquidation, receivership or examination of the Issuer, (c) the CBR fails to give its consent to the prepayment of the Subordinated Loan in the event an illegality occurs under Clause 6.4 (Prepayment in the Event of Illegality) of the Subordinated Loan Agreement, (d) the taking of any action in furtherance of the dissolution of the Issuer or (e) the taking of any collective compulsory measure imposed by any subsequent amendment of Irish laws governing liquidation, receivership or examination.

14.2 Enforcement by the Noteholder

No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and the failure is continuing.

15. FURTHER ISSUES

Subject as provided in Condition 5 (Issuer's Covenants), in accordance with the Trust Deed and without prejudice to the Issuer's right to issue notes having terms and conditions that are different (other than just in respect of the issue date and/or first payment of interest) from the Notes, the Issuer may from time to time without the consent of the Noteholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or first payment of interest on such further notes) and so that such further issue is consolidated and forms a single series with the Notes. Such further Notes will be constituted by a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Subordinated Loan Agreement with the Borrower on the same terms as the original Subordinated Loan Agreement (or on the same terms except for the date thereof or the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as security in relation to the Issuer's rights under the original Subordinated Loan Agreement which will, together with the security referred to in the Conditions, secure both the Notes and such further Notes. Any notes issued by the Issuer with terms and conditions different from the Notes (other than just in respect of the issue date and/or the first payment of interest) shall be secured on assets of the Issuer other than those charged under the Trust Deed and supplements thereto.

16. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will be normally be made in the Financial Times. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Trust Deed, the Subordinated Loan Agreement and the Notes are governed by, and shall be construed in accordance with, English law.

17.2 Jurisdiction

The Issuer has in the Trust Deed irrevocably agreed for the benefit of the Trustee that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Notes and accordingly has submitted to the jurisdiction of the English courts. The Issuer has also, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

17.3 Appointment of Process Agent

The Issuer has also, in the Trust Deed, irrevocably and unconditionally appointed Alfa Capital Holdings (Cyprus) Limited, London Branch, City Tower, Level 21, 40 Basinghall Street, London EC2V 5DE (attention: Simon Roache), for the time being as its agent for service of process in England in respect of any suit, action or proceeding arising out of or in connection with the Trust Deed, and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

Exchange

The Notes will initially be represented by a Temporary Global Note, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable for interests in a Permanent Global Note, without interest coupons, on or after a date which is expected to be 19 January 2006, upon certification as to non-U.S. beneficial ownership.

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

(a) upon and following the occurrence of a Relevant Event (as defined in the Terms and Conditions of the Notes):

(b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two directors of the Issuers given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall, surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, Exchange Date means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

Payments

On and after 19 January 2006, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have

been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 16 (Notices), provided that, so long as the Notes are admitted to the Official List and admitted to trading on the Regulated Market, and the rules of the London Stock Exchange so require, notice will also be given by publication in a daily newspaper having general circulation published in London. It is expected that publication will normally be made in the Financial Times. Any such notice shall be deemed to have given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including, but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal or any other amounts) and five years (in the case of interest) from the Relevant Date (as defined in Condition 9 (*Taxation*)).

Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

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 constituent entities 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, the Law "On Banks and Banking" (the "Banking Law") and the New Currency 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 the sole issuer of Russian Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. The CBR is prohibited from issuing money and extending credits to the Russian Government for 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. The CBR is prohibited from extending credits to the Government for the purposes of budget deficit financing.
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. Under the Central Bank Law, the CBR is prohibited from extending loans to the Russian Government in order to finance the state budget deficit.
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.
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 New Currency 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. The Federal Anti-monopoly Service controls mergers and acquisitions of stakes in excess of 20% of total voting shares in credit organisations. 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 1 November 2005, 659 member credit organisations (of which 529 are banks), 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.

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.

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 16 January 2004 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.[1] Unless stated otherwise, all ratios described below are calculated on the basis of RAR, as formulated by applicable Russian laws and CBR regulations.

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%
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%
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%
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%
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%

(1) For the banks included in the System under the New Deposit Regime there are additional requirements to Mandatory Economic Ratios in accordance with Directive No. 1379-U of 16 January 2004 of the CBR

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).

The CBR has recently changed the method of calculation of certain elements comprising N2 and N3 mandatory economic ratios. Also, methods of calculation of the following mandatory economic ratios were changed: N6, N7, N9.1, N10.1 and N12. The relevant amendments to Instruction No. 110-i entered into force on 21 August 2005.

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 EUR5 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. The 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 24 March 2003.

Reporting Requirements

Russian banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They 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 licensed auditing company.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of mandatory reserve deposits. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. Banks are currently required to form mandatory reserve deposits to be held on non-interest bearing accounts with the CBR (starting from 1 August 2004, 2% in respect of funds in Roubles and foreign currency attracted from foreign banks, and 3.5% in respect of other funds).

Prior to July 2004, mandatory reserves were to be calculated under CBR Order No. 02-77 of 30 March 1996. From 1 July 2004, the mandatory reserves are calculated by banks in accordance with CBR Regulation No. 255-P of 29 March 2004 (the "New Reserves Regulation"), which changed the methods of reserve calculation, but not the amounts set by the Board of Directors of the CBR. Both regimes require prompt reporting by banks to the CBR and its regional units after the end of each calendar month with calculation of reserves and prompt posting of additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to check their compliance with the reserve rules. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings, however, it requires posting of reserves for obligations to non-resident banks. In addition, credit organisations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

Provisioning

The CBR put in place certain rules concerning creation of loan impairment provisions for loans extended by banks. Beginning 1 August 2004, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P of 26 March 2004. In particular, it requires credit organisations to rank their loans into five categories instead of the four under the previous regulation; the range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, mortgages acquired in the secondary markets, rights under repo contracts (if the securities transferred under such repo transaction are unlisted) and some other operations. It has been established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality etc.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other

banks, contingent liabilities, forward and other transactions. CBR Instruction No. 232-P of 9 July 2003 requires banks to rank such assets and operations into five risk groups rejecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively : (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR on the amounts of created non-loan impairment provisions monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Mandatory provisions are also created for operations with residents of offshore areas in the amount of up to the higher of (a) 100% held on the bank's balance sheet accounts, and (b) average daily turnover with residents of off-shore zones during the last month.

Regulation of Currency Exposure

In its Instruction No. 41 of 22 May 1996, "On the Establishment of Limits of the Open Currency Position and on the Control on Compliance Therewith by Authorised Banks in the Russian Federation", the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "currency exposure"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operation day the total amount of all long or short currency positions shall not exceed 20% of the bank's capital base. At the same time, at the end of each operation day the long or short position with respect to one particular currency or precious metal shall not exceed 10% of the bank's capital base.

Banks with capital base not exceeding EUR6 million are required to report to the CBR about their currency exposure once a week with breakdowns for each day. Banks with capital base equal to or exceeding €6 million are required to report about their currency exposure daily on the day following the reporting day.

In February 2006, Instruction No. 41 will be replaced by Instruction No. 124-I of 15 July 2005 "On the Establishment of the Amounts (Limits) of Open Currency Positions, on the Methods of Their Calculation and Particularities of Lending Organisations' Control over Compliance Therewith". In particular, lending organisations will be required to meet on a daily basis the following requirements:

- the total amount of all long (short) open currency positions for currencies and precious metals must not exceed 20% of the net worth (capital) of a lending organisation; and
- any long (short) open currency positions for currencies and precious metals, as well as the balancing position in rubles, must not exceed 10% of the net worth (capital) of a lending organisation.

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 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.

In addition, starting from 1 January 2004, all credit organisations are required to prepare their accounting reports in accordance with both RAR and IFRS. The first IFRS financial statements were to be prepared for the period ending 30 September 2004.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by the Law "On Insolvency (Bankruptcy)" of 26 October 2002, as amended (the "Bankruptcy Law") and the Law "On Insolvency (Bankruptcy) of Credit Organisations" of 25 February 1999, as amended (the "Bank Insolvency Law").

Bankruptcy. Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, *inter alia*, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency described in the Bank Insolvency Law (the overall amount of the outstanding obligations is not less than 1,000 times the statutory minimum wage amount (currently RUR 100,000 or approximately U.S.$3,450) and the bank has failed to perform such obligations within 14 days after their due date, or after the revocation of the bank's licence its total assets do not cover all of its outstanding obligations).

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (i.e., financial support, changing the structure of assets and liabilities or organisational structure of the bank, etc.), (b) appointment of a temporary administration to the bank or (c) reorganisation.

Temporary Administration. The Bank Insolvency Law provides for a special pre-bankruptcy procedure called "temporary administration" which is aimed at financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances listed in Article 17 of the Bank Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and the bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficiency of funds in its correspondent accounts.

Introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of the bank. The temporary administration can manage the bank and is further entitled to request that the CBR impose a moratorium on all payments of the bank to counterparties and creditors for a period not exceeding three months. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 27 and 28 of the Bank Insolvency Law.

Priority of claim. Under Russian bankruptcy law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment-related obligations and royalties. There is also some risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the government. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge will be subordinated to the following obligations: (i) injury obligations and moral damages obligations and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of the pledge. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the moment of the creation of such claims.

SUBORDINATED DEBT

The concept of subordinated debt is set out in the Bank Insolvency Law and Regulation of the CBR No. 215-P "On the Method of Determination of Own Funds (Capital) by Credit Organizations", dated February 10, 2003 (the "Own Funds Regulation"). In accordance with the Own Funds Regulation, which is based on the principles established by the Basel Committee on Banking Supervision in the New Basel Capital Accord, a subordinated loan shall satisfy the following criteria:

- term of the loan shall not be less than five years;
- the loan agreement shall contain a provision prohibiting early termination;
- the loan shall be on market terms;
- the loan shall be unsecured;
- only legal persons shall be parties to the loan agreement;
- the loan agreement shall specifically provide for the lowest creditor priority of the lender in the event of bank's insolvency; and
- the loan agreement shall contain a provision allowing to revise the interest rate without a significant increase of the average interest rate on the date of such revision.

A loan that satisfies all of the above criteria will be qualified as a subordinated loan, and pursuant to he Own Funds Regulation, shall be accounted for by the credit organizations as additional capital.

Additional capital and principal capital constitute the own funds of the credit organization. Additional capital may not exceed 100% of principal capital, subject to principal capital not being negative. Aggregate amount of subordinated loans of the credit organization may not exceed 50% of the principal capital.

The Own Funds Regulation provides that the amount of the subordinated loan may be included in the calculation of the bank's own funds on the reporting date following the approval of the subordinated loan by the local office of the CBR. Such approval is granted only after the borrower receives proceeds of the loan, subject to the confirmation by the local office of the CBR that the subordinated loan agreement meets all requirements of the Own Funds Regulation.

Although the Civil Code does not define a concept of debt subordination, the Bank Insolvency Law recognizes statutory subordination of creditors under subordinated debt arrangements in the event of a bank's insolvency. Pursuant to Article 50.36(6) of the Bank Insolvency Law, in such event, the claims of the subordinated creditors are ranked behind claims of all unsubordinated creditors listed in the creditors' register.

LIQUIDATION AND REVOCATION OF THE BANKING LICENCE

Mandatory Liquidation. The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. Article 20 of the Banking Law lists a number of U.S. grounds on which the CBR can or must revoke the banking licence of a Russian bank. Among other things, these grounds include: (i) material inaccuracy of reporting statements; (ii) a delay of more than 15 days in the submission of monthly financial statements; (iii) effecting transactions that are not covered by its banking licence; (iv) persistent failure to comply with federal laws governing banking activities and CBR regulations and persistent breach of reporting, client identification and various internal control requirements of anti-money laundering legislation; (v) certain breaches of capital adequacy and regulatory capital ratios and; (vi) inability to discharge creditors' claims within one month of their due date where such claims exceed 1,000 minimum wages (currently, RUR100,000 or approximately U.S.$3,450).

Upon the revocation of its licence, the bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bank Insolvency Law.

Article 20 of the Banking Law also establishes the consequences of the revocation of the banking licence, including that the CBR must impose the "temporary administration" on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within a week of resolving to revoke such banking licence.

Voluntary Liquidation. In case of voluntary liquidation of the bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the general rules on liquidation of companies and certain CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

HISTORY OF THE RUSSIAN BANKING SECTOR AND BANKING STATISTICS

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.

Between 1991 and 1998 the Russian banking system experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. 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 such credit organisations was withdrawn from ARCO's administration. Pursuant to Federal Law No. 87-FZ, dated 28 July 2004 ARCO was liquidated on 14 September 2004.

Since the 1998 financial crisis the number of active credit organisations registered in Russia has fallen to 1,263 as at 1 October 2005. 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.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the CBR and a crisis of confidence among Russian banking customers. During May-July 2004, the CBR revoked the banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending system and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors, and even reliable larger banks experienced depositor withdrawals.

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.

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.

On 5 April 2005, the Government and the CBR issued their joint *Strategy for the Development of the Banking Sector of the Russian Federation until 2008* (the "Strategy"). The Strategy replaces the five-year Strategy for the Development of the Banking Sector in the Russian Federation issued in December 2001, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008).

Among other things, the Strategy outlines the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also lists measures which should be implemented for the achievement of these targets.

Pursuant to the Strategy, the main objective of the development of the Russian banking sector is to increase the stability of the banking system and the effectiveness of banking activities. Among the main goals set forth by the Strategy are:

- improving the protection of the interests of depositors and creditors of banks;
- increasing the effectiveness of deposit-taking and lending activities of banks;
- increasing the competitiveness of Russian credit organisations;
- ensuring the transparency of banking activities;
- preventing the use of credit organisations for unlawful purposes (such as money laundering); and
- strengthening investors', depositors' and creditors' trust in the Russian banking sector.

The Strategy lists the main measures which should be implemented by the Russian Government and the CBR, among which are:

- improving the legislative regulation of banking activities;
- facilitating banks' role as financial intermediaries;
- increasing the efficiency of banking regulation and supervision;
- strengthening market discipline in the banking sector and ensuring equal competitive conditions for all credit organisations;
- upgrading corporate governance rules in credit organisations; and
- developing a banking infrastructure.

As part of the improvement of legislative regulation of banking activities, the Strategy outlines, *inter alia*, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);

- improving the procedures for the liquidation of credit organisations whose banking licences have been revoked;
- simplifying the procedures for mergers and acquisitions of credit organisations;
- facilitating an efficient system of depositing and use of credit history data; and
- continuing the improvement of taxation regime of credit organisations.

Among other priority tasks, the Strategy envisages the following measures:

- increasing the minimum amount of bank charter capital to five million Euros (starting 2007);
- increasing the minimum amount of a bank's net worth (capital) to 10% (mandatory economic ratio N1), irrespective of the type of a credit organisation and the value of its net worth (starting 2007);
- easing procedures for the participation of non-residents in the capital of Russian banks (albeit without lifting the restrictions on the opening by foreign banks of branches in Russia); and
- introducing a simplified procedure for the assignment of bank loans.

Pursuant to the Strategy, the recommendations of the International Monetary Fund and the World Bank, as set forth in the 2002-2003 Russian Financial Sector Assessment Program, will be taken into account in the course of the implementation of the Strategy. Upon the achievement of the targets set forth in the Strategy, the next priority for the period 2009-2015 will be the effective positioning of the Russian banking sector on the international financial market.

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.

On 30 December 2004, the President signed Federal Law No. 218-FZ "On Credit Histories" (the "Credit Histories Law"). Most of the provisions of the Credit Histories Law will come into force on 1 June 2005. Pursuant to the Credit Histories Law, the "credit history" of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower's performance under loan or credit arrangements and which are stored with a "credit history bureau" (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue "reports" as defined in the Credit Histories Law).

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- the borrower itself;
- banks or other legal entities which are users of such data (with the consent of the borrower);
- courts and, with the consent of a prosecutor general, certain enforcement agencies; and

- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences are going to be introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments will address issues concerning bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the law *"On Mortgage-Backed Securities"* and amendments to the Civil Code, Tax Code and the law "On Mortgage" were enacted in 2003-2004. By means of these laws, Russian legislators attempted 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 this new legislation is to provide improved regulation of mortgage-backed securities in order to make them more attractive for investors.

In order to build up an 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 regulations and inspecting banks' activities. In particular, Russian banks are required to comply with various customer identification, reporting and other related procedures. 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 has 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 these off-shore areas.

On 18 June 2004, the New Currency Law came into force replacing almost in its entirety the former Federal Law *"On Currency Regulation and Currency Control"* of 1992. The New Currency 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 reserve (i.e. Rouble cash 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 has 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 reserve 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 Law, the new restrictive measures should be applied by the CBR and/or the Russian Government with reference to the current economic situation 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 subject to adverse trends. 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 and unexpectedly vary the regime depending on their view of market conditions. Furthermore, under the New Currency Law, the CBR retains a right to

introduce special rules relating to the application of currency control restrictions as set out in the New Currency Law to banking operations of credit organisations.

As part of implementing legislation contemplated by the New Currency Law, the CBR passed Directive No. 1425-U of 28 April 2004 which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under general currency control regime applicable to resident legal entities.

In addition, the CBR has introduced the following requirements in respect of foreign currency loans received by Russian residents (except for Russian banks) from non-residents if the repayment term of the principal amount of such loan exceeds three years.

- Under CBR Instruction No. 116-I of 7 June 2004, Russian residents are required to make "all payments and transfers relating to the receipt of such loans" through a special "R1" type foreign currency account to be opened with an authorised Russian bank.
- Under CBR Directive No. 1465-U of 29 June 2004, Russian residents are required to deposit the Rouble equivalent of 2% of the amount of such loans actually received for a period of 365 calendar days into a non-interest bearing account with an authorised Russian bank.

ENFORCEABILITY OF CIVIL LIABILITIES IN THE RUSSIAN FEDERATION

Each of the Issuer and Alfa Bank are corporations organised under the laws of the Issuer's and Alfa Bank's jurisdiction of incorporation, as set out on the front cover of this Prospectus. None of the directors and executive officers of the Issuer or Alfa Bank is a resident of England, and all or a substantial portion of the assets of the Issuer and Alfa Bank 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 the Issuer or Alfa Bank 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 Subscription 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 Irish and Russian Federation tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the 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 Prospectus and is subject to any change in law that may take effect after such date.

IRISH TAXATION

The following is a summary based on the laws and published practices currently in force in Ireland of certain matters regarding the tax position of investors who are the absolute beneficial owners of their Notes and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes, including trustees or dealers in shares. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest. However, an exemption from withholding on interest payments exists for certain securities (quoted Eurobonds) issued by a body corporate (such as the Issuer) which are in bearer form, interest bearing and quoted on a recognised stock exchange (which would include the Irish Stock Exchange).

Any interest paid on such quoted Eurobonds can be paid free of withholding tax provided:

(a) the person by or through whom the payment is made is not in Ireland; or

(b) the payment is made by or through a person in Ireland, and either:

  (i) the quoted Eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are so recognised), or

  (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as an Irish Paying Agent) in the prescribed form.

So long as the Notes continue to be in bearer form, continue to be quoted on a recognised stock exchange and are held in DTC, Euroclear and/or Clearstream, Luxembourg, interest on the Notes can be paid by the Issuer and any Paying Agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax. The quoted Eurobond exemption will not apply to any Notes if and for so long as they are in registered form. If, for any reason, the quoted Eurobond exemption referred to above does not or ceases to apply, the Issuer can still pay interest on the Notes in the ordinary course of its business or trade free of withholding tax provided it is a "qualifying company" (within the meaning of Section 110 of the TCA 1997) and provided the interest is paid to a person resident in a "relevant territory" (i.e. a member state of the European Union (other than Ireland) or a country with which Ireland has a double taxation agreement). For this purpose, residence is determined by reference to the law of the country in which the recipient claims to be resident. This exemption from withholding tax will not apply, however, if the interest is paid to a company in connection with a trade or business carried on by it through a permanent establishment, branch or agency located in Ireland. For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double taxation treaty country, if under the provisions of the relevant treaty, with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any quoted Eurobond, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder who is Irish resident.

Encashment tax does not apply where the Noteholder is not resident in Ireland and has made a declaration in the prescribed form to the encashment agent or bank.

Taxation of Noteholders

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Interest paid on the Notes may have an Irish source and may therefore be within the charge to Irish income tax and levies. Ireland operates a self-assessment system in respect of income tax, and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope. There is an exemption from Irish income tax on interest payments made by a qualifying company (as described above) provided the recipient of the interest is a person resident in a Member State of the European Union (other than Ireland) or in a country with which Ireland has a double tax treaty. For this purpose, residence is determined under the terms of the relevant double taxation agreement or in any other case, the laws of the country in which the recipient claims to be resident. In addition, any interest which can be paid free of withholding tax under the quoted Eurobond exemption (discussed above) is exempt from income tax where the payment is made to a person resident in a Member State of the European Union (other than Ireland) or in a country with which Ireland has a double taxation agreement.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributable, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double taxation agreement between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions may be within the charge to Irish income tax. However, it is understood that there is an unpublished practice of the Irish Revenue Commissioners whereby no action will be taken to pursue any liability to Irish tax in respect of persons who are regarded as not being resident in Ireland, except where such persons have a taxable presence in Ireland or claim any repayment, credit or relief in respect of Irish tax, or use an Irish Paying Agent. There can be no assurance that the Irish Revenue Commissioners will apply this practice in the case of the Noteholders.

Capital Gains Tax

A holder of Notes will be subject to Irish tax on capital gains on a disposal of Notes unless such holder is neither resident nor ordinarily resident in Ireland and does not carry on a trade or business in Ireland through a permanent establishment, branch or agency in respect of which the Notes are or were held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs is currently levied at 20 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland or (ii) if the Notes are regarded as property situate in Ireland. A foreign domiciled individual will not be regarded as being resident or ordinarily resident in Ireland at the date of the gift or inheritance unless that individual (i) has been resident in Ireland for the five consecutive tax years preceding that date, and (ii) is either resident or ordinarily resident in Ireland on that date.

Bearer notes are generally regarded as situated where they are physically located at any particular time, but the Notes may be regarded as situated in Ireland regardless of their physical location as they secure a debt due by an Irish resident debtor and they may be secured over Irish property. Notes in registered form are

property situate in Ireland if the register is in Ireland. Accordingly, if such Notes are comprised in a gift or inheritance, the gift or inheritance may be within the charge to tax regardless of the residence status of the disponer or the donee/successor.

Stamp Duty

For as long as the Issuer is a qualifying company within the meaning of Section 110 of the TCA 1997 Act, no stamp duty or similar tax is imposed in Ireland on the issue (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 provided the money raised on the issue of the Notes is used in the course of the Issuer's business), transfer or redemption of the Notes whether they are represented by Global Certificates or Definitive Certificates.

European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC)

The European Union has formally adopted a new Directive regarding the taxation of savings income. Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident in that other 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). The withholding tax system will apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

Under the Act, the Issuer would not be obliged to levy withholding tax in respect of interest payments made by it pursuant to the Notes to a paying agent situated in an EU Member State.

RUSSIAN FEDERATION

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes by non-resident holders, including information regarding the taxation of payments under the Subordinated Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus. 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 in respect of the Notes, 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 the 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.

The Russian tax treatment of interest payments made by Alfa Bank to the Issuer under the Subordinated Loan Agreement may affect the holders of the Notes. See "—Taxation of interest on the Subordinated Loan".

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 will not be subject to any Russian taxes in respect of the purchase or ownership of the Notes or interest payments on the Notes received from the Issuer.

A non-resident holder also generally should not be subject to any Russian taxes in respect of redemption, sale or other disposition of the 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

In the event that proceeds of a disposition of Notes are received from a source within Russia, a non-resident holder which is a legal person or organisation should not be subject to any Russian taxation in respect of the proceeds, provided that no portion thereof is attributable to accrued interest. There is some residual uncertainty regarding the treatment of the portion of such proceeds, if any, that is attributable to accrued interest and such portion may be taxed at a rate of 20% even if the disposal results in a capital loss.

A non-resident holder which is a legal person or organisation should consult their own tax advisors 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 holder who is an individual will generally be subject to tax at a rate of 30%, subject to any available double tax treaty relief, in respect of gain from a disposition of Notes if the proceeds are received from a source within Russia. In this regard, if the Notes are disposed of to a resident of Russia or a Russian representative office of a non-resident and payment is made within or from Russia, the proceeds of such disposition are likely to be regarded as received from a Russian source. The tax may be withheld at source of payment or if the tax is not withheld, then the non-resident individual may be liable to pay the tax.

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. 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.

In order to use the double taxation treaty relief an individual should provide appropriate documentary proof of tax payments made outside of Russia on income with respect of which treaty benefits are claimed. Because of uncertainties regarding the form and procedures 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 and obtaining a refund can be extremely difficult. Non-resident holders who are physical persons should consult their own tax advisors with respect to this possibility.

Resident Holders

A holder of Notes who is an individual resident in Russia for tax purposes or legal person or organisation which is not a non-resident is subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

Taxation of interest on the Subordinated Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20%, absent reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, Alfa Bank believes that payments of interest on the Subordinated Loan should not be subject to withholding tax under the terms of the double tax treaty between Russia and Ireland. However, there can be no assurance that such relief will be obtained. In addition, if interest under such Subordinated Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the double tax treaty between Russia and Ireland will cease and payments of interest could be subject to Russian withholding tax.

Claim for treaty relief does not require preliminary approval and review of relevant contracts by the tax authorities. As a result, the Russian tax authorities may review the Issuer's eligibility for treaty relief in detail during tax audit.

If payments under the Subordinated Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), Alfa Bank is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. If Alfa Bank is obliged to increase payments, it may, subject to certain conditions, prepay such Subordinated Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia on any payment of interest or principal in respect of the Subordinated Loan.

SUBSCRIPTION AND SALE

Barclays Bank PLC, UBS Limited and Alpha Bank A.E. (together, the "Managers") have, in a subscription agreement dated 7 December 2005 (the "Subscription Agreement") and made between the Issuer, Alfa Bank, ABH Financial and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Managers are entitled to commissions and reimbursement of expenses pursuant to the Subscription Agreement and a fees and expenses side agreement between, among others, the Issuer, Alfa Bank and the Managers. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States

The Notes and the Subordinated Loan 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 except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax laws requirements and may not be offered, sold or delivered within the United States or to a United States person, except on certain transaction permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has represented, warranted and undertaken that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each manager to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a manager that is not participating in the offering may violate the registration requirements of the Securities Act.

The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

United Kingdom

Each Manager has represented, warranted and undertaken that:

(a) 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 Financial Services and Markets Act 2000 (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 Issuer; and

(b) It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Manager has represented, warranted and undertaken with the Issuer, Alfa Bank and each other Manager that it has not offered or sold and will not offer or sell or otherwise transfer as part of its initial distribution or at any time thereafter any Notes to or for the benefit of any person (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 under Russian law.

Republic of Italy

Offers of the Notes in the Republic of Italy ("Italy") have not been and will not be registered with the Commissione Nazionale per le Società e la Borsa ("Consob") pursuant to Italian securities legislation and, accordingly, the Notes shall not be offered in Italy in a solicitation to the public at large within the meaning of Article 1, paragraph 1, letter (t) of legislative decree No. 58 of 24 February 1998. In any case the Notes shall not be placed, sold, and/or offered either in the primary or in the secondary market to natural persons resident in Italy. In any case, the sales of the Notes in Italy will only be: (i) negotiated on an individual basis with "Professional Investors" ("Operatori Qualificati") other than natural person as defined under Article 31, paragraph 2 of Consob Regulation No. 11522 of 1 July 1998 as amended; (ii) effected in compliance with Article 129 of the Legislative Decree No. 385 of 1 September 1993 and the implementing instructions and regulations of the Bank of Italy; (iii) effected in accordance with any other securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by Consob or the Bank of Italy; and (iv) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the relevant provisions of Italian law.

Ireland

Each of the Managers has represented, warranted and agreed that to the extent applicable it has complied with and will comply with all applicable provisions of the Irish Companies Acts 1963-2005 (as amended) and the Investment Intermediaries Act, 1995 (as amended) including, without limitation, Sections 9 and 50 and will conduct itself in accordance with any Codes of Conduct drawn up pursuant to Section 37 thereof or, in the case of a credit institution exercising its rights under the Banking Consolidation Directive (2000/12/EC of 20th March 2000), in conformity with the codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989, of Ireland, as amended, with respect to anything done by it in relation to the Notes.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and

(b) it has not issued and will not issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

Singapore

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not circulated or distributed nor will it circulate or distribute this Prospectus or any other offering document or material in connection with the offer or sale or invitation for subscription or purchase, of any Notes, nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in

Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"), (ii) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Philippines

Each Manager represents, warrants and agrees that (i) the Notes are not intended to be registered with the Philippine Securities and Exchange Commission under the Philippines' Republic Act No. 8799 (the "Securities Regulation Code"), pursuant to which securities are not permitted to be sold or offered for sale or distribution within the Philippines, without a registration statement duly filed with, and approved by, the Philippine Securities and Exchange Commission unless such securities are exempt securities under Section 9 of the Securities Regulation Code or are sold in an exempt transaction under Section 10 of the Securities Regulation Code and that (ii) accordingly, each Manager may offer the Notes in the Philippines under an exempt transaction pursuant to Section 10.1(L) of the Securities Regulation Code.

General

Each Manager has undertaken that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or Alfa Bank.

Alfa Bank and ABH Financial are parties to the Subscription Agreement and have given certain representations and warranties, covenants and indemnities to the Managers and the Issuer therein.

With the exception of the approval of the UKLA of this Prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom, no action has been or will be taken in any jurisdiction by the Issuer, Alfa Bank or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action tor that purpose is required. Persons into whose hands this Prospectus comes are required by Alfa Bank, the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Notes is XS0237792428 and the Common Code of the Notes is 023779242.

2. It is expected that the listing of the Notes will be granted on or around 9 December 2005. Alfa Bank estimates the amount of expenses related to the listing of the Notes and their admission to trading on the Regulated Market to be approximately U.S.$4,960.00.

3. The issue of the Notes and the making of the Subordinated Loan were approved by a resolution of the Board of Directors of the Issuer on 5 December 2005. Alfa Bank and the Issuer will obtain all necessary consents, approvals and authorisations in Russia and Ireland in connection with the Subordinated Loan and the issue and performance of the obligations under the Notes.

4. There has been no significant change in the financial or trading position of Alfa Bank or the Alfa Banking Group or the Alfa Bank Group since the date of its last published audited financial statements and no material adverse change in the prospects of Alfa Bank or the Alfa Banking Group or the Alfa Bank Group since the date of its last published audited financial statements. There has been no significant change in the financial or trading position and no material adverse change in the prospects of the Issuer since 8 November 2005 (the date of its incorporation) which is material or significant in the context of the issue of the Notes.

5. Except as disclosed on page 49 of this Prospectus, neither Alfa Bank, the Alfa Banking Group nor the Alfa Bank Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Alfa Bank is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects, in the context of the issue of the Notes, on the financial position or profitability of Alfa Bank or the Alfa Banking Group or the Alfa Bank Group. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) since 8 November 2005 (the date of its incorporation) which may have or have had in the recent past significant effects, in the context of the issue of the Notes, on its financial position or profitability.

6. Copies of the following documents will, when published, be available from the registered office of Alfa Bank and from the specified office of the Principal Paying Agent:

   (i) the constitutional documents of Alfa Bank (with an English translation thereof);

   (ii) the audited consolidated annual financial statements of ABH Financial for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005 and the audited non-consolidated financial statements of Alfa Bank, for the years ended 31 December 2003 and 2004;

   (iii) the most recently published audited annual financial statements of the Issuer, ABH Financial and Alfa Bank and the most recently published interim financial statements (if any) of the Issuer, ABH Financial and Alfa Bank (in each case, where relevant, with an English translation thereof);

   (iv) the Trust Deed which includes the forms of the Global Note and the definitive Notes, the Paying Agency Agreement and the Subordinated Loan Agreement; and

   (v) a copy of this Prospectus.

7. 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 IFRS for the years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005.

The independent auditors of Alfa Bank are ZAO BDO Unicon, who have audited Alfa Bank's accounts prepared in accordance with RAR for each of the two years ended on 1 January 2004 and 2005 and issued unqualified auditors' reports. ZAO BDO Unicon have consented to the inclusion of their reports thereon herein.

8. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a trustee in office after such removal. Furthermore, the Trust Deed provides, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice, certificate or information contains a monetary or other limit on the liability of any of the abovementioned persons in respect thereof.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND RAR

The following is a summary of certain differences between IFRS and RAR applicable to banks as at 30 June 2005. The Issuer and Alfa Bank confirm that the following summary covers all major differences between RAR and IFRS in relation to Alfa Bank. As at 30 June 2005 and subsequently respective authorities have issued a number of new IFRS and RAR pronouncements which will have a significant impact on the future comparison between IFRS and RAR. New IFRS pronouncements are effective for ABH Financial's or Alfa Bank's annual periods beginning on or after 1 January 2006. Please note that the following summary does not address the consequences of any such new IFRS and RAR pronouncements or their potential impact on the differences between IFRS and RAR applicable to banks and on ABH Financial's or Alfa Bank's financial statements. Had an analysis of such new pronouncements been performed, additional accounting and disclosure differences between IFRS and RAR might have been identified in this summary.

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 or, alternatively, a statement of recognised income and expense; and • accounting policies and other notes to the financial statements. The information in the financial statements should be based on the following concepts: • going concern assumption; • accrual basis of accounting; • comparability; • substance over form; • true and fair presentation; • materiality and aggregation; • prudence; • neutrality of presentation; 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 gap analysis; • currency exposure analysis; • interest rate risk disclosures; • concentration of risks disclosures; and • disclosures of fair values of financial instruments.	Financial statements of the banks for publication include only a balance sheet, an income statement, and certain other information (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.

Subject	IFRS	RAR
	The functional currency of each entity is the currency of the primary economic environment in which the entity operates. IAS 21 "The Effects of Changes in Foreign Exchange Rates" includes detailed guidance for determining the appropriate functional currency based on facts and circumstances. Financial statements may be translated for presentation purposes from the functional currency to any other currency or currencies.	RAR prescribes the measurement and reporting currency of banks to be only Russian Roubles.
Financial instruments	IAS 39 "Financial Instruments: Recognition of Measurement" prescribes the following accounting treatment for the four main groups of financial assets: • financial assets at fair value through profit or loss are carried at fair value with both the realised and unrealised gains and losses recognised in the income statement; • investments held to maturity are carried at amortised cost, net of provisions for impairment; • loans and receivables are carried at amortised cost, net of provisions for impairment; and • financial assets available for sale are carried at fair value with unrealised gains and losses deferred in equity until realised or the asset becomes impaired. Impairment losses are recognised when incurred as a result of one or more events that occurred after the initial recognition. Impaired debt instruments are written down to the net present value of estimated future cashflows, also considering realisation 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. Financial liabilities are carried at amortised cost, unless they are part of the at fair value through profit or loss category of financial instruments. Derivative financial instruments are carried in the balance sheet at fair value. Changes in the fair value of derivatives are recognised in the income statement unless hedge accounting applies.	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 based on guidance provided by regulations of the Central Bank of the Russian Federation. 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
	Financial instruments, including loans originated at non-market interest rates, are initially recognised at fair value plus, in the case of financial instruments not at fair value through profit or loss, transaction costs. IAS 39 contains detailed rules on hedge accounting and accounting for embedded derivatives.	
Consolidated financial statements. Accounting for investments in subsidiaries	Starting from the date of the acquisition of a subsidiary from a third party the acquirer should: • Consolidate results of the acquired entity's activities in the income statement; • Recognise the acquiree's assets and liabilities in the consolidated balance sheet at fair value, irrespective of the extent of any minority interest; and • Record goodwill for the excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at the dates of exchange. Assets and liabilities of subsidiaries that meet the criteria as held for sale are presented in separate lines in the balance sheet and if necessary, the disposal group is written down to fair value less costs to sell.	The basic consolidation rules are generally similar to the procedures prescribed by the IFRS. However, RAR does not require reclassification of assets and liabilities of subsidiaries held for sale. Consolidated financial statements of the banks for publication include only a balance sheet, an income statement, and certain other information (with comparative information).
Segments	IFRS requires disclosure of primary and secondary segment information (eg revenues, assets, liabilities, segment results, capital expenditure). A segment is a distinguishable component of an entity 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 segment information.

Subject	IFRS	RAR
Income taxes	Temporary differences between the IFRS carrying amounts and the tax bases of the assets and liabilities result in recognition of deferred income tax assets or liabilities. 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 IFRS carrying amount and the tax base, as defined in IAS 12, of an asset or a liability. Certain exceptions may prohibit recognition of the deferred taxes in specific circumstances. Current tax and deferred tax is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.	Russian legislation and the accounting rules for banks do not cover deferred tax accounting.

Related party transactions	Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial 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;
	• the name of the entity's parent and, if different, the ultimate controlling party;
	• if there have been transactions between related parties, disclosure includes:
	  • nature of transactions between related parties;
	  • types of transactions; and
	  • elements of transactions including:
	  • the volume of transactions;
	  • amounts of outstanding balances and their terms and conditions;
	  • provisions for doubtful debts at the end of the period and related expense.
		RAR do not contain requirements for disclosure of related party transactions.

Subject	IFRS	RAR
Financial reporting in hyperinflationary economies	The financial statements of an entity that reports in the currency of a hyperinflationary economy should be expressed in terms of the measuring unit current at the balance sheet date. IFRS allows restatement based on a historical cost approach using a general price index or presentation of current cost financial statements. A gain or loss on the net monetary position is reflected in the income statement. 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, entities reporting in Russian Roubles have applied IAS 29 to restate their IFRS financial statements for all years ending prior to or on 31 December 2002. With effect from 1 January 2003, entities reporting in Russian Roubles ceased applying IAS 29 on the basis that the Russian economy is no longer hyperinflationary. The amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in subsequent periods.	RAR do not contain requirements for restatement of financial statements prepared in the currency of a hyperinflationary economy.

Index to Auditors' Reports and Financial Information

Open Joint-Stock Company "ALFA–BANK"

Auditors' Report dated 11 April 2005 ..... F-2

Nonconsolidated annual RAR financial statements for the year ended 31 December 2004 ..... F-5

Auditors' Report dated 31 March 2004 ..... F-8

Nonconsolidated annual RAR financial statements for the year ended 31 December 2003 ..... F-12

ABH Financial Limited

Auditors' Report dated 8 April 2005 ..... F-16

Consolidated annual financial information for the two years ended 31 December 2004 ..... F-17

Auditors' Report dated 20 April 2004 ..... F-60

Consolidated annual financial information for the two years ended 31 December 2003 ..... F-61

Auditors' Report dated 6 October 2005 ..... F-104

Interim consolidated financial statements for the six months ended 30 June 2005 ..... F-105

Investors should note that the financial and other information included in this Prospectus has, except where expressly stated otherwise, been derived from the consolidated financial statements of ABH Financial and not from the financial statements of Alfa Bank. Alfa Bank generates a large part of the revenues, assets, liabilities, expenses and cash flows of Alfa Banking Group. ABH Financial is an indirect parent company of Alfa Bank. Alfa Bank is the sole borrower under the Subordinated Loan Agreement and its obligations and liabilities thereunder are not guaranteed or otherwise indemnified or supported by ABH Financial or any of ABH Financial's other subsidiaries. ABH Financial will not guarantee the Notes and has no obligation with respect to the Notes.

AUDITORS' REPORT — APRIL 2005

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 2004, prepared by the Auditors of Alfa Bank:

INDEPENDENT AUDITOR'S REPORT

ON THE PUBLISHED FORMS OF THE ANNUAL REPORT DERIVED FROM THE ANNUAL ACCOUNTING REPORT OF OPEN JOINT STOCK COMPANY "ALFA BANK" ON RESULTS OF ACTIVITY FOR 2004

We, audit firm ZAO BDO Unicon, have audited the published forms of the annual report derived from the annual accounting report of Open Joint Stock Company ALFA BANK (hereinafter OAO ALFA BANK) for the year 2004 in accordance with contract No. 10102-05-487/04 of 30.12.2004 signed with ZAO BDO Unicon, subject to the decision of General Shareholders' (Participants') Meeting of OAO ALFA BANK to appoint ZAO BDO Unicon the Bank's statutory auditor (Minutes No. 02-2004 of 1 June 2004).

Brief information on ZAO BDO Unicon

The BDO Unicon is registered on 05.10.1992 with Moscow Registration Chamber, Certificate No. 272.543.

BDO Unicon is registered with Moscow City Southern Administrative District Inspectorate No. 26 of the Ministry for Taxes and Collections of the Russian Federation, principal state registration No. 1037739271701, Certificate of entry in the Unified State Register of Legal Entities, series 77 No. 006870804, dated 29 January 2003.

The recent entry in the Unified State Register of Legal Entities is made by Moscow City Southern Administrative District Inspectorate No. 26 of the Ministry for Taxes and Collections of the Russian Federation, state registration No. 2057726019426, Certificate series 77 No. 006985968, dated 11 March 2005.

Mailing address: 11/1, 125 Varshavskoye shosse, Moscow 117545

Telephones: (095) 797 5665, 319 6636

Tel/fax: (095) 319 5909

E-mail: reception@bdo.ru

Web: www.bdo.ru

General Director — Andrey Yurievich Dubinskiy

ZAO BDO Unicon holds License No. E 000547 dated 25 June 2002 to engage in audit activities issued by the Finance Ministry of the Russian Federation on 25 June 2002, valid until 24 June 2007.

ZAO BDO Unicon is an independent national audit company forming part of the BDO International network.

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.

Authority to sign this Report rests with Elena Igorevna Kopaneva, Deputy General Director, by way of general power of attorney No. 91 of 02.11.2004.

Petr Nikolaevich Romanov	Auditor, performed general coordination and management of the audit of OAO ALFA BANK.

Brief information on OAO ALFA BANK

Full name of the lending organisation — Open Joint Stock Company ALFA BANK.

Abbreviated name of the lending organisation — OAO ALFA BANK.

OAO ALFA BANK is registered in 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 26 July 2002. Principal state registration No. 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. 02-2004 of 1 June 2004). The Charter was approved by the Central Bank of Russia on 2 August 2004.

In 2004, 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;
- No. 177-03574-010000 to engage in dealing date 7 December 2000;
- No. 177-03471-100000 to engage in brokerage dated 7 December 2000;
- No. 177-04148-001000 to act as depositary dated 20 December 2000;
- license 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;
- license No. 2015 for activities associated with information qualified as state secret dated 3 December 2004;
- 03.09.2003 No. 601 to perform futures and options transactions in exchange trade on the territory of the Russian Federation dated 3 September 2003.

Location of OAO ALFA BANK: 27 Ulitsa Kalanchevskaya, Moscow 107078.

OAO ALFA BANK has 32 branches.

1. We have audited the accompanying published forms of the annual report of OAO ALFA BANK derived from the annual accounting report for the period from 1 January to 31 December 2004, of 4 pages including:

- balance sheet as at 1 January 2005 — 2 pages;
- profit and loss statement for 2004 — 1 page;
- information on the level of capital adequacy ratio, loan loss provisions and other assets as at 1 January 2005 1 page.

2. The published forms indicated in item 1 are prepared by the Bank's management in accordance with the standards established by Russian Federal Law "On Accounting" No.129-FZ of 21 November 1996 (as subsequently amended), the Chart of Accounts of credit institutions, Accounting Rules of credit institutions located in the territory of the Russian Federation No. 205-P of 5 December 2002 (as subsequently amended), Directive of the Central Bank of Russia "On Annual Report of a Credit Institution No. 1530-U of 17 December 2004, Directive of the Central Bank of Russia "On the List, Forms and Procedure for Drawing up and Submission of the Forms of Reports of Credit Institutions to the Central Bank of Russia" No. 1376-U of 16 January 2004 (as subsequently amended) and other statutory regulations, governing accounting and reporting procedures.

Chairman of the Executive Board of OAO ALFA BANK is responsible for organization of the accounting function and compliance of the Bank business transactions with the Russian legislation.

Our responsibility is to express an opinion on the fairness, in all material respects, of the submitted published forms of the accounting report and on compliance of the applied accounting procedures with the Russian legislation. It was not the objective of our audit to issue an opinion on full compliance of the OAO ALFA BANK operations with the Russian legislation, or to assess the management's efficiency.

Our opinion shall not be treated by the user of the report as an expression of assurance that OAO ALFA BANK will continue operating in future as a going concern.

3. We conducted our audit in accordance with:

- Federal Law on "Auditing Activity" No. 119-FZ of 07.08.2001 (as subsequently amended);
- Federal Law "On Banks and Banking Activity" No. 395-1 of 02.12.90 (as subsequently amended);
- Federal audit regulations (standards) approved by Russian Government Resolution No. 696 of 23.09.2002 (as subsequently amended);
- Internal regulations (standards) of accredited professional audit association Institute of Professional Auditors (IPAR);
- other laws and regulations governing audit practice as well as the Auditor's internal standards and instructions.
- directives of the Regulator that set up rules of the Auditee's activity.

We planned and performed our audit to obtain reasonable assurance about whether the published forms of the annual report are free of material misstatement.

The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the published forms of the annual report. The audit also included assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall presentation of the published forms of the annual report.

We believe that our audit provides a reasonable basis for our opinion on the fairness, in all material respects, of these published forms of the annual report and the compliance of the accounting practices with the laws of the Russian Federation.

4. In our opinion, the published forms of the annual report give a true and fair view, in all material respects, of the financial position of OAO ALFA BANK as of 1 January 2005 and of the results of its operations for the year ended 31 December 2004.

Without qualifying our opinion on the fairness of the published forms of the annual report, we draw attention to the fact that the information contained in the published forms for the year 2004 has been adjusted for post balance sheet events.

11 April 2005

Elena Igorevna Kopaneva
Deputy General Director

Qualification Certificate for Banking Audit No. K021430 issued by Order of the Ministry of Finance of the Russian Federation No. 359 of 23.12.2004 for unlimited period

Petr Nikolaevich Romanov
Auditor

Qualification Certificate for Banking Audit No. K000744 issued, in exchange of expired certificate, by the Central Attestation and Licensing Audit Commission of the Central Bank of Russia (minutes No. 4 of 26.07.1999) for unlimited period since 26.08.2002

Total number of pages bound 10.

BALANCE SHEET
as at 1 January 2005

(Published form)

No.	Items	As at the reporting date	As at the beginning of the reporting period (RUR '000)
I	**ASSETS**		
1.	Cash	7 465 513	4 728 921
2.	Due from Central Bank of the Russian Federation	13 485 245	15 088 478
2.1	Mandatory reserves	2 858 672	8 133 045
3.	Due from credit institutions	2 764 940	10 690 045
4.	Investments in trading securities, net	3 532 359	3 753 680
5.	Net loans and promissory notes	145 378 201	121 007 981
6.	Investments in securities held to maturity, net	0	0
7.	Investments in securities available for sale, net	7 389 626	4 931 333
8.	Fixed assets, intangible assets and inventory	2 012 198	2 161 491
9.	Interest receivable	73 345	226 158
10.	Other assets	2 380 131	14 676 663
11.	**Total assets**	184 481 558	177 264 750
II	**LIABILITIES**		
12.	Loans from Central Bank of the Russian Federation	0	0
13.	Due to credit institutions	42 827 715	40 886 689
14.	Due to customers (non-credit institutions)	103 124 121	89 556 560
14.1	Individual customers' deposits	27 980 881	34 331 151
15.	Issued debt securities	11 425 065	21 091 916
16.	Interest payable	559 013	452 781
17.	Other liabilities	2 220 166	3 099 127
18.	Provisions for possible losses in respect of credit related commitments, other possible losses and transactions with residents of offshore zones	1 009 738	934 210
19.	**Total liabilities**	161 165 818	156 021 283
III	**EQUITY**		
20.	Shareholder's (participants') funds	1 000 820	768 679
20.1	Registered common stock	1 000 820	768 679
20.2	Registered preferred stock	0	0
20.3	Unregistered share capital of non-joint stock credit institutions	0	0
21.	Treasury stock	0	0
22.	Share premium	19 927 045	19 927 045
23.	Fixed asset revaluation	31 420	32 533
24.	Prepaid expenses and pending payments with influence on shareholders' equity	1 508 604	2 424 103
25.	Funds and retained earnings from prior periods at the disposal of credit institution (uncovered losses for prior years)	2 567 530	2 764 365
26.	Profit for distribution (loss) for the reporting period	1 297 529	174 948
27.	**Total equity**	23 315 740	21 243 467
28.	**Total liabilities**	184 481 558	177 264 750
IV	**OFF-BALANCE SHEET ITEMS**		
29.	Irrevocable liabilities of the credit institution	84 386 110	77 473 171
30.	Guarantees issued by the credit institution	34 447 000	22 512 642
V	**TRUST MANAGEMENT ACCOUNTS**		
	ACTIVE ACCOUNTS		
1.	Cash on hand	0	0
2.	Securities under trust management	0	0
3.	Precious metals	0	0
4.	Loans issued	0	0
5.	Funds used for other purposes	0	0
6.	Settlements under trust management	0	0
7.	Accrued interest (coupon) income paid on interest-bearing (coupon) debt instruments	0	0
8.	Current accounts	0	0
9.	Trust management expenses	0	0
10.	Trust management loss	0	0
	PASSIVE ACCOUNTS		
11.	Capital under management	0	0
12.	Settlements under trust management	0	0
13.	Accrued interest (coupon) income received on interest-bearing (coupon) debt instruments	0	0
14.	Income from trust management	0	0
15.	Profit from trust management	0	0

The Bank had no funds under trust management.

PROFIT AND LOSS STATEMENT
(published form)
for the year 2004

No.	Items	For the reporting period	For the same period of the prior year (RUR '000)
INTEREST EARNED AND SIMILAR INCOME FROM:			
1.	Funds placed with credit institutions	673 518	1 036 884
2.	Loans to customers (non-credit institutions)	14 308 362	13 535 643
3.	Leased funds	0	0
4.	Fixed-income securities	723 644	734 785
5.	Other sources	17 633	2 623
6.	**Total interest earned and similar income**	15 723 157	15 309 935
INTEREST PAID AND OTHER EXPENSES:			
7.	Amounts owed to credit institutions	1 691 700	1 640 413
8.	Amounts owed to customers (non-credit institutions)	2 608 877	2 521 213
9.	Debt securities issued	2 545 279	1 760 974
10.	Total interest paid and similar expenses	6 845 856	5 922 600
11.	Net interest and similar income	8 877 301	9 387 335
12.	Net income from dealing in securities	(456 383)	(540 356)
13.	Net income from dealing in foreign currency	(67 903)	708 851
14.	Net income from dealing in precious metals and other financial instruments	112 768	117 587
15.	Net income from revaluation of foreign currency	139 265	(244 674)
16.	Commissions received	2 729 929	2 688 318
17.	Commissions paid	435 039	317 300
18.	Net income from single transactions	56 050	71 545
19.	Other operating income, net	(182 462)	(356 583)
20.	Administrative expenses	5 560 248	5 135 645
21.	Provision for possible losses	(2 922 141)	(5 477 667)
22.	Income before tax	2 291 137	901 411
23.	Accrued taxes (including income tax)	1 119 745	787 198
24.	Income for the reporting period	1 171 392	114 213

INFORMATION ON THE LEVEL OF CAPITAL ADEQUACY, AMOUNTS OF PROVISIONS FOR DOUBTFUL LOANS AND OTHER ASSETS as at 1 January 2005

No.	Items	As at the reporting date	As at the beginning of the reporting period (RUR '000)
1.	Equity (capital), (RUR, thousands)	24 216 512	24 655 458
2.	Actual value of the equity (capital) adequacy (%)	12.4	13.7
3.	Regulatory value of the equity (capital) adequacy (%)	10.0	10.0
4.	Amount of estimated provision for loan and similar losses (RUR, thousand)	22 771 628	19 967 383
5.	Amount of the actually formed provision for possible loan and similar losses (RUR, thousand)	22 771 627	19 967 382
6.	Amount of estimated provision for possible losses (RUR, thousand)	31 047	28 002
7.	Amount of the actually formed provision for possible losses (RUR, thousand)	31 047	28 002

(signature)

Rushan F. Khvesyuk
Chairman of the Executive Board

(signature)

Marina I. Popova
Chief Accountant

11 April 2005

In our opinion, the published forms of the annual report give a true and fair view, in all material respects, of the financial position of OAO ALFA BANK as of 1 January 2005 and of the results of its operations for the year ended 31 December 2004.

Without qualifying our opinion on the fairness of the published forms of the annual report, we draw attention to the fact that the information contained in the published forms for the year 2004 has been adjusted for post balance sheet events.

ZAO BDO Unicon
License No. E000547
Date of issue 25.06.2002.
Valid till 24.06.2007.
Issued by Ministry of Finance of the Russian Federation
General Director Andrey Yu. Dubinskiy

Elena I. Kopaneva
Deputy General Director
(general power of attorney No. 91 of 02.11.2004)

Petr N. Romanov
Auditor

11 April 2005

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 2003).

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 000744 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 26 July 2002. 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 N11 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

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)	15,230,326
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 2005

The following is the text of the report issued by ZAO PricewaterhouseCoopers Audit, the auditors of ABA Financial, in respect of the annual consolidated financial statements of ABH Financial for the year ended 31 December 2004:

"To the Shareholders and Board of Directors of ABH Financial Limited:

We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2004 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
8 April 2005"

ABH Financial Limited
Consolidated Balance Sheet as at 31 December 2004
(expressed in thousands of US dollars - Note 3)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	997 278	923 191
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		139 549	293 294
Trading securities	6	717 050	694 575
Due from other banks	7	570 642	131 621
Loans and advances to customers	8	4 100 089	3 466 306
Investments	9	60 933	65 443
Other assets and receivables	10	275 690	159 983
Premises and equipment	11	146 891	149 721
Deferred tax asset	21	16 587	-
Total assets		**7 024 709**	**5 884 134**
Liabilities			
Due to other banks	12	499 958	796 301
Customer accounts	13	4 492 072	3 400 406
Promissory notes issued		206 223	594 940
Other borrowed funds	14	706 955	323 917
Other liabilities and payables	15	380 568	201 517
Deferred tax liability	21	28 501	13 448
Total liabilities		**6 314 277**	**5 330 529**
Minority interest		**2 875**	**6 635**
Shareholders' equity			
Share capital	16	160 800	160 800
Fair value reserve for investments available for sale		-	22 798
Revaluation reserve for premises		4 123	5 195
Retained earnings		542 634	358 177
Total shareholders' equity		**707 557**	**546 970**
Total liabilities and shareholders' equity		**7 024 709**	**5 884 134**

Approved for issue by the Board of Directors and signed on its behalf on 8 April 2005.

Petr Smida
Chief Executive Officer

Marina Popova
Chief Accountant

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

ABH Financial Limited
Consolidated Statement of Income for the Year Ended 31 December 2004
(expressed in thousands of US dollars - Note 3)

	Note	2004	2003
Interest income	17	548 467	484 300
Interest expense	17	(236 143)	(242 490)
Net interest income		**312 324**	**241 810**
Provision for loan impairment	7,8	(23 971)	(42 069)
Net interest income after provision for loan impairment		**288 353**	**199 741**
Fee and commission income	18	145 898	135 818
Fee and commission expense	18	(30 380)	(41 150)
Gains less losses arising from trading securities		63 804	18 987
Gains less losses arising from investments available for sale	9	34 009	31 054
Gains less losses arising from trading in foreign currencies		(3 468)	38 908
Foreign exchange translation gains less losses		(5 248)	(15 968)
Other impairment provisions	9, 10, 24	(22 212)	(4 450)
Other operating income	19	51 073	58 419
Operating income		**521 829**	**421 359**
Operating expenses	20	(350 738)	(305 553)
Profit from operations		**171 091**	**115 806**
Share of results of associated company after tax	9	13 621	920
Profit before tax		**184 712**	**116 726**
Income tax expense	21	(31 522)	(11 011)
Profit after tax		**153 190**	**105 715**
Minority interest		(420)	(96)
Net profit		**152 770**	**105 619**

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

	Note	2004	2003
Cash flows from operating activities			
Interest received		547 644	495 426
Interest paid		(247 041)	(222 764)
Fees and commissions received		145 898	138 417
Fees and commissions paid		(32 519)	(39 011)
Income received from trading in securities		50 884	24 566
Income received from trading in foreign currencies		4 425	36 595
Other operating income received		39 064	37 246
Staff compensation paid		(152 650)	(136 221)
Operating expenses paid		(142 678)	(135 969)
Income tax paid		(27 063)	(6 162)
Cash flows from operating activities before changes in operating assets and liabilities		**185 964**	**192 123**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		164 920	(59 818)
Net decrease/(increase) in trading securities		263 613	(288 031)
Net (increase)/decrease in due from other banks		(438 667)	85 985
Net increase in loans and advances to customers		(574 741)	(961 752)
Net increase in other assets and receivables		(106 350)	(27 303)
Net (decrease)/increase in due to other banks		(305 185)	102 211
Net increase in customer accounts		782 867	1 302 254
Net decrease in promissory notes issued		(381 945)	(94 326)
Net increase in other liabilities and payables		50 298	17 090
Net cash (used in)/from operating activities		**(359 226)**	**268 433**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale, net		64 311	87 487
Acquisition of investments available for sale		(17 664)	(2 047)
Additional acquisition of investment in associated company		(17 070)	(8 210)
Acquisition of premises and equipment, net		(17 065)	(24 917)
Proceeds from disposal of subsidiary, net		7 832	4 000
Dividend income received		2 764	1 486
Net cash from investing activities		**23 108**	**57 799**
Cash flows from financing activities			
Contribution from the shareholder		-	73 000
Proceeds from other borrowed funds		606 232	132 318
Repayment of other borrowed funds		(223 782)	(24 034)
Net cash from financing activities		**382 450**	**181 284**
Effect of exchange rate changes on cash and cash equivalents		**27 755**	**33 441**
Net increase in cash and cash equivalents		**74 087**	**540 957**
Cash and cash equivalents as at the beginning of the year		923 191	382 234
Cash and cash equivalents as at the end of the year	**5**	**997 278**	**923 191**

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings	Total shareholders' equity
Balance as at 1 January 2003	**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	-	-	(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**
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(24 249)	-	-	(24 249)
Impairment of investments available for sale	-	1 451	-	-	1 451
Translation movement	-	-	-	30 615	30 615
Transfer of realised revaluation of premises	-	-	(1 072)	1 072	-
Net profit	-	-	-	152 770	152 770
Balance as at 31 December 2004	**160 800**	**-**	**4 123**	**542 634**	**707 557**

The notes set out on pages 5 to 43 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 (refer to Note 22). The commercial banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank (the "Bank") and its subsidiaries. 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.

Before June 2004 ABH Financial Limited was 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 significant business segments: oil and gas, financial services, telecommunications and the retail trade. On 1 March 2004 the Supervisory Board of the Consortium decided to restructure ownership and control over ABH Financial Limited to comply with newly enacted instructions of the Central Bank of the Russian Federation ("CBRF") to enable the Bank to participate in the State deposit insurance scheme. In June 2004, the Consortium finalised a restructuring in which ABH Financial Limited, and its subsidiaries including the Bank, were transferred to the newly created ABH Holdings Corp ("ABHH"), a company registered in the British Virgin Islands. ABHH is owned by the same beneficial shareholders and in the same proportions as ABH Financial Limited was owned prior to the restructuring.

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a listing of the principal consolidated subsidiaries. The number of employees of the Group as at 31 December 2004 was 4 919 (2003: 6 256).

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

Commercial Banking. Alfa 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 CBRF since 1991. The Bank operates in all banking sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and bond trading. In addition, a complete range of banking services is provided in Russian Roubles and foreign currencies to its clients. On 16 December 2004 the Bank was accepted to the state deposit insurance scheme introduced by the Federal Law #177-FZ "Deposits of individuals' insurance in the Russian Federation" dated 23 December 2003. The State deposit insurance scheme implies that the State will guarantee repayment of individual deposits up to RR 100 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. The Bank is licensed by the Federal Commission on Securities Market for trading securities.

As at 31 December 2004 the Bank had 32 (2003: 32) branches within the Russian Federation. The Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa Bank Ukraine and Alfa Bank Kazakhstan (refer to Note 27).

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

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

2 Operating Environment of the Group

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

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain 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.

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.

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

3 Basis of Preparation

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

The consolidated financial statements have been measured and presented in US Dollars ("USD"), a currency which is used to a significant extent in, and has significant impact on the Group and reflects the economic substance of its underlying events and circumstances. 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). 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. 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 affect 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.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

3 Basis of Preparation (Continued)

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 the 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, equity instruments 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.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded 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 the net results of the current year is recorded in the consolidated statement of income.

Foreign currency translation. The Group determines the appropriate measurement currency for each subsidiary. The Bank and other Group companies operating in the Russian Federation use Russian Rouble ("RR") as a measurement currency.

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

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

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. 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. Thus, underlying translation differences on equity investments available for sale are recorded through the fair value reserve for investments available for sale in shareholders' equity.

As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.7487 (2003: USD 1 = RR 29.4545) and the average exchange rate the year ended 31 December 2004 was USD 1 = RR 28.8150 (2003: USD 1 = RR 30.6875). 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 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records of the Bank and other Russian companies of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group no longer apply the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 were treated as the basis for the carrying amounts in these consolidated financial statements.

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 as 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 were the following:

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

4 Significant Accounting Policies

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 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 recorded using an effective interest method. 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. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

4 Significant Accounting Policies (Continued)

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 interest 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.

When a loan is uncollectible, 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 interest 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.

4 Significant Accounting Policies (Continued)

Investments available for sale. This classification includes investments which Management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. 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.

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 record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

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

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 year are recorded in the consolidated statement of income.

4 Significant Accounting Policies (Continued)

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 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.

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, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the 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.

Computer software development costs. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

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

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

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

4 Significant Accounting Policies (Continued)

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 loans and advances to customers. Lease income is recorded over the term of the lease using the effective interest 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 interest 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 interest method.

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 year comprises current tax and movements in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted during the year. Taxes, other than on income, are recorded within operating expenses.

4 Significant Accounting Policies (Continued)

Deferred income tax is provided, using the 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 interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. 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 commitment 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 interest on the loans. 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 and fiduciary fees are recorded proportionally 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. 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 on 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 state pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs.

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

4 Significant Accounting Policies (Continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	257 376	169 099
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	379 633	227 528
Correspondent accounts with other banks		
- Russian Federation	115 677	33 014
- Other countries	43 358	168 827
Overnight placements with other banks		
- Russian Federation	38 020	45 262
- Other countries	163 214	279 461
Total cash and cash equivalents	**997 278**	**923 191**

Currency and interest rate analyses of cash and cash equivalents are disclosed in Note 23.

6 Trading Securities

	2004	2003
Corporate shares	331 152	35 119
Corporate bonds	109 664	72 698
Russian Federation Eurobonds	91 272	305 759
Corporate Eurobonds	79 653	183 300
ADRs and GDRs	17 506	6 297
Municipal bonds	15 335	23 975
Eurobonds of other states	12 457	52 644
Other	60 011	14 783
Total trading securities	**717 050**	**694 575**

Corporate shares are shares of major Russian and Ukrainian companies.

Corporate bonds are interest-bearing securities mainly denominated in Russian Roubles, issued by Russian and Ukrainian companies, and are freely tradable in the Russian Federation and the Ukraine. These bonds have maturity dates ranging from October 2005 to August 2009, coupon rates from 7.6% to 17.5% during 2004 and yields to maturity from 5.1% to 17.0% as at 31 December 2004, depending on the type of bond issue.

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 March 2005 to March 2030, coupon rates from 5.0% to 12.8% during 2004 and yields to maturity from 3.5% to 7.1% as at 31 December 2004, 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 September 2005 to April 2014, coupon rates from 7.8% to 12.8% during 2004 and yields to maturity from 4.5% to 12.0% as at 31 December 2004, depending on the type of bond issue.

6 Trading Securities (Continued)

As at 31 December 2004 trading securities with a fair value of USD 83 594 thousand (2003: USD 319 126 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

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 as at 31 December 2004 is disclosed in Note 26.

7 Due from Other Banks

	2004	2003
Term placements with other banks	564 585	91 552
Reverse sale and repurchase agreements with other banks	6 057	40 069
Total due from other banks	**570 642**	**131 621**

Movements in the provision for loan impairment were as follows:

	2004	2003
Provision for loan impairment as at 1 January	-	**50**
Release of provision for loan impairment during the year	-	(50)
Provision for loan impairment as at 31 December	-	-

As at 31 December 2004 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 6 963 thousand (2003: USD 45 626 thousand).

As at 31 December 2004 the estimated fair value of due from other banks was USD 570 642 thousand (2003: USD 131 621 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

	2004	2003
Current loans	4 185 006	3 585 253
Net investment in lease	79 967	25 626
Overdue loans	32 962	31 150
Less: Provision for loan impairment	(197 846)	(175 723)
Total loans and advances to customers	**4 100 089**	**3 466 306**

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment were as follows:

	2004	2003
Provision for loan impairment as at 1 January	**175 723**	**134 921**
Provision for loan impairment during the year	23 971	42 119
Loans written off during the year as uncollectible	(1 848)	(1 317)
Provision for loan impairment as at 31 December	**197 846**	**175 723**

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

	2004		2003	
	Amount	**%**	**Amount**	**%**
Manufacturing and construction	1 881 503	44	1 482 316	41
Energy and oil and gas	1 065 922	25	1 052 238	29
Trade and commerce	642 975	15	529 506	14
Telecommunications	198 931	5	205 697	6
Finance and investment companies	86 637	2	98 775	3
Individuals	46 119	1	49 858	1
Other	375 848	8	223 639	6
Total loans and advances to customers (aggregate amount)	**4 297 935**	**100**	**3 642 029**	**100**

As at 31 December 2004 the Group had 20 borrowers (2003: 16 borrowers) with aggregated loan amounts equal to or above USD 50 000 thousand. The total aggregate amount of these loans was USD 1 928 999 thousand (2003: USD 1 742 925 thousand) or 44.9% (2003: 47.9%) of the gross loans and advances to customers.

As at 31 December 2004 loans to customers in the amount of USD 78 624 thousand (2003: USD 23 765 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 12.

As at 31 December 2004 the estimated fair value of loans and advances to customers was USD 4 103 116 thousand (2003: USD 3 479 875 thousand). Refer to Note 25.

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

	2004	2003
Investments available for sale	10 684	45 885
Investment in an associated company	50 249	19 558
Total investments	**60 933**	**65 443**

9 Investments (Continued)

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

	2004	2003
As at 1 January	**45 885**	**95 776**
Net fair value gains arising on investments available for sale	-	7 104
Acquisition of investments available for sale	17 664	2 047
Disposal of investments available for sale	(61 311)	(35 483)
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	9 760	18 551
Impairment of investments available for sale	(1 314)	-
Total investments available for sale as at 31 December	**10 684**	**45 885**

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

			Fair value	
Name	**Nature of business**	**Country of registration**	**2004**	**2003**
Akrikhin	Pharmaceutical	Russia	-	38 630
Saratovstroysteklo	Glass production	Russia	-	3 934
Other			10 684	3 321
Total			**10 684**	**45 885**

During 2004 the Group disposed of its entire interest in Akrikhin for USD 40 000 thousand.

External independent market quotations were not available for certain investments available for sale. The fair values of these assets were determined by Management on the basis of 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.

Investment in an associated company. As at 31 December 2004 the investment in an associated company in the amount of USD 50 249 thousand (2003: 19 558 thousand) represents a 29.1% (2003: 25.0%) interest in CTC Media Inc., formerly Story First Communications Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures.

In 1999 the Group acquired a 25% plus 2 shares investment in the STS Network ("STS"), a national television network in the Russian Federation and a 75% owned subsidiary of CTC, 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 a 25% interest in CTC. In the course of restructuring the Group forgave indebtedness of STS to the Group in amount of USD 10 428 thousand and paid a total of USD 8 210 thousand to STS and one of the shareholders of CTC.

Following the restructuring the Group classified its investment in CTC as an investment in an associated company and accounted for using the equity method of accounting. The carrying value of the investment in CTC 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 CTC.

9 Investments (Continued)

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.

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

The share of results of associated company after tax was USD 13 621 thousand (2003: USD 920 thousand).

10 Other Assets and Receivables

	2004	2003
Receivables on operations with securities	58 614	41 663
Trade debtors and prepayments	48 090	26 287
Conversion operations and derivative financial instruments	47 219	17 723
Precious metals	40 226	21 258
Equipment purchased for leasing	31 786	702
Plastic card debtors and other settlements with clients	31 775	25 959
Receivables from related parties	16 083	10 252
Prepaid taxes	12 579	6 212
Other	3 176	17 679
	289 548	**167 735**
Less: Provision for impairment of receivables	(13 858)	(7 752)
Total other assets and receivables	**275 690**	**159 983**

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

	2004	2003
Provision for impairment of receivables as at 1 January	**7 752**	**1 875**
Provision for impairment of receivables during the year	6 106	6 130
Disposal of subsidiary	-	(253)
Provision for impairment of receivables as at 31 December	**13 858**	**7 752**

As at 31 December 2004 precious metals included gold with a carrying value of USD 21 432 thousand (2003: USD 19 943 thousand) sold under sale and repurchase agreements with other banks. Refer to Note 12.

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.

11 Premises and Equipment

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

12 Due to Other Banks

	2004	2003
Term placements of other banks	315 138	369 465
Sale and repurchase agreements with other banks	126 131	289 341
Correspondent accounts of other banks		
- Russian Federation	43 761	70 725
- Other countries	14 928	66 770
Total due to other banks	**499 958**	**796 301**

As at 31 December 2004 trading securities with a fair value of USD 83 594 thousand (2003: USD 319 126 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

As at 31 December 2004 loans to customers in the amount of USD 48 624 thousand (2003: Nil) have been sold to third parties under sale and repurchase agreements with other banks and loans to customers in the amount of USD 30 000 thousand (2003: USD 23 765 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 8.

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 were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

Gold with a carrying value of USD 21 432 thousand (2003: USD 19 943 thousand) has been sold under sale and repurchase agreements with other banks. Refer to Note 10.

12 Due to Other Banks (Continued)

As at 31 December 2004 the estimated fair value of due to other banks was USD 499 958 thousand (2003: USD 796 301 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23.

13 Customer Accounts

	2004	2003
Commercial organisations		
- Current/settlement accounts	1 296 757	944 284
- Term deposits	1 261 851	1 076 782
Individuals		
- Current/demand accounts	433 787	331 236
- Term deposits	964 175	961 926
State and public organisations		
- Current/settlement accounts	79 534	7 817
- Term deposits	455 968	78 361
Total customer accounts	**4 492 072**	**3 400 406**

Economic sector concentrations within customer accounts were as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	1 397 962	31	1 293 162	38
Finance and investment companies	1 082 861	24	173 278	5
State and public organisations	535 502	12	86 178	3
Energy and oil and gas	405 306	9	832 203	24
Manufacturing and construction	299 861	7	337 220	10
Trade and commerce	242 443	5	258 047	8
Science	84 428	2	61 341	2
Mass media and telecommunications	82 054	2	70 447	2
Other	361 655	8	288 530	8
Total customer accounts	**4 492 072**	**100**	**3 400 406**	**100**

As at 31 December 2004 the Group had 6 customers (2003: 5 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 1 840 528 thousand (2003: USD 906 962 thousand) or 41.0% (2003: 26.7%) of the total customer accounts, of which USD 934 784 thousand (2003: USD 339 116 thousand) represented balances outstanding to Alfa Group Consortium and its shareholders.

Included in customer accounts are balances in amount of USD 97 556 thousand (2003: USD 45 337 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 31 December 2004 the estimated fair value of customer accounts was USD 4 492 072 thousand (2003: USD 3 400 406 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

	2004	2003
Syndicated loans	225 218	82 237
Euro Medium Term Notes	191 348	-
Eurobonds	175 690	174 535
Russian Rouble denominated bonds maturing in 2010	68 195	-
Euro-Commercial Paper	46 390	50 442
Russian Rouble denominated bonds maturing in 2007	114	16 703
Total other borrowed funds	**706 955**	**323 917**

On 5 December 2003 the Group received a syndicated loan in the amount of USD 82 000 thousand from a consortium of large international banks. Initially the loan had a maturity date of 24 November 2004 and bore a floating interest rate equal to LIBOR plus 2.4% per annum payable semi-annually. On 24 November 2004 the Group repaid USD 41 000 thousand of this loan and rolled over the balance in the amount of USD 41 000 thousand. The rolled over balance matures on 23 May 2005. As at 31 December 2004 the effective interest rate was 6.7% per annum. Issue proceeds net of transaction costs amounted to USD 81 174 thousand.

On 24 June 2004 the Group received a syndicated loan in the amount of USD 120 000 thousand from a consortium of large international banks. The loan matures on 24 June 2005 and bears a floating interest rate equal to LIBOR plus 2.0% per annum payable semi-annually. As at 31 December 2004 the effective interest rate was 5.9% per annum. Issue proceeds net of transaction costs were equal to USD 118 757 thousand.

On 3 December 2004 the Group received a syndicated loan in the amount of USD 65 000 thousand from a consortium of large international banks. The loan matures on 2 December 2005 and bears a floating interest rate equal to LIBOR plus 1.8% per annum payable semi-annually. As at 31 December 2004 the effective interest rate was 5.5% per annum. Issue proceeds net of transaction costs were equal to USD 64 323 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme"). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 400 000 thousand. On 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. Issue proceeds net of transaction costs and discount amounted to USD 187 776 thousand and the effective interest rate at origination was 9.1%.

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 10.8% per annum payable semi-annually and mature on 19 November 2005. Issue proceeds net of transaction costs and discount amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

On 7 April 2004 the Group issued Russian Rouble denominated bonds maturing in March 2010 at a nominal value of RR 2 000 000 thousand. The bonds have a floating interest rate and the coupon is payable semi-annually. As at 31 December 2004 coupon was to be paid at an interest rate of 7.4% per annum.

On 11 December 2003 the Group established a Euro-Commercial Paper Programme ("ECP Programme"). The aggregate principal amount of outstanding notes issued under the ECP Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more than 365 days. As at 31 December 2004 the nominal value of outstanding notes was USD 46 800 thousand (2003: USD 51 550 thousand) and they were issued at a discount to the nominal value ranging from 4.2% to 8.3% depending on the type of issue. As at 31 December 2004 the average effective interest rate at origination was 6.5%.

As at 31 December 2004 the estimated fair value of other borrowed funds was USD 710 672 thousand (2003: USD 335 978 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	2004	2003
Conversion operations and derivative financial instruments		96 589	7 005
Accrued staff costs		83 653	49 254
Trade creditors		61 228	29 796
Payables on operations with securities		56 103	51 393
Plastic card and other settlements with clients		31 921	25 306
Provision for losses on credit related commitments	24	21 123	7 782
Taxation payable		12 496	4 968
Payable to related parties		298	9 499
Other		17 157	16 514
Total other liabilities and payables		**380 568**	**201 517**

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

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

As at 31 December 2004 and 2003 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, rank equally and carry one vote.

17 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	489 311	410 218
Trading securities	45 018	55 713
Due from other banks	14 138	18 369
Total interest income	**548 467**	**484 300**
Interest expense		
Term deposits of legal entities	63 248	45 952
Term deposits of individuals	56 360	57 899
Other borrowed funds	40 485	24 249
Due to other banks	27 274	38 592
Promissory notes issued	26 530	52 736
Current/settlement accounts	22 246	23 062
Total interest expense	**236 143**	**242 490**
Net interest income	**312 324**	**241 810**

Refer to Note 26 for details of related party transactions.

18 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on settlement transactions	60 800	51 595
Commission on cash and foreign currency exchange transactions	29 852	24 134
Commission for consulting services	23 377	12 537
Commission on transactions with securities	14 585	9 225
Commission on guarantees issued	11 632	9 916
Commission income from the Alfa Eco Group	-	10 430
Commission income in relation to formation of TNK-BP Limited	-	4 015
Other	5 652	13 966
Total fee and commission income	**145 898**	**135 818**
Fee and commission expense		
Commission on settlement transactions	12 779	5 162
Commission for consulting services	9 687	24 480
Commission on transactions with securities	4 893	3 672
Commission on cash and foreign currency exchange transactions	2 203	4 752
Other	818	3 084
Total fee and commission expense	**30 380**	**41 150**
Net fee and commission income	**115 518**	**94 668**

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.

Refer to Note 26 for details of related party transactions.

19 Other Operating Income

	2004	2003
Structured finance	22 897	36 161
Late charges on loans and other penalties	7 297	3 466
Gains from disposal of subsidiary	3 971	4 617
Dividend income	2 764	1 486
Gains less losses from trading in precious metals	1 616	4 618
Income from insurance operations	-	4 001
Other	12 528	4 070
Total other operating income	**51 073**	**58 419**

Structured finance income includes mainly results of operations with debts of other companies, which were either acquired at a discount, and then settled at a higher value resulting in a gain for the Group or assistance in collection to creditors. Gains from structured finance for the year ended 31 December 2003 included a gain in the amount of USD 20 863 thousand from the restructuring of a debt of a large telecommunications company.

20 Operating Expenses

	2004	2003
Staff costs	187 049	142 315
Depreciation and other expenses related to premises and equipment	33 159	26 932
Rent, heat and utilities	26 553	22 151
Computer and telecommunications expenses	20 674	13 422
Taxes other than income tax	20 387	20 770
Consulting and professional services	16 607	13 462
Maintenance	12 659	18 798
Advertising and marketing	7 714	19 906
Travel expenses	3 046	3 608
Other	22 890	24 189
Total operating expenses	**350 738**	**305 553**

21 Income Taxes

Income tax expense comprises the following:

	2004	2003
Current tax charge	33 056	7 875
Deferred taxation movement due to origination and reversal of temporary differences	(1 534)	3 136
Income tax expense for the year	**31 522**	**11 011**

The statutory income tax rate applicable to the majority of the Bank's income is 24% (2003: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 10% (2003: from 0% to 5%). A reconciliation between the expected and the actual taxation charge is provided below.

	2004	2003
IFRS profit before tax	**184 712**	**116 726**
Theoretical tax charge at the applicable statutory rate	44 331	28 014
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Difference in provisions in accordance with IFRS and statutory rules	(32 513)	(15 459)
- Non deductible expenses	1 545	5 943
- Income which is exempt from taxation	(6 370)	(2 211)
- Loss/(gain) earned in lower tax jurisdictions	29 985	(7 560)
- Other	34	8 607
Tax effect of loss used during the year	(5 490)	(1 648)
Tax effect of loss carry forward	-	(4 675)
Income tax expense for the year	**31 522**	**11 011**

21 Income Taxes (Continued)

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

	2003	Movement	2004
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	9 822	2 437	12 259
Tax loss carry forward	5 490	(5 490)	-
Provision for loan impairment	453	28 236	28 689
Accruals	3 910	3 003	6 913
Other	1 361	2 379	3 740
Gross deferred tax asset	**21 036**	**30 565**	**51 601**
Tax effect of taxable temporary differences			
Premises and equipment	(17 292)	(1 430)	(18 722)
Trading securities	(7 315)	(21 186)	(28 501)
Accruals	(9 926)	747	(9 179)
Other	49	(7 162)	(7 113)
Gross deferred tax liability	**(34 484)**	**(29 031)**	**(63 515)**
Total net deferred tax liability	**(13 448)**	**1 534**	**(11 914)**

	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			
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)**

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.

21 Income Taxes (Continued)

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 shareholders' equity had no impact on the deferred tax position of the Group.

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 year ended 31 December 2004 and 31 December 2003 is set out below:

2004	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**625 907**	**213 876**	**-**	**839 783**
Segment results	35 118	138 039	-	173 157
Unallocated costs				(2 066)
Share of results of associated company after tax				13 621
Profit before tax				**184 712**
Income tax expense				(31 522)
Profit after tax				**153 190**
Minority interest				(420)
Net profit				**152 770**
Segment assets	**6 033 528**	**1 185 270**	**(260 925)**	**6 957 873**
Associates	-	50 249	-	50 249
Unallocated assets				16 587
Total assets				**7 024 709**
Segment liabilities	**5 913 697**	**633 004**	**(260 925)**	**6 285 776**
Unallocated liabilities				28 501
Total liabilities				**6 314 277**
Other segment items				
Capital expenditure	(20 698)	(1 805)	-	(22 503)
Depreciation expense	(23 761)	(2 072)	-	(25 833)
Other non-cash (expense)/income	(46 390)	207	-	(46 183)

22 Analysis by Segment (Continued)

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**
Segment assets	**4 911 911**	**1 159 947**	**(207 282)**	**5 864 576**
Associates	**-**	19 558	**-**	19 558
Total assets				**5 884 134**
Segment liabilities	**5 090 189**	**434 174**	**(207 282)**	**5 317 081**
Unallocated liabilities				13 448
Total liabilities				**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)

22 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2004.

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	760 387	116 145	39 877	80 512	357	997 278
Mandatory cash balances with the CBRF and other local central banks	107 920	28 756	2 873	-	-	139 549
Trading securities	647 566	20 373	38 027	-	11 084	717 050
Due from other banks	279 379	254 541	33 237	3 485	-	570 642
Loans and advances to customers	3 710 450	116 610	268 001	4 949	79	4 100 089
Investments	60 933	-	-	-	-	60 933
Other assets and receivables	167 706	82 058	18 332	849	6 745	275 690
Premises and equipment	132 685	1 138	13 068	-	-	146 891
Deferred tax asset	16 587	-	-	-	-	16 587
Total assets	**5 883 613**	**619 621**	**413 415**	**89 795**	**18 265**	**7 024 709**
Liabilities						
Due to other banks	272 856	161 637	35 659	4 581	25 225	499 958
Customer accounts	3 873 973	326 178	191 175	83 502	17 244	4 492 072
Promissory notes issued	168 851	36 812	560	-	-	206 223
Other borrowed funds	68 309	638 646	-	-	-	706 955
Other liabilities and payables	206 404	150 259	16 302	7 603	-	380 568
Deferred tax liability	28 501	-	-	-	-	28 501
Total liabilities	**4 618 894**	**1 313 532**	**243 696**	**95 686**	**42 469**	**6 314 277**
Net balance sheet position as at 31 December 2004	**1 264 719**	**(693 911)**	**169 719**	**(5 891)**	**(24 204)**	**710 432**
Net balance sheet position as at 31 December 2003	**827 180**	**(458 098)**	**(11 774)**	**165 501**	**30 796**	**553 605**

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies both as at 31 December 2004 and 31 December 2003.

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.

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

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

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 minimise operational and legal risks.

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

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.

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.

23 Financial Risk Management (Continued)

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 2004. 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. As at 31 December 2004 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	217 780	606 365	107 935	65 198	997 278
Mandatory cash balances with the CBRF and other local central banks	-	107 920	28 756	2 873	139 549
Trading securities	544 129	128 792	21 861	22 268	717 050
Due from other banks	344 921	205 011	-	20 710	570 642
Loans and advances to customers	2 483 357	1 326 943	246 962	42 827	4 100 089
Investments	60 933	-	-	-	60 933
Other assets and receivables	155 174	61 172	19 796	39 548	275 690
Premises and equipment	-	132 685	1 138	13 068	146 891
Deferred tax asset	-	16 587	-	-	16 587
Total assets	**3 806 294**	**2 585 475**	**426 448**	**206 492**	**7 024 709**
Liabilities					
Due to other banks	260 142	114 391	97 925	27 500	499 958
Customer accounts	1 957 069	2 063 067	354 133	117 803	4 492 072
Promissory notes issued	46 924	155 997	2 740	562	206 223
Other borrowed funds	638 646	68 309	-	-	706 955
Other liabilities and payables	291 104	32 516	52 914	4 034	380 568
Deferred tax liability	-	28 501	-	-	28 501
Total liabilities	**3 193 885**	**2 462 781**	**507 712**	**149 899**	**6 314 277**
Net balance sheet position	**612 409**	**122 694**	**(81 264)**	**56 593**	**710 432**
Off-balance sheet net notional position (Note 24)	**688 362**	**(389 629)**	**57 645**	**(435 562)**	**(79 184)**
Credit related commitments (Note 24)	**768 746**	**173 645**	**132 303**	**901**	**1 075 595**

23 Financial Risk Management (Continued)

As at 31 December 2003 the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
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 (Note 24)	**541 296**	**93 694**	**60 531**	**784**	**696 305**

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. Liquidity risk is managed by the Asset and Liability Committee of the Group.

The table below shows assets and liabilities as at 31 December 2004 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.

23 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with the CBRF and other local central banks	139 549	-	-	-	-	139 549
Trading securities	717 050	-	-	-	-	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 753 564**	**1 328 408**	**1 247 908**	**1 398 406**	**296 423**	**7 024 709**
Liabilities						
Due to other banks	260 592	141 421	17 185	80 760	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	178 037	241 378	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 777 416**	**2 114 668**	**987 011**	**406 681**	**28 501**	**6 314 277**
Net liquidity gap as at 31 December 2004	**(23 852)**	**(786 260)**	**260 897**	**991 725**	**267 922**	**710 432**
Cumulative liquidity gap as at 31 December 2004	**(23 852)**	**(810 112)**	**(549 215)**	**442 510**	**710 432**	
Cumulative liquidity gap as at 31 December 2003	**(409 585)**	**(1 212 842)**	**(343 189)**	**330 631**	**553 605**	

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. However, in accordance with Russia Civil Code, individuals have a right to withdraw their deposits prior to maturity.

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.

23 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 31 December 2004. 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	997 278	-	-	-	-	997 278
Mandatory cash balances with the CBRF and other local central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 404 906**	**1 328 408**	**1 247 908**	**1 398 406**	**645 081**	**7 024 709**
Liabilities						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 777 416**	**2 213 233**	**925 864**	**369 263**	**28 501**	**6 314 277**
Net sensitivity gap as at 31 December 2004	**(372 510)**	**(884 825)**	**322 044**	**1 029 143**	**616 580**	**710 432**
Cumulative sensitivity gap as at 31 December 2004	**(372 510)**	**(1 257 335)**	**(935 291)**	**93 852**	**710 432**	
Cumulative sensitivity gap as at 31 December 2003	**(451 001)**	**(1 353 198)**	**(401 308)**	**289 215**	**553 605**	

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.

	2004				2003			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Correspondent accounts and overnight placements with other banks	1.4%	0.5%	0.0%	2.1%	4.0%	2.3%	2.3%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	7.9%	10.2%	4.9%	7.8%	7.5%	11.1%	5.7%	5.1%
Due from other banks	5.4%	2.1%	-	11.7%	3.7%	4.3%	6.5%	5.0%
Loans and advances to customers	11.2%	13.6%	8.1%	14.3%	11.9%	16.1%	9.6%	14.2%
Liabilities								
Due to other banks	2.8%	2.3%	3.3%	0.9%	3.2%	7.1%	3.8%	1.0%
Customer accounts								
- current and settlement accounts	0.6%	1.1%	0.9%	1.0%	1.8%	0.5%	0.2%	0.0%
- term deposits	5.7%	5.2%	5.5%	9.8%	3.9%	6.2%	3.3%	4.8%
Promissory notes issued	3.8%	6.6%	6.7%	13.0%	4.0%	12.5%	2.7%	-
Other borrowed funds	8.2%	7.4%	-	-	9.6%	7.5%	-	-

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

24 Contingencies, Commitments and Derivative Financial Instruments

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

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

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

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding 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%. There is no formal guidance as to how these rules should be applied in practice.

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

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities had been recorded (2003: no provision).

Capital commitments. As at 31 December 2004 the Group had capital commitments in respect of new computer systems in the amount of USD 9 630 thousand (2003: USD 6 687 thousand) and capital construction, modernisation and repair of the premises in the amount of USD 9 660 thousand (2003: nil). In addition, other capital commitments amounted to USD 11 209 thousand (2003: USD 11 962 thousand). 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 were as follows:

	2004	**2003**
Not later than 1 year	11 754	11 700
Later than 1 year and not later than 5 years	26 666	31 614
Later than 5 years	7 341	11 025
Total operating lease commitments	**45 761**	**54 339**

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 were as follows:

	Note	2004	2003
Guarantees issued		597 850	387 073
Export letters of credit		346 945	241 843
Import letters of credit	13	151 923	75 171
Less: provision for losses on credit related commitments	15	(21 123)	(7 782)
Total credit related commitments		**1 075 595**	**696 305**

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

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

	2004	2003
Provision for losses on credit related commitments as at 1 January	**7 782**	**9 462**
Provision for losses/(release of provision) on credit related commitments during the year	13 341	(1 680)
Provision for losses on credit related commitments as at 31 December	**21 123**	**7 782**

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.

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 2004.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Negative fair value	Positive fair value	Principal or agreed amount at fair value	Negative fair value	Positive fair value
Deliverable forwards						
Foreign currency						
- sale of foreign currency	20 542	-	542	131 566	-	-
- purchase of foreign currency	36 403	(1 148)	259	306 322	(5 471)	3 031
Securities						
- sale of securities	108 818	(140)	1 024	333 570	(79 017)	153
- purchase of securities	29 685	-	2 065	-	-	-
Precious metals						
- sale of precious metals	-	-	-	18 639	-	450
- purchase of precious metals	-	-	-	-	-	-
Non-deliverable forwards						
Foreign currency						
- sale of foreign currency	-	-	-	6 063	(358)	-
- purchase of foreign currency	9 617	-	604	68 468	-	1 846
Securities						
- sale of securities	1 120	-	1	-	-	-
- purchase of securities	34 719	(19)	173	-	-	-
Precious metals						
- sale of precious metals	-	-	-	5 218	(27)	145
- purchase of precious metals	-	-	-	4 712	(54)	12
Commodities						
- sale of precious metals	5 290	(59)	87	-	-	-
- purchase of precious metals	5 838	(119)	40	-	-	-
Futures						
Foreign currency						
- sale of foreign currency	-	-	-	81 312	(1 839)	59
- purchase of foreign currency	-	-	-	365 451	(4 876)	1 123
Securities						
- sale of securities	-	-	-	39 178	(206)	20
- purchase of securities	-	-	-	5 597	(1)	36
Precious metals						
- sale of precious metals	-	-	-	12 553	(19)	215
- purchase of precious metals	-	-	-	13 016	(427)	43
Commodities						
- sale of commodities	-	-	-	5 356	(52)	76
- purchase of commodities	-	-	-	4 950	(53)	75
Spot						
Foreign currency						
- sale of foreign currency	9 478	(13)	12	48 309	-	168
- purchase of foreign currency	9 478	(321)	61	44 712	(89)	1 463
Precious metals						
- sale of precious metals	-	-	-	13 016	-	15
Call options						
Securities						
- sale of call options	19 190	(643)	-	19 179	(1 169)	9
- purchase of call options	51 190	-	1 389	5 805	-	643
Put options						
Securities						
- purchase of put options	10 225	-	149	14 530	-	948
Total		**(2 462)**	**6 406**		**(93 658)**	**10 530**

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Deliverable forward positions in securities as at 31 December 2004 are summarized below. As at 31 December 2004 the respective securities' long balance sheet positions of the Group exceeded the respective securities' short deliverable forward positions. Refer to Note 6.

	2004	
	Principal or agreed amount	
	Sale	Purchase
Corporate shares of Russian entities	306 713	-
Russian Federation Eurobonds	90 958	23 748
Corporate Eurobonds	34 017	-
Eurobonds of other states	10 700	5 937
Total	**442 388**	**29 685**

Refer to Note 26 for information on a call option received by the Group from a related party.

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

	2004 Nominal value	2003 Nominal value
Corporate bonds held in custody	143 833	153 355
Shares in companies held in custody	132 506	225 694
Promissory notes of companies held in custody	69 535	103 425
OVGVZ held on account with Vneshtorgbank	31 595	31 162
Client OFZ securities held on an account with NDC	19 302	15 131
Eurobonds	3 659	43 151
Other	7 951	200

Assets pledged and restricted. As at 31 December 2004 the Group had the following assets pledged as collateral:

	Notes	2004	2003
Trading securities	6, 12	83 594	319 126
Loans and advances to customers	8, 12	78 624	23 765
Precious metals	10, 12	21 432	19 943
Total		**183 650**	**362 834**

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 were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 139 549 thousand (2003: USD 293 294 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

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 an active 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. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

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 repayable on demand is their carrying value. 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 2004 the estimated fair value of promissory notes issued was USD 206 411 thousand (2003: USD 596 068 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.

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. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

26 Related Party Transactions (Continued)

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:

	2004			2003		
	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other
Trading securities as at the year end	58	-	12 545	7 180	6 159	19 760
Loans and advances to customers as at the year end	**12 785**	**47 042**	**30 591**	**52 369**	**48 843**	**3 270**
USD, effective contractual rate of 10.8% - 12.5%	-	3 250	-	2 200	45 093	2 964
USD, effective contractual rate of 12.6-14.0%	131	41 612	28 688	-	-	-
USD, effective contractual rate of 14.1%-18.0%	-	-	-	-	2 500	-
RUR, effective contractual rate of 2.5% - 6.5%	-	-	-	48 328	-	-
RUR, effective contractual rate of 10.7% - 19.0%	12 654	2 180	-	1 229	-	306
EUR, effective contractual rate of 10.8%	-	-	-	612	1 250	-
USD, effective contractual rate of 0%	-	-	1 903	-	-	-
Interest income for the year (based on effective contractual interest rates)	2 775	3 915	1 248	5 894	31 618	397
Receivables as at the year end	9	16 074	-	-	10 252	-
Customer accounts						
Current/settlement accounts as at the year end	**110 330**	**13 981**	**28 612**	**117 031**	**87 108**	**31 538**
RUR, effective contractual rate of 0.0-2.0%	105 007	10 196	24 671	97 847	32 819	8 173
USD, effective contractual rate of 0.0-2.0%	4 392	3 647	3 941	5 803	54 213	23 365
EUR, effective contractual rate of 0.0-2.0%	308	138	-	13 381	76	-
UAH, effective contractual rate of 0.0-2.0%	623	-	-			
Term deposits as at the year end	**55 268**	**969 191**	**21 664**	**36 659**	**287 671**	**2 975**
RUR, effective contractual rate of 2.0% - 12.5%	19 332	5 767	21 664	4 295	34	-
USD, effective contractual rate of 1.8% - 7.3%	35 936	963 424	-	32 364	287 637	2 975
Interest expense for the year (based on effective contractual interest rates)	1 914	25 596	1 174	3 822	4 131	-

26 Related Party Transactions (Continued)

	2004			2003		
	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other
Promissory notes issued as at the year end	**1 296**	**2 552**	**-**	**5 694**	**44 288**	**-**
RUR, effective contractual interest rate of 0.0%	1 259	209	-	3 019	83	-
RUR, effective contractual interest rate of 5.0% - 11.1%	22	2 343	-	1 732	422	-
RUR, effective contractual interest rate of 12.0% - 19.0%	-	-	-	943	-	-
USD, effective contractual interest rate of 4.1%-7.7%	15	-	-	-	43 783	-
Payables as at the year end	-	298	11 821	-	7 154	8 341
Guarantees issued by the Group as at the year end	96 883	18	-	45 119	-	885
Import letters of credit as at the year end	-	-	6 101	13 536	-	-
Fee and commission income for the year	3 191	2 340	452	6 591	13 741	4 015
Fee and commission expense for the year	-	-	-	997	687	-
Other income for the year	1 444	3 977	1 797	775	1 351	-
Other expenses for the year	117	1 190	-	-	5 788	320

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. In December 2003 the gain received under the transaction was recorded directly in shareholders' equity as a contribution from the shareholder.

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

For the year ended 31 December 2004 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 28 967 thousand (2003: USD 9 987 thousand). As at 31 December 2004 accrued remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 11 821 thousand (2003: USD 5 996 thousand).

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 Debt Market Limited (Cyprus)
	Alfa MTN Issuance Limited (Cyprus)
Alfa Leasing	Alfa FI Limited (Cyprus)
	Alfa-Russia Finance B.V. (Netherlands)
	Alfa Securities Limited (UK)
	Amsterdam Trade Bank (Netherlands)

As at 31 December 2004 and 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.

ABH Financial Limited

Auditor's Report – April 2004

The following is the text of the report issued by ZAO PricewaterhouseCoopers Audit, the auditors of ABA Financial, in respect of the annual consolidated financial statements of ABH Financial for the year ended 31 December 2003:

"To the Shareholders and Board of Directors of ABH Financial Limited:

We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2003, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
20 April 2004"

ABH Financial Limited
Consolidated Balance Sheet as at 31 December 2003
(expressed in thousands of US dollars - Note 3)

	Note	2003	2002
Assets			
Cash and cash equivalents	5	923 191	382 234
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		293 294	214 252
Trading securities	6	694 575	416 238
Due from other banks	7	131 621	211 342
Loans and advances to customers	8	3 440 680	2 440 366
Investments	9	65 443	95 776
Other assets and receivables	10	185 609	222 054
Premises and equipment	11	149 721	135 928
Total assets		**5 884 134**	**4 118 190**
Liabilities			
Due to other banks	12	796 301	672 120
Customer accounts	13	3 400 406	1 997 416
Promissory notes issued		594 940	644 976
Other borrowed funds	14	323 917	212 684
Other liabilities and payables	15	201 517	146 011
Deferred tax liability	21	13 448	10 312
Total liabilities		**5 330 529**	**3 683 519**
Minority interest		**6 635**	**3 485**
Shareholders' equity			
Share capital	16	160 800	160 800
Fair value reserve for investments available for sale	9	22 798	62 657
Revaluation reserve for premises and equipment	11	5 195	6 267
Retained earnings		358 177	201 462
Total shareholders' equity		**546 970**	**431 186**
Total liabilities and shareholders' equity		**5 884 134**	**4 118 190**

Approved for issue by the Board of Directors and signed on its behalf on 20 April 2004

Mr. Oleg Tumanov
Deputy Chief Executive Officer

Mr. Teijo Pankko
Chief Financial Officer

The notes set out on pages 5 to 43 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
Interest income	17	477 475	367 125
Interest expense	17	(242 490)	(177 132)
Net interest income		**234 985**	**189 993**
Provision for loan impairment	7, 8	(42 069)	(38 021)
Net interest income after provision for loan impairment		**192 916**	**151 972**
Fee and commission income	18	135 818	91 300
Fee and commission expense	18	(41 150)	(39 800)
Gains less losses arising from trading securities		18 987	19 742
Gains less losses arising from investments available for sale	9	31 054	43 684
Gains less losses arising from trading in foreign currencies		38 908	26 638
Foreign exchange translation gains less losses		(15 968)	854
Other provisions	9, 10, 24	(4 450)	(3 978)
Other operating income	19	65 244	46 150
Operating income		**421 359**	**336 562**
Operating expenses	20	(305 553)	(245 945)
Monetary gain		-	17 582
Profit from operations		**115 806**	**108 199**
Share of results of associated company after tax		920	-
Profit before tax		**116 726**	**108 199**
Income tax expense	21	(11 011)	(3 573)
Profit after tax		**105 715**	**104 626**
Minority interest		(96)	(36)
Net profit		**105 619**	**104 590**

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

	Note	2003	2002
Cash flows from operating activities			
Interest received		495 426	340 437
Interest paid		(222 764)	(156 590)
Fees and commissions received		138 417	88 701
Fees and commissions paid		(39 011)	(39 800)
Income received from trading in securities		24 566	15 573
Income received from trading in foreign currencies		36 595	26 091
Other operating income received		37 246	39 465
Operating expenses paid		(272 190)	(230 236)
Income tax paid		(6 162)	(2 453)
Cash flows from operating activities before changes in operating assets and liabilities		**192 123**	**81 188**
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)
Net increase in trading securities		(288 031)	(267 041)
Net decrease/(increase) in due from other banks		85 985	(93 190)
Net increase in loans and advances to customers		(961 752)	(1 092 620)
Net increase in other assets and receivables		(27 303)	(15 536)
Net increase in due to other banks		102 211	356 639
Net increase in customer accounts		1 302 254	623 786
Net (decrease)/increase in promissory notes issued		(94 326)	202 956
Net increase/(decrease) in other liabilities and payables		17 090	(18 345)
Net cash from/(used in) operating activities		**268 433**	**(306 689)**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale, net		87 487	48 634
Acquisition of investments available for sale		(2 047)	(3 469)
Additional acquisition of investment in associated company		(8 210)	-
Acquisition of premises and equipment, net		(24 917)	(30 714)
Proceeds from disposal of subsidiary, net		4 000	-
Dividend income received		1 486	1 862
Net cash from investing activities		**57 799**	**16 313**
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)
Net cash from financing activities		**181 284**	**216 492**
Effect of exchange rate changes on cash and cash equivalents		**33 441**	**59 817**
Effect of inflation on cash and cash equivalents		**-**	**(62 473)**
Net increase/(decrease) in cash and cash equivalents		**540 957**	**(76 540)**
Cash and cash equivalents as at the beginning of the year		382 234	458 774
Cash and cash equivalents as at the end of the year		**923 191**	**382 234**

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

	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 2002	**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 5 to 43 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.

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) and the average exchange rate for the year ended 31 December 2003 was USD 1 = RR 30.6875 (2002: USD 1 = 31.3470). 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%).

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.

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 31 December 2002;
- Monetary assets and liabilities held as at 31December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as at 31 December 2002) 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 31 December 2002;
- All items in the consolidated statements of income and of cash flows were restated by applying the change in the CPI from the dates when the items were initially transacted to 31 December 2002;
- Gains and losses that arose as result of holding monetary assets and liabilities during the year ended 31 December 2002 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.

4 Significant Accounting Policies (Continued)

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.

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.

4 Significant Accounting Policies (Continued)

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.

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.

4 Significant Accounting Policies (Continued)

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.

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.

4 Significant Accounting Policies (Continued)

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.

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.

4 Significant Accounting Policies (Continued)

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.

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.

4 Significant Accounting Policies (Continued)

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
Cash on hand	169 099	105 819
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	227 528	72 460
Correspondent accounts with other banks		
- Russian Federation	33 014	13 399
- Other countries	168 827	89 793
Overnight placements with other banks		
- Russian Federation	45 262	48 090
- Other countries	279 461	52 673
Total cash and cash equivalents	**923 191**	**382 234**

Currency and interest rates analyses of cash and cash equivalents are disclosed in Note 23.

6 Trading Securities

	2003	2002
Russian Federation Eurobonds	305 759	156 669
Corporate Eurobonds	183 300	102 980
Corporate bonds	72 698	62 393
Eurobonds of other states	52 644	20 213
Corporate shares	35 119	29 588
Promissory notes	12 138	17 604
ADRs and GDRs	6 297	10 582
Other	26 620	16 209
Total trading securities	**694 575**	**416 238**

6 Trading Securities (Continued)

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) 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.

7 Due from Other Banks

	2003	2002
Term placements with other banks	91 552	110 911
Reverse sale and repurchase agreements with other banks	40 069	100 481
Less: Provision for loan impairment	-	(50)
Total due from other banks	**131 621**	**211 342**

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for impairment as at 1 January	**50**	**630**
Release of provision for loan impairment during the year	(50)	(580)
Provision for impairment as at 31 December	**-**	**50**

7 Due from Other Banks (Continued)

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).

As at 31 December 2002 balances due from other banks in the amount of USD 1 825 thousand were of a restricted nature.

As at 31 December 2003 the estimated fair value of due from other banks was USD 131 621 thousand (2002: USD 211 342 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
Current loans	3 585 253	2 559 825
Overdue loans	31 150	15 462
Less: Provision for loan impairment	(175 723)	(134 921)
Total loans and advances to customers	**3 440 680**	**2 440 366**

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for loan impairment as at 1 January	**134 921**	**96 320**
Provision for loan impairment during the year	42 119	38 601
Loans and advances written off during the year as uncollectable	(1 317)	-
Provision for loan impairment as at 31 December	**175 723**	**134 921**

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

	2003		2002	
	Amount	%	Amount	%
Manufacturing and construction	1 471 294	41	772 419	30
Energy and oil and gas	1 049 572	29	965 195	37
Trade and commerce	520 365	14	405 628	16
Telecommunications	205 547	6	246 147	10
Finance and investment companies	98 775	3	56 477	2
Individuals	49 858	1	17 954	1
Agriculture	13 570	-	29 284	1
Other	207 422	6	82 183	3
Total loans and advances to customers (aggregate amount)	**3 616 403**	**100**	**2 575 287**	**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.

8 Loans and Advances to Customers (Continued)

As at 31 December 2002 loans and advances to customers included USD 33 078 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). Refer to Note 25.

As at 31 December 2003 loans in the amount of USD 23 765 thousand (2002: 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 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
Investments available for sale	45 885	95 776
Investment in associated company	19 558	-
Total investments	**65 443**	**95 776**

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

	2003	2002
As at 1 January	**95 776**	**137 180**
Net fair value gains arising on investments available for sale	7 104	34 947
Acquisition of investments available for sale	2 047	3 469
Disposal of investments available for sale	(35 483)	(104 876)
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
Impairment of investments available for sale	-	(660)
Total investments available for sale as at 31 December	**45 885**	**95 776**

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**
Akrikhin	Pharmaceutical	Russia	38 630	30 540
STS	Television	Russia	-	42 110
Borskoe Steklo	Manufacturing	Russia	-	9 000
Svet	Manufacturing	Russia	-	5 500
Other			7 255	8 626
Total			**45 885**	**95 776**

9 Investments (Continued)

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 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.

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**
Receivables on operations with securities	41 663	62 966
Net investment in lease	26 328	12 243
Trade debtors and prepayments	26 287	10 065
Plastic card debtors and other settlements with clients	25 959	13 882
Precious metals	21 258	121
Conversion operations and derivative financial instruments	17 723	5 971
Receivables from related parties	10 252	94 919
Prepaid taxes	6 212	7 713
Settlement on disposal of subsidiary	3 000	-
Other	14 679	16 049
	193 361	**223 929**
Less: Provision for impairment of receivables	(7 752)	(1 875)
Total other assets and receivables	**185 609**	**222 054**

10 Other Assets and Receivables (Continued)

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

	Note	2003	2002
Provision for impairment of receivables as at 1 January		**1 875**	**4 082**
Provision/(recovery of provision) for impairment of receivables during the year		6 130	(2 207)
Disposal of subsidiary	27	(253)	-
Provision for impairment of receivables as at 31 December		**7 752**	**1 875**

As at 31 December 2003 precious metals include gold with a carrying value of USD 19 943 thousand (2002: 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.

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.

11 Premises and Equipment

	Premises	Leasehold improvements	Office and computer equipment	Intangible assets	Construction in progress	Total
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**

11 Premises and Equipment (Continued)

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

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 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
Term placements of other banks	369 465	280 815
Sale and repurchase agreements with other banks	289 341	164 434
Correspondent accounts of other banks		
- Russian Federation	70 725	158 405
- Other countries	66 770	68 466
Total due to other banks	**796 301**	**672 120**

Trading securities with a fair value of USD 319 126 thousand (2002: USD 136 772 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) 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) 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) 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). 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
Commercial organisations		
- Current/settlement accounts	944 284	848 927
- Term deposits	1 076 782	268 846
Individuals		
- Current/demand accounts	331 236	233 529
- Term deposits	961 926	558 092
State and public organisations		
- Current/settlement accounts	7 817	53 585
- Term deposits	78 361	34 437
Total customer accounts	**3 400 406**	**1 997 416**

13 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2003		2002	
	Amount	**%**	**Amount**	**%**
Individuals	1 293 162	38	791 621	40
Energy and oil and gas	832 203	24	436 579	22
Manufacturing and construction	337 220	10	156 520	8
Trade and commerce	258 047	8	146 261	7
Finance and investment companies	173 278	5	229 432	11
State and public organisations	86 178	3	88 022	5
Mass media and telecommunications	70 447	2	80 995	4
Science	61 341	2	20 925	1
Other	288 530	8	47 061	2
Total customer accounts	**3 400 406**	**100**	**1 997 416**	**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 a balance of USD 48 000 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) 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). 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**
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
Other	-	584
Total other borrowed funds	**323 917**	**212 684**

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%.

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.

14 Other Borrowed Funds (Continued)

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). 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
Payable on operations with securities		51 393	41 414
Accrued staff compensation expenses		49 254	43 160
Trade payables		29 796	12 479
Plastic card payables		15 568	13 079
Settlements with clients		9 738	518
Payable to related parties		9 499	7 298
Provision for losses on credit related commitments	24	7 782	9 462
Conversion operations and derivative financial instruments		7 005	2 708
Taxation payable		4 968	407
Other		16 514	15 486
Total other liabilities and payables		**201 517**	**146 011**

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

As at 31 December 2003 and 31 December 2002 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, 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.

17 Interest Income and Expense

	2003	2002
Interest income		
Loans and advances to customers	403 393	311 824
Trading securities	55 713	24 202
Due from other banks	18 369	31 099
Total interest income	**477 475**	**367 125**
Interest expense		
Term deposits of individuals	57 899	41 174
Promissory notes issued	52 736	55 653
Term deposits of legal entities	45 952	4 318
Due to other banks	38 592	44 322
Other borrowed funds	24 249	8 253
Current/settlement accounts	23 062	23 412
Total interest expense	**242 490**	**177 132**
Net interest income	**234 985**	**189 993**

Refer to Note 26 for details of related party transactions.

18 Fee and Commission Income and Expense

	2003	2002
Fee and commission income		
Commission on settlement transactions	51 595	40 058
Commission on cash and foreign exchange transactions	24 134	15 719
Commission for consulting services	12 537	3 175
Commission income from Alfa Eco Group	10 430	-
Commission on guarantees issued	9 916	13 846
Commission on transactions with securities	9 225	5 803
Commission income in relation to formation of TNK-BP Limited	4 015	-
Commission income from Golden Telecom	-	3 297
Other	13 966	9 402
Total fee and commission income	**135 818**	**91 300**
Fee and commission expense		
Commission for consulting services	24 480	27 013
Commission on settlement transactions	5 162	8 518
Commission on cash and foreign exchange transactions	4 752	908
Commission on transactions with securities	3 672	933
Other	3 084	2 428
Total fee and commission expense	**41 150**	**39 800**
Net fee and commission income	**94 668**	**51 500**

18 Fee and Commission Income and Expense (Continued)

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.

Refer to Note 26 for details of related party transactions.

19 Other Operating Income

	Note	2003	2002
Structured debt operations		36 161	6 938
Leasing and other income on premises and equipment		6 825	5 719
Gains less losses from trading in precious metals		4 618	(2 285)
Gains from disposal of subsidiary	27	4 617	-
Income from insurance operations		4 001	4 468
Late charges on loans and other penalties		3 466	17 640
Dividend income		1 486	1 862
Other		4 070	11 808
Total other operating income		**65 244**	**46 150**

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
Staff costs	142 315	122 172
Depreciation and other expenses related to premises and equipment	26 932	17 850
Rent, heat and utilities	22 151	13 025
Taxes	20 770	22 620
Advertising and marketing	19 906	11 602
Maintenance	18 798	8 508
Consulting and professional services	13 462	19 551
Computer and telecommunications expenses	13 422	20 292
Travel expenses	3 608	4 217
Other	24 189	6 108
Total operating expenses	**305 553**	**245 945**

21 Income Taxes

Income tax expense comprises the following:

	2003	2002
Current tax charge	7 875	2 453
Deferred taxation movement due to origination and reversal of temporary differences	3 136	1 120
Income tax expense for the year	**11 011**	**3 573**

The statutory income tax rate applicable to the majority of the Bank's income is 24% (2002: 24%). This 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%). A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002
IFRS profit before tax	**116 726**	**108 199**
Theoretical tax charge at the applicable statutory rate	28 014	25 968
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)
- Non deductible expenses	5 943	13 091
- Income which is exempt from taxation	(2 211)	(62 141)
- (Gain)/Loss earned in tax free jurisdictions	(7 560)	21 481
- Negative taxable base which has no future income tax benefit	-	10 494
- Effect of change in statutory taxation legislation	-	41 304
- Other IFRS adjustments	8 607	(4 522)
Tax effect of loss used during 2003	(1 648)	-
Tax effect of loss carry forward	(4 675)	571
Income tax expense for the year	**11 011**	**3 573**

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%, except for income on state securities that is taxed at 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)**

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)**

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.

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.

22 Analysis by Segment Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2003 and 31 December 2002 is set out below:

2003	Corporate 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)

22 Analysis by Segment Continued)

2002	Corporate 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

22 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 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**
Net balance sheet position as at 31 December 2002	**791 499**	**(322 816)**	**(1 988)**	**18 939**	**(50 963)**	**434 671**

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies as at both 31 December 2003 and 31 December 2002.

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.

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.

23 Financial Risk Management (Continued)

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**

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**

23 Financial Risk Management (Continued)

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.

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**	

23 Financial Risk Management (Continued)

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.

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.

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**	

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				2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Correspondent accounts and overnight placements with other banks	4.0%	2.3%	2.3%	0.0%	5.9%	16.2%	0.0%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	7.5%	11.1%	5.7%	5.1%	8.8%	14.1%	-	-
Due from other banks	3.7%	4.3%	6.5%	5.0%	4.3%	14.5%	3.1%	14.5%
Loans and advances to customers	11.9%	16.1%	9.6%	14.2%	13.2%	20.1%	11.4%	14.0%
Liabilities								
Due to other banks	3.2%	7.1%	3.8%	1.0%	3.3%	12.3%	5.4%	5.0%
Customer accounts								
- current and settlement accounts	1.8%	0.5%	0.2%	0.0%	2.1%	2.3%	2.1%	2.3%
- term deposits	3.9%	6.2%	3.3%	4.8%	6.1%	10.2%	6.1%	10.2%
Promissory notes issued	4.0%	12.5%	2.7%	-	6.1%	15.6%	3.0%	15.6%
Other borrowed funds	9.6%	7.5%	-	-	12.0%	17.6%	-	17.0%

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

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.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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).

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) and new retail business in the amount of USD 5 169 (2002: nil). In addition, other capital commitments amounted to USD 6 793 thousand (2002: USD 4 434 thousand). 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**
Not later than 1 year	11 700	10 876
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**

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.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Outstanding credit related commitments are as follows:

	Note	2003	2002
Guarantees issued		387 073	538 946
Export letters of credit		241 843	191 712
Import letters of credit	13	75 171	30 345
Less: provision for losses on credit related commitments	15	(7 782)	(9 462)
Total credit related commitments		**696 305**	**751 541**

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

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

	2003	2002
Provision for losses on credit related commitments as at 1 January	**9 462**	**3 937**
(Release of provision)/Provision for losses on credit related commitments during the year	(1 680)	5 525
Provision for losses on credit related commitments as at 31 December	**7 782**	**9 462**

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.

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.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	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**

Refer to Note 26 for information on a call option received by the Group from a related party.

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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
Shares in companies held in custody	225 694	212 879
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
OVGVZ held on account with Vneshtorgbank	31 162	40 343
Client OFZ securities held on an account with NDC	15 131	18 521
Other	200	2 842

Assets pledged. As at 31 December 2003 the Group has the following assets pledges as collateral:

	Notes	2003	2002
Trading securities	6, 12	319 126	136 772
Loans and advances to customers	8, 12, 14	23 765	50 000
Precious metals	10, 12	19 943	-
Investments	9, 14	-	5 227
Premises and equipment	11, 14	-	3 571
Total		**362 834**	**195 570**

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) were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 293 294 thousand (2002: USD 214 252 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

As at 31 December 2002 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).

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.

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.

26 Related Party Transactions (Continued)

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	-

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 t he 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	-

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). Accrued remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 5 996 thousand (2002: USD 800 thousand).

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.

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.

ABH Financial Limited

Auditors' report – October 2005

The following is the text of the report issued by ZAO PricewaterhouseCoopers, Audit, the auditors of ABH Financial, in respect of the interim consolidated financial statements of ABH Financial for the six months ended 30 June 2005:

"To the Shareholders and Board of Directors of ABH Financial Limited:

We have audited the accompanying interim consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the interim consolidated financial statements) as at 30 June 2005, and the related interim consolidated statements of income, of cash flows and of changes in equity for the six-month period ended 30 June 2005. These interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit.

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

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2005 and the results of its operations and its cash flows for the six-month period ended 30 June 2005 in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Moscow, Russian Federation

6 October 2005"

ABH Financial Limited
Interim Consolidated Balance Sheet as at 30 June 2005
(expressed in thousands of US dollars - Note 3)

	Note	30 June 2005	31 December 2004
Assets			
Cash and cash equivalents	7	1 177 318	997 278
Mandatory cash balances with central banks		171 423	139 549
Trading securities	8	651 306	717 050
Due from other banks	9	605 274	570 642
Loans and advances to customers	10	4 887 921	4 100 089
Investments	11	130 032	60 933
Other assets and receivables	12	370 156	275 690
Premises and equipment and intangible assets	13	141 268	146 891
Deferred tax asset	23	16 251	16 587
Total assets		**8 150 949**	**7 024 709**
Liabilities			
Due to other banks	14	538 154	499 958
Customer accounts	15	4 690 080	4 492 072
Promissory notes issued		310 828	206 223
Other borrowed funds	16	1 250 039	706 955
Other liabilities and payables	17	555 545	380 568
Deferred tax liability	23	30 168	28 501
Total liabilities		**7 374 814**	**6 314 277**
Equity			
Share capital	18	160 800	160 800
Fair value reserve for investments available for sale	11	614	-
Revaluation reserve for premises		3 587	4 123
Retained earnings and other reserves		609 002	542 634
Net assets attributable to the equity holders of the Company		**774 003**	**707 557**
Minority interest		**2 132**	**2 875**
Total equity		**776 135**	**710 432**
Total liabilities and equity		**8 150 949**	**7 024 709**

Approved for issue by the Board of Directors and signed on its behalf on 6 October 2005.

Petr Smida
Chief Executive Officer

Andrew Baxter
Chief Financial Officer

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

	Note	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Interest income	19	320 484	274 937
Interest expense	19	(132 411)	(127 126)
Net interest income		**188 073**	**147 811**
Provision for loan impairment	10	(32 715)	(16 153)
Net interest income after provision for loan impairment		**155 358**	**131 658**
Fee and commission income	20	73 450	67 870
Fee and commission expense	20	(19 896)	(17 834)
Gains less losses arising from trading securities		18 895	79
Gains less losses arising from investments available for sale	11	463	344
Gains less losses arising from trading in foreign currencies		(5 281)	5 149
Foreign exchange translation gains less losses		26 181	2 708
Other operating income	21	12 917	13 414
Other provisions	12, 26	7 067	(2 117)
Operating income		**269 154**	**201 271**
Operating expenses	22	(169 605)	(148 507)
Profit from operations		**99 549**	**52 764**
Share of profit of associated company	11	6 239	6 256
Profit before income tax		**105 788**	**59 020**
Income tax expense	23	(18 516)	(5 828)
Profit		**87 272**	**53 192**
Profit is attributable to:			
Equity holders of the Company		87 224	53 054
Minority interest		48	138
		87 272	**53 192**

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

	Note	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Cash flows from operating activities			
Interest received		314 203	265 720
Interest paid		(133 483)	(135 194)
Fees and commissions received		72 701	67 014
Fees and commissions paid		(19 657)	(19 973)
Net income received from trading in securities		10 511	12 217
Net (losses incurred)/income received from trading in foreign currencies		(4 520)	7 981
Other operating income received		12 096	13 065
Staff compensation paid		(111 334)	(74 711)
Other operating expenses paid		(55 341)	(83 194)
Income tax paid		(19 780)	(4 453)
Cash flows from operating activities before changes in operating assets and liabilities		**65 396**	**48 472**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with central banks		(41 643)	71 046
Net decrease in trading securities		84 109	42 587
Net increase in due from other banks		(44 717)	(84 477)
Net increase in loans and advances to customers		(931 133)	(630 126)
Net decrease/(increase) in other assets and receivables		95 864	(69 215)
Net increase/(decrease) in due to other banks		62 476	(223 906)
Net increase in customer accounts		353 055	541 648
Net increase/(decrease) in promissory notes issued		111 639	(148 065)
Net (decrease)/increase in other liabilities and payables		(9 871)	47 362
Net cash used in operating activities		**(254 825)**	**(404 674)**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale	11	1 302	3 700
Acquisition of investments designated as through profit and loss	11	(45 000)	-
Acquisition of investments available for sale	11	(16 555)	(8 955)
Acquisition of premises and equipment and intangible assets, net	13	(8 943)	(10 178)
Proceeds from disposal of subsidiary		-	3 000
Net cash used in investing activities		**(69 196)**	**(12 433)**
Cash flows from financing activities			
Proceeds from other borrowed funds	16	673 463	306 007
Repayment of other borrowed funds	16	(125 304)	(119 471)
Net cash from financing activities		**548 159**	**186 536**
Net increase/(decrease) in cash and cash equivalents		**224 138**	**(230 571)**
Cash and cash equivalents as at the beginning of the period	7	997 278	923 191
Effect of exchange rate changes on cash and cash equivalents		(44 098)	3 984
Cash and cash equivalents as at the end of the period	**7**	**1 177 318**	**696 604**

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
Balance as at 1 January 2004	**160 800**	**22 798**	**5 195**	**358 177**	**6 635**	**553 605**
Net fair value gains arising on investments available for sale (Note 11)	-	6 816	-	-	-	6 816
Translation movement	-	-	-	4 532	-	4 532
Net income recognised directly in equity	**-**	**6 816**	**-**	**4 532**	**-**	**11 348**
Other movements	-	-	(536)	536	(4 794)	(4 794)
Profit	-	-	-	53 054	138	53 192
Balance as at 30 June 2004	**160 800**	**29 614**	**4 659**	**416 299**	**1 979**	**613 351**

	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
Balance as at 1 January 2005	**160 800**	**-**	**4 123**	**542 634**	**2 875**	**710 432**
Net fair value gains arising on investments available for sale (Note 11)	-	614	-	-	-	614
Translation movement	-	-	-	(21 392)	-	(21 392)
Net income/(expense) recognised directly in equity	**-**	**614**	**-**	**(21 392)**	**-**	**(20 778)**
Other movements	-	-	(536)	536	(791)	(791)
Profit	-	-	-	87 224	48	87 272
Balance as at 30 June 2005	**160 800**	**614**	**3 587**	**609 002**	**2 132**	**776 135**

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

1 Principal Activities of ABH Financial Limited

ABH Financial Limited (the "Company" or "ABH") and its subsidiaries (the "Group" or "Alfa Bank Group") comprise three main business segments: commercial banking, retail banking and investment banking (refer to Note 24). The commercial and retail banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank ("Alfa Bank" or the "Bank") and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

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

A summary of the constituent entities within the Group is set out below. Refer to Note 29 for a listing of the principal consolidated subsidiaries.

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

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

As at 30 June 2005 the Bank had 32 branches (31 December 2004: 32 branches) within the Russian Federation. The Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa Bank Ukraine and Alfa Bank Kazakhstan.

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

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

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

2 Operating Environment of the Group

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

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain 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.

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.

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

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies' law in respective jurisdictions. These interim consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IAS 34.

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

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

Where necessary, corresponding figures were adjusted to conform with changes in the presentation of the current period.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. 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. Thus, underlying translation differences on equity investments available for sale are recorded through the fair value reserve for investments available for sale in equity.

As at 30 June 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.6721 (31 December 2004: USD 1 = RR 27.7487) and the average exchange rate for the six-month period ended 30 June 2005 was USD 1 = RR 27.9595 (six-month period ended 30 June 2004: USD 1 = RR 28.7802). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside the Russian Federation.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current as 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 were the following:

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

Associated companies. Associated companies are entities over which the Group has 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. The Group ceased amortisation of goodwill from 1 January 2005. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

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

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's 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, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by 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.

Computer software development costs. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

Other borrowed funds. Other borrowed funds are recorded initially at fair value of the liability net of transaction costs incurred. Other borrowed funds are subsequently stated at amortised cost; any difference between the amount of initial recognition and the redemption value is recorded in the consolidated statement of income over the period of the other borrowed funds using the effective interest method.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories 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 during the period. Taxes, other than on income, are recorded within operating expenses.

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

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

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

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

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Fees, commissions and other income and expenses. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, commission on credit sales and commissions from borrowers are deferred (together with related direct costs) and recorded as an adjustment to the effective interest 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, are recorded on completion of the underlying transaction.

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment of available for sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, when no active market exists, where that share price can be derived, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. As at 30 June 2005, the Group had no available for sale equity investments carried at fair value below their cost.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The provision amount depends mainly on the interest rate according to the loan agreement and on the estimation of a possible delay in the repayment of the loan and interest on the loan. To the extent that the assessed delay in repayment of principal and the interest on loans differs by +/- 1 months (the latter to extent of the delay currently assessed), the provision would be approximately USD 42 705 thousand higher or USD 42 308 thousand lower.

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

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

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

5 Adoption of New or Revised Standards and Interpretations

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

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

IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors" (effective since 1 January 2005). The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The revised IAS 8 eliminated the previously allowed alternative for correction of fundamental errors through the current period's profit or loss. During the reporting period there were no such errors discovered.

IAS 10 (revised 2003) "Events after the Balance Sheet Date" (effective since 1 January 2005). The standard was amended to include a limited clarification that if an entity declares dividends after the balance sheet date, the entity should not recognise those dividends as a liability at the balance sheet date. This is consistent with the policies applied by the Group.

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

The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle.

The Group now derecognises the carrying amount of a component of PP&E which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. Consistently with the previous policy the Group does not classify gains on disposal of PP&E as revenue but includes them in other income.

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

IAS 17 (revised 2003) "Leases" (effective since 1 January 2005). Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date a lease is classified as either an operating or a finance lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 4 (issued 2004) "Insurance Contracts" (effective since 1 January 2005). The Group does not underwrite insurance risks. IFRS 4 amended the definition of financial derivatives in IAS 39. The Group retrospectively amended its policies to exclude non-financial variables specific to the entity to the contract from giving rise to financial derivatives.

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

6 New Accounting Pronouncements

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

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

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (revised 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. Specifically a group of financial instruments can be designated as part of this category if either the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases; or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel, for example the entity's board of directors and chief executive officer.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

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

IFRS 7 "Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. Specifically it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 (revised 2003) introduces disclosures about level of an entity's capital and how it manages capital.

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

7 Cash and Cash Equivalents

	30 June 2005	31 December 2004
Cash on hand	172 677	257 376
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	176 193	379 633
Correspondent accounts with other banks		
- Russian Federation	59 745	115 677
- Other countries	259 364	43 358
Overnight placements with other banks		
- Russian Federation	70 417	38 020
- Other countries	438 922	163 214
Total cash and cash equivalents	**1 177 318**	**997 278**

As at 30 June 2005 the Group had accounts with 12 banks (31 December 2004: 7 banks) with an aggregated amount of correspondent accounts and overnight placements equal to or above USD 10 000 thousand. The total aggregate amount of these correspondent accounts and overnight placements was USD 776 785 thousand (31 December 2004: USD 317 296 thousand) or 93.8% (31 December 2004: 88.1%) of the gross correspondent accounts and overnights placements with other banks.

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

8 Trading Securities

	30 June 2005	31 December 2004
Corporate shares	287 602	331 152
Corporate bonds	121 898	109 664
Corporate Eurobonds	104 070	79 653
Municipal bonds	45 575	15 335
Promissory notes	28 138	-
Russian Federation Eurobonds	20 829	91 272
Eurobonds of other states	20 787	12 457
ADRs and GDRs	3 832	17 506
Other	18 575	60 011
Total trading securities	**651 306**	**717 050**

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

Corporate bonds are interest-bearing securities mainly denominated in Russian Roubles, issued by Russian and Ukrainian companies, and are freely tradable in the Russian Federation and the Ukraine. These bonds have maturity dates ranging from August 2005 to June 2010, coupon rates from 7.0% to 17.5% during the six-month period ended 30 June 2005 and yields to maturity from 6.2% to 16.0% as at 30 June 2005, depending on the type of bond issue.

8 Trading Securities (Continued)

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 September 2005 to April 2014, coupon rates from 4.9% to 12.8% during the six-month period ended 30 June 2005 and yields to maturity from 4.9% to 9.8% as at 30 June 2005, depending on the type of bond issue.

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian municipal authorities, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from August 2005 to July 2014, coupon rates from 10.0% to 13.3% during the six-month period ended 30 June 2005 and yields to maturity from 4.4% to 10.1% as at 30 June 2005, depending on the type of bond issue.

As at 30 June 2005 trading securities with a fair value of USD 25 693 thousand (31 December 2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 14.

As at 30 June 2005 the long balance sheet position of the Group was partially offset by short forward and futures position of the Group in those securities. Refer to Note 26.

Currency and interest rates analyses of trading securities are disclosed in Note 25. The information on trading securities issued by related parties and owned by the Group as at 30 June 2005 is disclosed in Note 28.

9 Due from Other Banks

	30 June 2005	31 December 2004
Term placements with other banks	543 880	564 585
Reverse sale and repurchase agreements with other banks	61 394	6 057
Total due from other banks	**605 274**	**570 642**

During the six-month periods ended 30 June 2005 and 30 June 2004 there were no movements in provision for due from other banks. Provision for loan impairment as at 30 June 2005 was Nil (31 December 2004: Nil).

As at 30 June 2005 the Group had term placements and reverse sale and repurchase agreements with 8 banks (31 December 2004: 4 banks) with an aggregated amount equal to or above USD 30 000 thousand. The total aggregate amount of these term placements and reverse sale and repurchase agreements was USD 435 091 thousand (31 December 2004: USD 329 203 thousand) or 71.9% (31 December 2004: 57.7%) of the total due from other banks.

As at 30 June 2005 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 59 706 thousand (31 December 2004: USD 6 963 thousand).

As at 30 June 2005 the estimated fair value of due from other banks was USD 605 274 thousand (31 December 2004: USD 570 642 thousand). Refer to Note 27.

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

10 Loans and Advances to Customers

	30 June 2005	31 December 2004
Current loans	4 975 297	4 185 006
Net investment in lease	95 150	79 967
Overdue loans	47 911	32 962
Less: Provision for loan impairment	(230 437)	(197 846)
Total loans and advances to customers	**4 887 921**	**4 100 089**

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

Movements in the provision for loan impairment were as follows:

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Provision for loan impairment as at 1 January	**197 846**	**175 723**
Provision for loan impairment during the period	32 715	16 153
Loans written off during the period as uncollectible	(124)	-
Provision for loan impairment as at 30 June	**230 437**	**191 876**

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

	30 June 2005		31 December 2004	
	Amount	%	Amount	%
Manufacturing and construction	2 374 369	46	1 881 503	44
Energy and oil and gas	1 107 078	22	1 065 922	25
Trade and commerce	799 301	16	642 975	15
Telecommunications	232 580	5	198 931	5
Finance and investment companies	117 040	2	86 637	2
Individuals	60 022	1	46 119	1
Other	427 968	8	375 848	8
Total loans and advances to customers (aggregate amount)	**5 118 358**	**100**	**4 297 935**	**100**

As at 30 June 2005 the Group had 24 borrowers (31 December 2004: 20 borrowers) with aggregated loan amounts equal to or above USD 50 000 thousand. The total aggregate amount of these loans was USD 2 421 077 thousand (31 December 2004: USD 1 928 999 thousand) or 47.3% (31 December 2004: 44.9%) of the gross loans and advances to customers.

As at 30 June 2005 loans to customers in the amount of USD 59 186 thousand (31 December 2004: USD 78 624 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 14.

As at 30 June 2005 the estimated fair value of loans and advances to customers was USD 4 890 180 thousand (31 December 2004: USD 4 103 116 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

11 Investments

	30 June 2005	31 December 2004
Investment through profit and loss	45 000	-
Investments available for sale	28 544	10 684
Investment in an associated company	56 488	50 249
Total investments	**130 032**	**60 933**

Investment through profit and loss. Investment through profit and loss of USD 45 000 thousand represents a 8.3% interest in Amtel Holdings, a tyre manufacturing company.

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

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
As at 1 January	**10 684**	**45 885**
Net fair value gains arising on investments available for sale	614	6 816
Acquisition of investments available for sale	18 085	8 955
Disposal of investments available for sale	(1 302)	(700)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in equity	463	344
Total investments available for sale as at 30 June	**28 544**	**61 300**

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

Name	Nature of business	Country of registration	Fair value	
			30 June 2005	31 December 2004
Cracker	Foods production	Russia	12 500	-
Noble Gibbons	Real estate consulting	Russia	8 718	4 425
Other			7 326	6 259
Total			**28 544**	**10 684**

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

Investment in an associated company. As at 30 June 2005 the investment in an associated company in the amount of USD 56 488 thousand (31 December 2004: 50 249 thousand) represented a 29.1% (31 December 2004: 29.1%) interest in CTC Media Inc. (“CTC”), formerly Story First Communications Inc., a Delaware corporation primarily investing in television and radio ventures.

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

The share of profit of associated company after tax for the six-month period ended 30 June 2005 was USD 6 239 thousand (six-month period ended 30 June 2004: USD 6 256 thousand net of amortisation for goodwill).

12 Other Assets and Receivables

	30 June 2005	31 December 2004
Receivables on operations with securities	147 998	58 614
Advance payments for finance leases	71 224	31 786
Trade debtors and prepayments	49 480	48 090
Conversion operations and derivative financial instruments	24 608	47 219
Plastic card debtors and other settlements with clients	24 478	31 775
Prepaid taxes	21 797	12 579
Precious metals	20 897	40 226
Receivables from related parties	4 743	16 083
Other	12 335	3 176
	377 560	**289 548**
Less: Provision for impairment of receivables	(7 404)	(13 858)
Total other assets and receivables	**370 156**	**275 690**

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

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Provision for impairment of receivables as at 1 January	**13 858**	**7 752**
Recovery of provision for impairment of receivables during the period	(6 454)	(1 703)
Provision for impairment of receivables as at 30 June	**7 404**	**6 049**

As at 30 June 2005 precious metals included gold with a carrying value of USD 20 174 thousand (31 December 2004: USD 21 432 thousand) sold under sale and repurchase agreements with other banks. Refer to Note 14.

Currency and maturity analyses of other assets and receivables are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

13 Premises and Equipment and Intangible Assets

	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total premises and equipment	Computer software	Total
Net book amount as at 31 December 2004	**56 971**	**9 019**	**48 250**	**2 185**	**116 425**	**30 466**	**146 891**
Cost or valuation							
Opening balance	67 551	10 677	110 938	2 185	**191 351**	52 250	**243 601**
Additions and transfers	4 230	495	7 417	252	**12 394**	4 849	**17 243**
Disposals	(3 237)	(542)	(4 058)	-	**(7 837)**	(123)	**(7 960)**
Translation movement	(2 065)	(344)	(3 218)	(70)	**(5 697)**	(684)	**(6 381)**
Closing balance	**66 479**	**10 286**	**111 079**	**2 367**	**190 211**	**56 292**	**246 503**
Accumulated depreciation							
Opening balance	10 580	1 658	62 688	-	**74 926**	21 784	**96 710**
Depreciation charge	688	116	8 062	-	**8 866**	4 747	**13 613**
Disposals	(306)	(28)	(2 105)	-	**(2 439)**	(16)	**(2 455)**
Translation movement	(322)	(57)	(1 904)	-	**(2 283)**	(350)	**(2 633)**
Closing balance	**10 640**	**1 689**	**66 741**	**-**	**79 070**	**26 165**	**105 235**
Net book amount as at 30 June 2005	**55 839**	**8 597**	**44 338**	**2 367**	**111 141**	**30 127**	**141 268**

13 Premises and Equipment and Intangible Assets (Continued)

	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total premises and equipment	Computer software	Total
Net book amount as at 31 December 2003	**50 121**	**10 344**	**46 652**	**10 463**	**117 580**	**32 141**	**149 721**
Cost or valuation							
Opening balance	58 767	11 878	95 351	10 463	**176 459**	45 916	**222 375**
Additions and transfers	4 286	594	12 280	(6 100)	**11 060**	2 306	**13 366**
Disposals	(195)	(2 115)	(5 012)	-	**(7 322)**	(48)	**(7 370)**
Translation movement	814	175	1 255	65	**2 309**	245	**2 554**
Closing balance	**63 672**	**10 532**	**103 874**	**4 428**	**182 506**	**48 419**	**230 925**
Accumulated depreciation							
Opening balance	8 646	1 534	48 699	-	**58 879**	13 775	**72 654**
Depreciation charge	608	116	7 555	-	**8 279**	2 828	**11 107**
Disposals	(116)	(169)	(3 191)	-	**(3 476)**	-	**(3 476)**
Translation movement	120	23	111	-	**254**	671	**925**
Closing balance	**9 258**	**1 504**	**53 174**	**-**	**63 936**	**17 274**	**81 210**
Net book amount as at 30 June 2004	**54 414**	**9 028**	**50 700**	**4 428**	**118 570**	**31 145**	**149 715**

14 Due to Other Banks

	30 June 2005	31 December 2004
Term placements of other banks	414 221	315 138
Sale and repurchase agreements with other banks	60 907	126 131
Correspondent accounts of other banks		
- Russian Federation	42 121	43 761
- Other countries	20 905	14 928
Total due to other banks	**538 154**	**499 958**

As at 30 June 2005 trading securities with a fair value of USD 25 693 thousand (31 December 2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 8.

As at 30 June 2005 loans to customers in the amount of USD 33 464 thousand (31 December 2004: USD 48 624 thousand) have been sold to third parties under sale and repurchase agreements with other banks and loans to customers in the amount of USD 25 722 thousand (31 December 2004: USD 30 000 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 10.

Gold with a carrying value of USD 20 174 thousand (31 December 2004: USD 21 432 thousand) has been sold under sale and repurchase agreements with other banks. Refer to Note 12.

14 Due to Other Banks (Continued)

As at 30 June 2005 the estimated fair value of due to other banks was USD 538 154 thousand (31 December 2004: USD 499 958 thousand). Refer to Note 27.

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

15 Customer Accounts

	30 June 2005	31 December 2004
Commercial organisations		
- Current/settlement accounts	1 653 746	1 296 757
- Term deposits	868 068	1 261 851
Individuals		
- Current/demand accounts	537 963	433 787
- Term deposits	1 020 998	964 175
State and public organisations		
- Current/settlement accounts	60 069	79 534
- Term deposits	549 236	455 968
Total customer accounts	**4 690 080**	**4 492 072**

Economic sector concentrations within customer accounts were as follows:

	30 June 2005		31 December 2004	
	Amount	%	Amount	%
Individuals	1 558 961	33	1 397 962	31
Finance and investment companies	868 299	19	1 082 861	24
State and public organisations	609 304	13	535 502	12
Energy and oil and gas	505 250	11	405 306	9
Manufacturing and construction	312 407	7	299 861	7
Trade and commerce	270 059	6	242 443	5
Mass media and telecommunications	63 687	1	82 054	2
Science	60 595	1	84 428	2
Other	441 518	9	361 655	8
Total customer accounts	**4 690 080**	**100**	**4 492 072**	**100**

As at 30 June 2005 the Group had 7 customers (31 December 2004: 6 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 1 860 941 thousand (31 December 2004: USD 1 840 528 thousand) or 39.7% (31 December 2004: 41.0%) of the total customer accounts, of which USD 597 970 thousand (31 December 2004: USD 983 082 thousand) represented balances outstanding to Alfa Group Consortium and its shareholders.

Included in customer accounts are balances in amount of USD 112 230 thousand (31 December 2004: USD 97 556 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 26.

As at 30 June 2005 the estimated fair value of customer accounts was USD 4 690 080 thousand (31 December 2004: USD 4 492 072 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

16 Other Borrowed Funds

	30 June 2005	31 December 2004
Syndicated loans	366 563	225 218
Euro Medium Term Notes maturing in 2008	248 809	-
Euro Medium Term Notes maturing in 2006	191 921	191 348
Eurobonds	176 526	175 690
Euro Medium Term Notes maturing in 2007	142 810	-
Euro-Commercial Paper	116 317	46 390
Russian Rouble denominated bonds maturing in 2010	1 956	68 195
Other	5 137	114
Total other borrowed funds	**1 250 039**	**706 955**

On 24 June 2004 the Group received a syndicated loan in the amount of USD 120 000 thousand from a consortium of large international banks. Initially the loan had a maturity date of 24 June 2005 and bore a floating interest rate equal to LIBOR plus 2.0% per annum payable semi-annually. On 24 June 2005 the Group repaid USD 47 000 thousand of this loan and rolled over the balance in the amount of USD 73 000 thousand. The rolled over balance matures on 15 June 2006. As at 30 June 2005 the effective interest rate was 5.9% per annum. The issue proceeds net of transaction costs were equal to USD 118 757 thousand.

On 3 December 2004 the Group received a syndicated loan in the amount of USD 65 000 thousand from a consortium of large international banks. The loan matures on 2 December 2005 and bears a floating interest rate equal to LIBOR plus 1.8% per annum payable semi-annually. As at 30 June 2005 the effective interest rate was 6.4% per annum. The issue proceeds net of transaction costs were equal to USD 64 323 thousand.

On 7 June 2005 the Group received a syndicated loan in the amount of USD 230 000 thousand from a consortium of large international banks. The loan matures on 6 June 2006 and bears a floating interest rate equal to LIBOR plus 1.5% per annum payable semi-annually. As at 30 June 2005 the effective interest rate was 6.1% per annum. Issue proceeds net of transaction costs were equal to USD 227 698 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme (“MTN Programme”). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 1 000 000 thousand. On 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. Issue proceeds net of transaction costs and discount amounted to USD 187 776 thousand and the effective interest rate at origination was 9.1%. On 9 February 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 150 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 9 February 2007. Issue proceeds net of transaction costs and discount amounted to USD 148 349 thousand and the effective interest rate at origination was 8.5%. On 28 June 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 250 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 2 July 2008. Issue proceeds net of transaction costs and discount amounted to USD 248 686 thousand and the effective interest rate at origination was 8.1%.

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 10.8% per annum payable semi-annually and mature on 19 November 2005. Issue proceeds net of transaction costs and discount amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

On 11 December 2003 the Group established a Euro Commercial Paper Programme (“ECP Programme”). The aggregate principal amount of outstanding notes issued under the ECP Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more than 365 days. As at 30 June 2005 the nominal value of outstanding notes was USD 120 500 thousand (31 December 2004: USD 46 800 thousand) and they were issued at a discount to the nominal value ranging from 3.4% to 7.7% depending on the type of issue. As at 30 June 2005 the average effective interest rate at origination on notes outstanding was 7.7%.

16 Other Borrowed Funds (Continued)

As at 30 June 2005 the estimated fair value of other borrowed funds was USD 1 254 385 thousand (31 December 2004: USD 710 672 thousand). Refer to Note 27.

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

17 Other Liabilities and Payables

	Note	30 June 2005	31 December 2004
Payables on operations with securities		219 069	56 103
Conversion operations and derivative financial instruments		111 089	96 589
Trade creditors		72 345	61 228
Accrued staff costs		69 783	83 653
Plastic card and other settlements with clients		25 119	31 921
Provision for losses on credit related commitments	26	20 510	21 123
Taxation payable		12 629	12 496
Payable to related parties		2 455	298
Other		22 546	17 157
Total other liabilities and payables		**555 545**	**380 568**

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

Currency and maturity analyses of other liabilities and payables are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

18 Share Capital

As at 30 June 2005 and 31 December 2004 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, rank equally and carry one vote.

19 Interest Income and Expense

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Interest income		
Loans and advances to customers	287 780	242 659
Trading securities	17 305	26 129
Due from other banks	15 399	6 149
Total interest income	**320 484**	**274 937**
Interest expense		
Customer accounts of legal entities	45 141	41 456
Other borrowed funds	34 268	18 100
Customer accounts of individuals	33 774	30 946
Due to other banks	11 914	15 844
Promissory notes issued	7 314	20 780
Total interest expense	**132 411**	**127 126**
Net interest income	**188 073**	**147 811**

Refer to Note 28 for details of related party transactions.

20 Fee and Commission Income and Expense

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Fee and commission income		
Commission on settlement transactions	37 094	30 190
Commission on cash and foreign currency exchange transactions	15 288	15 156
Commission on transactions with securities	5 897	10 324
Commission on guarantees issued	5 113	5 292
Commission for consulting services	4 242	4 432
Other	5 816	2 476
Total fee and commission income	**73 450**	**67 870**
Fee and commission expense		
Commission for consulting services	8 603	6 544
Commission on settlement transactions	7 769	4 317
Commission on transactions with securities	1 515	1 948
Commission on cash and foreign currency exchange transactions	1 478	1 072
Other	531	3 953
Total fee and commission expense	**19 896**	**17 834**
Net fee and commission income	**53 554**	**50 036**

Refer to Note 28 for details of related party transactions.

21 Other Operating Income

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Penalties received	4 950	2 352
Dividend income	274	2 028
Other	7 693	9 034
Total other operating income	**12 917**	**13 414**

22 Operating Expenses

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Staff costs	97 464	69 711
Depreciation and other expenses related to premises and equipment and intangible assets	15 258	14 793
Rent	11 522	9 550
Computer and telecommunications expenses	7 421	6 753
Consulting and professional services	6 936	5 477
Maintenance	6 289	6 828
Administrative expenses	5 122	6 055
Taxes other than income tax	4 503	8 382
Heat and utilities	2 017	1 620
Advertising and marketing	1 966	4 287
Travel expenses	1 777	1 500
Other	9 330	13 551
Total operating expenses	**169 605**	**148 507**

23 Income Taxes

Income tax expense comprises the following:

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Current tax charge	16 513	7 810
Deferred taxation movement due to origination and reversal of temporary differences	2 003	(1 982)
Income tax expense for the period	**18 516**	**5 828**

The statutory income tax rate applicable to the majority of the Bank's income is 24% (30 June 2004: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 10% (31 December 2004: from 0% to 10%). A reconciliation between the expected and the actual taxation charge is provided below.

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
IFRS profit before tax	**105 788**	**59 020**
Theoretical tax charge at the applicable statutory rate of 24% (30 June 2005: 24%)	25 389	14 165
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Difference in provisions in accordance with IFRS and statutory rules	(7 529)	(16 528)
- Non deductible expenses	2 679	1 880
- Income which is exempt from taxation	(1 674)	(673)
- (Gain)/loss earned in lower tax jurisdictions	(1 601)	5 533
- Other	1 252	1 454
Tax effect of utilisation of tax loss carry forward	-	(1 654)
Tax effect of expiry of tax carry forward	-	1 651
Income tax expense for the period	**18 516**	**5 828**

23 Income Taxes (Continued)

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

	31 December 2004	Movement	30 June 2005
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment and intangible assets	12 259	(4 577)	7 682
Provision for loan impairment	28 689	(1 127)	27 562
Accruals	6 913	2 937	9 850
Other	3 740	894	4 634
Gross deferred tax asset	**51 601**	**(1 873)**	**49 728**
Deferred tax asset netted off within entities of the Group	(35 014)	1 537	(33 477)
Deferred tax asset	**16 587**	**(336)**	**16 251**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(18 722)	(1 350)	(20 072)
Trading securities	(28 501)	959	(27 542)
Accruals	(9 179)	(1 107)	(10 286)
Other	(7 113)	1 368	(5 745)
Gross deferred tax liability	**(63 515)**	**(130)**	**(63 645)**
Deferred tax liability netted off within entities of the Group	35 014	(1 537)	33 477
Deferred tax liability	**(28 501)**	**(1 667)**	**(30 168)**
Total net deferred tax liability	**(11 914)**	**(2 003)**	**(13 917)**

23 Income Taxes (Continued)

	31 December 2003	Movement	30 June 2004
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment and intangible assets	9 822	1 845	11 667
Tax loss carry forward	5 490	(3 226)	2 264
Accruals	3 910	5 270	9 180
Other	1 361	704	2 065
Gross deferred tax asset	**20 583**	**4 593**	**25 176**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(17 292)	(486)	(17 778)
Provision for loan impairment	453	(453)	-
Accruals	(9 926)	1 052	(8 874)
Other	(7 266)	(2 724)	(9 990)
Gross deferred tax liability	**(34 031)**	**(2 611)**	**(36 642)**
Total net deferred tax liability	**(13 448)**	**1 982**	**(11 466)**

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 equity had no impact on the deferred tax position of the Group.

24 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 three main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products of/to corporate clients.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and personal instalment loans.

Funds are ordinarily reallocated between segments free of charge. There are no material items of income or expense between the business segments.

24 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group for the six-month periods ended 30 June 2005 and 30 June 2004 is set out below:

Six-Month Period Ended 30 June 2005	Commercial banking	Investment banking	Retail banking	Eliminations	Total
Total revenues	**346 814**	**62 476**	**37 819**	**-**	**447 109**
Segment results	**166 860**	**22 093**	**(60 407)**	**-**	**128 546**
Unallocated costs					(28 997)
Profit from operations					**99 549**
Share of profit of associated company					6 239
Profit before income tax					**105 788**
Income tax expense					(18 516)
Profit					**87 272**
Profit is attributable to					
Equity holders of the Company					87 224
Minority interest					48
30 June 2005					
Segment assets	**6 813 182**	**1 168 979**	**1 258 929**	**(1 162 880)**	**8 078 210**
Investment in an associated company	**-**	56 488	-	**-**	56 488
Unallocated assets					16 251
Total assets					**8 150 949**
Segment liabilities	**6 238 763**	**664 502**	**1 604 261**	**(1 162 880)**	**7 344 646**
Unallocated liabilities					30 168
Total liabilities					**7 374 814**
Other segment items					
Capital expenditure	3 293	3 012	10 938	-	17 243
Depreciation expense	3 233	1 766	8 614	-	13 613
Other non-cash (expense)/income	(27 253)	(708)	2 313	-	(25 648)

24 Analysis by Segment (Continued)

Six-Month Period Ended 30 June 2004	Commercial banking	Investment banking	Retail banking	Eliminations	Total
Total revenues	298 161	48 740	17 600	-	364 501
Segment results	131 419	4 997	(75 699)	-	60 717
Unallocated costs					(7 953)
Profit from operations					52 764
Share of profit of associated company					6 256
Profit before income tax					59 020
Income tax expense					(5 828)
Profit					53 192
Profit is attributable to					
Equity holders of the Company					53 054
Minority interest					138
31 December 2004					
Segment assets	**5 794 377**	**1 252 764**	**1 247 128**	**(1 336 396)**	**6 957 873**
Investment in an associated company	-	50 249	-	-	50 249
Unallocated assets					16 587
Total assets					**7 024 709**
Segment liabilities	**5 248 783**	**896 316**	**1 477 073**	**(1 336 396)**	**6 285 776**
Unallocated liabilities					28 501
Total liabilities					**6 314 277**
Other segment items					
Capital expenditure	(4 272)	(1 734)	(7 360)	-	(13 366)
Depreciation expense	(3 550)	(1 441)	(6 116)	-	(11 107)
Other non-cash income/(expenses)	(5 514)	(3 191)	(9 565)	-	(18 270)

24 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the six-month period ended 30 June 2005.

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	452 341	576 254	23 441	111 534	13 748	1 177 318
Mandatory cash balances with central banks	137 755	26 974	6 694	-	-	171 423
Trading securities	598 291	24 341	27 272	-	1 402	651 306
Due from other banks	208 318	358 039	34 797	4 120	-	605 274
Loans and advances to customers	4 291 924	101 510	453 981	34 160	6 346	4 887 921
Investments	130 032	-	-	-	-	130 032
Other assets and receivables	201 408	156 329	2 471	1 060	8 888	370 156
Premises and equipment and intangible assets	110 696	1 080	29 492	-	-	141 268
Deferred tax asset	16 251	-	-	-	-	16 251
Total assets	**6 147 016**	**1 244 527**	**578 148**	**150 874**	**30 384**	**8 150 949**
Liabilities						
Due to other banks	232 562	144 970	127 748	-	32 874	538 154
Customer accounts	3 567 965	870 048	177 069	56 465	18 533	4 690 080
Promissory notes issued	282 564	27 519	4	-	741	310 828
Other borrowed funds	2 086	1 215 846	5 007	17 057	10 043	1 250 039
Other liabilities and payables	87 148	439 325	28 304	344	424	555 545
Deferred tax liability	30 168	-	-	-	-	30 168
Total liabilities	**4 202 493**	**2 697 708**	**338 132**	**73 866**	**62 615**	**7 374 814**
Net balance sheet position as at 30 June 2005	**1 944 523**	**(1 453 181)**	**240 016**	**77 008**	**(32 231)**	**776 135**

24 Analysis by Segment (Continued)

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

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

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies both as at 30 June 2005 and 31 December 2004.

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

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

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

25 Financial Risk Management

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

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

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

Credit risk. The Group takes on exposure to credit risk 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.

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

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

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

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

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

25 Financial Risk Management (Continued)

Currency risk. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments. As at 30 June 2005 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	647 409	356 258	137 821	35 830	1 177 318
Mandatory cash balances with central banks	-	137 755	26 974	6 694	171 423
Trading securities	426 038	194 657	20 055	10 556	651 306
Due from other banks	388 858	197 617	-	18 799	605 274
Loans and advances to customers	2 781 200	1 751 482	279 932	75 307	4 887 921
Investments	130 032	-	-	-	130 032
Other assets and receivables	213 396	101 293	38 669	16 798	370 156
Premises and equipment and intangible assets	-	110 696	1 080	29 492	141 268
Deferred tax asset	-	16 251	-	-	16 251
Total assets	**4 586 933**	**2 866 009**	**504 531**	**193 476**	**8 150 949**
Liabilities					
Due to other banks	216 629	146 452	141 196	33 877	538 154
Customer accounts	2 270 969	1 857 793	455 774	105 544	4 690 080
Promissory notes issued	81 784	224 983	4 057	4	310 828
Other borrowed funds	1 242 946	2 086	-	5 007	1 250 039
Other liabilities and payables	375 449	144 073	32 648	3 375	555 545
Deferred tax liability	-	30 168	-	-	30 168
Total liabilities	**4 187 777**	**2 405 555**	**633 675**	**147 807**	**7 374 814**
Net balance sheet position	**399 156**	**460 454**	**(129 144)**	**45 669**	**776 135**
Off-balance sheet net notional position (Note 26)	**532 604**	**(309 785)**	**(10 520)**	**(298 780)**	**(86 481)**
Credit related commitments (Note 26)	**609 151**	**182 510**	**157 994**	**3 989**	**953 644**

25 Financial Risk Management (Continued)

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

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

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

25 Financial Risk Management (Continued)

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

The table below shows assets and liabilities as at 30 June 2005 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.

The liquidity position of the Group as at 30 June 2005 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1 177 318	-	-	-	-	1 177 318
Mandatory cash balances with central banks	171 423	-	-	-	-	171 423
Trading securities	651 306	-	-	-	-	651 306
Due from other banks	575 707	28 721	-	846	-	605 274
Loans and advances to customers	284 001	1 120 201	1 688 270	1 795 449	-	4 887 921
Investments	-	-	-	-	130 032	130 032
Other assets and receivables	68 114	208 745	1 071	39	92 187	370 156
Premises and equipment and intangible assets	-	-	-	-	141 268	141 268
Deferred tax asset	-	-	-	-	16 251	16 251
Total assets	**2 927 869**	**1 357 667**	**1 689 341**	**1 796 334**	**379 738**	**8 150 949**
Liabilities						
Due to other banks	235 783	118 709	26 364	157 298	-	538 154
Customer accounts	2 370 771	1 863 284	327 223	128 802	-	4 690 080
Promissory notes issued	53 268	171 684	70 953	14 923	-	310 828
Other borrowed funds	17 449	302 790	531 089	398 711	-	1 250 039
Other liabilities and payables	289 300	261 988	1 381	2 876	-	555 545
Deferred tax liability	-	-	-	-	30 168	30 168
Total liabilities	**2 966 571**	**2 718 455**	**957 010**	**702 610**	**30 168**	**7 374 814**
Net liquidity gap	**(38 702)**	**(1 360 788)**	**732 331**	**1 093 724**	**349 570**	**776 135**
Cumulative liquidity gap	**(38 702)**	**(1 399 490)**	**(667 159)**	**426 565**	**776 135**	

25 Financial Risk Management (Continued)

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

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

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

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

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

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

25 Financial Risk Management (Continued)

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

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

The table below summarises the Group's exposure to interest rate risks as at 30 June 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	1 177 318	-	-	-	-	1 177 318
Mandatory cash balances with central banks	171 423	-	-	-	-	171 423
Trading securities	288 593	-	-	-	362 713	651 306
Due from other banks	575 707	28 721	-	846	-	605 274
Loans and advances to customers	284 001	1 120 201	1 688 270	1 795 449	-	4 887 921
Investments	-	-	-	-	130 032	130 032
Other assets and receivables	68 115	208 745	1 071	39	92 186	370 156
Premises and equipment and intangible assets	-	-	-	-	141 268	141 268
Deferred tax asset	-	-	-	-	16 251	16 251
Total assets	**2 565 157**	**1 357 667**	**1 689 341**	**1 796 334**	**742 450**	**8 150 949**
Liabilities						
Due to other banks	235 783	189 522	26 364	86 485	-	538 154
Customer accounts	2 370 771	1 863 284	327 223	128 802	-	4 690 080
Promissory notes issued	53 268	171 684	70 953	14 923	-	310 828
Other borrowed funds	17 449	604 370	229 509	398 711	-	1 250 039
Other liabilities and payables	178 211	261 988	1 381	2 876	111 089	555 545
Deferred tax liability	-	-	-	-	30 168	30 168
Total liabilities	**2 855 482**	**3 090 848**	**655 430**	**631 797**	**141 257**	**7 374 814**
Net sensitivity gap	**(290 325)**	**(1 733 181)**	**1 033 911**	**1 164 537**	**601 193**	**776 135**
Cumulative sensitivity gap	**(290 325)**	**(2 023 506)**	**(989 595)**	**174 942**	**776 135**	

25 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
Total assets	**2 404 906**	**1 328 408**	**1 247 908**	**1 398 406**	**645 081**	**7 024 709**
Liabilities						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955
Other liabilities and payables	149 952	98 991	10 555	24 481	96 589	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
Total liabilities	**2 680 827**	**2 213 233**	**925 864**	**369 263**	**125 090**	**6 314 277**
Net sensitivity gap	**(275 921)**	**(884 825)**	**322 044**	**1 029 143**	**519 991**	**710 432**
Cumulative sensitivity gap	**(275 921)**	**(1 160 746)**	**(838 702)**	**190 441**	**710 432**	

25 Financial Risk Management (Continued)

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

	30 June 2005				31 December 2004			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Correspondent accounts and overnight placements with other banks	2.5%	8.1%	2.0%	2.2%	1.4%	0.5%	0.0%	2.1%
Mandatory cash balances with central banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	6.9%	8.2%	4.1%	8.4%	7.9%	10.2%	4.9%	7.8%
Due from other banks	3.1%	7.4%	-	4.1%	5.4%	2.1%	-	11.7%
Loans and advances to customers	11.4%	12.7%	8.0%	12.4%	11.2%	13.6%	8.1%	14.3%
Liabilities								
Due to other banks	4.2%	5.7%	3.5%	2.2%	2.8%	2.3%	3.3%	0.9%
Customer accounts								
- current and settlement accounts	0.4%	0.0%	1.1%	0.0%	0.6%	1.1%	0.9%	1.0%
- term deposits	4.7%	4.2%	3.9%	10.3%	5.7%	5.2%	5.5%	9.8%
Promissory notes issued	4.7%	3.5%	5.7%	0.0%	3.8%	6.6%	6.7%	13.0%
Other borrowed funds	8.3%	7.5%	-	-	8.2%	7.4%	-	-

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

26 Contingencies, Commitments and Derivative Financial Instruments

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

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

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

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

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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 interim consolidated statement of income as presented in these interim 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 interim consolidated financial statements.

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 30 June 2005 no provision for potential tax liabilities had been recorded (31 December 2004: no provision).

Capital commitments. As at 30 June 2005 the Group had capital commitments of USD 74 000 thousand, of which USD 51 000 thousand relates to capital construction, modernisation and repair of premises, USD 11 000 thousand relates to purchase and installation of new computer systems, USD 12 000 thousand relates to other capital commitments. As at 31 December 2004 the Group had capital commitments of USD 30 499 thousand, of which USD 9 660 thousand related to capital construction, modernisation and repair of premises, USD 9 630 thousand related to purchase and installation of new computer systems, USD 11 209 thousand related to other capital commitments. 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 were as follows:

	30 June 2005	**31 December 2004**
Not later than 1 year	12 952	11 754
Later than 1 year and not later than 5 years	26 740	26 666
Later than 5 years	7 445	7 341
Total operating lease commitments	**47 137**	**45 761**

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

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Outstanding credit related commitments were as follows:

	Note	30 June 2005	31 December 2004
Guarantees issued		540 581	597 850
Export letters of credit		253 895	346 945
Import letters of credit	15	179 678	151 923
Less: provision for losses on credit related commitments	17	(20 510)	(21 123)
Total credit related commitments		**953 644**	**1 075 595**

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

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

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Provision for losses on credit related commitments as at 1 January	**21 123**	**7 782**
(Release of provision)/provision for losses on credit related commitments during the period	(613)	3 820
Provision for losses on credit related commitments as at 30 June	**20 510**	**11 602**

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.

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 30 June 2005.

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value
Deliverable forwards						
Foreign currency						
- sale of foreign currency	19 511	-	-	318 822	-	-
- purchase of foreign currency	138 905	(5)	4 287	313 986	(6 859)	2 024
Securities						
- sale of securities	72 794	(341)	170	12 260	(44)	6
- purchase of securities	25 645	-	843	25 082	-	1 038
Non-deliverable forwards						
Foreign currency						
- sale of foreign currency	2 077	-	16	193 282	(4 076)	11
- purchase of foreign currency	-	-	-	150 598	(576)	2 017
Securities						
- sale of securities	-	-	-	244 860	(88 035)	-
- purchase of securities	30 750	-	188	-	-	-
Futures						
Foreign currency						
- sale of foreign currency	-	-	-	166 537	-	4 708
- purchase of foreign currency	-	-	-	5 718	(59)	-
Securities						
- sale of securities	-	-	-	30 750	(133)	23
- purchase of securities	-	-	-	-	-	-
Spot						
Foreign currency						
- sale of foreign currency	1 877 745	(48)	1	1 621 601	-	1
- purchase of foreign currency	1 942 248	(4 088)	3 776	1 623 427	(3 601)	3 236
Call options						
Foreign currency						
- sale of call options	-	-	-	34 244	(772)	-
- purchase of call options	4 853	-	20	-	-	-
Securities						
- sale of call options	-	-	-	1 250	(165)	-
- purchase of call options	-	-	-	3 563	-	125
Commodities						
- sale of call options	38 213	(2 034)	-	-	-	-
- purchase of call options	-	-	-	38 213	-	2 034
Put options						
Foreign currency						
- sale of put options	-	-	-	4 851	(57)	-
- purchase of put options	5 461	-	66	-	-	-
Securities						
- sale of put options	-	-	-	4 499	(1)	-
- purchase of put options	-	-	-	7 572	-	18
Swaps						
Interest rate on foreign currency	-	-	-	100 000	(195)	-
Total		**(6 516)**	**9 367**		**(104 573)**	**15 241**

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Forward and futures positions in securities as at 30 June 2005 are summarised below. As at 30 June 2005 the major respective securities' long balance sheet positions of the Group exceeded the respective securities' short deliverable forward positions. Refer to Note 8.

	30 June 2005	
	Principal or agreed amount	
	Sale	Purchase
Corporate shares of Russian entities	244 860	-
US Treasury Notes	30 750	30 750
Corporate Eurobonds	27 822	-
Russian Federation Eurobonds	24 659	43 485
Corporate bonds	24 592	-
Municipal bonds	6 349	-
Eurobonds of other states	1 200	7 242
ADRs and GDRs	432	-
Total	**360 664**	**81 477**

Fiduciary assets. These assets are not included in the Group's interim consolidated 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:

	30 June 2005 Nominal value	31 December 2004 Nominal value
Shares in companies held in custody	249 324	132 506
Corporate bonds held in custody	130 628	143 833
Promissory notes of companies held in custody	60 004	69 535
OVGVZ held on account with Vneshtorgbank	28 681	31 595
Eurobonds	25 623	3 659
Client OFZ securities held on an account with NDC	19 586	19 302
Other	138	7 951

Assets pledged and restricted. As at 30 June 2005 the Group had the following assets pledged as collateral:

	Notes	30 June 2005	31 December 2004
Trading securities	8, 14	25 693	83 594
Loans and advances to customers	10, 14	59 186	78 624
Precious metals	12, 14	20 174	21 432
Total		**105 024**	**183 650**

Mandatory cash balances with central banks in the amount of USD 171 423 thousand (31 December 2004: USD 139 549 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

27 Fair Value of Financial Instruments

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

The following table summarises the carrying amounts and fair values of those principal financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	30 June 2005		31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents (Note 7)	1 177 318	1 177 318	997 278	997 278
Mandatory cash balances with central banks	171 423	171 423	139 549	139 549
Trading securities (Note 8)	651 306	651 306	717 050	717 050
Due from other banks (Note 9)	605 274	605 274	570 642	570 642
Loans and advances to customers (Note 10)	4 887 921	4 890 180	4 100 089	4 103 116
Investments (Note 11)	130 032	130 032	60 933	60 933
Financial liabilities				
Due to other banks (Note 14)	538 154	538 154	499 958	499 958
Customer accounts (Note 15)	4 690 080	4 690 080	4 492 072	4 492 072
Promissory notes issued	310 828	310 828	206 223	206 223
Other borrowed funds (Note 16)	1 250 039	1 254 385	706 955	710 672

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

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

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

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

Financial instruments measured at fair value in the financial statements. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 26.

28 Related Party Transactions

For the purposes of these interim 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. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

28 Related Party Transactions (Continued)

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

	30 June 2005/Six-Month Period Ended 30 June 2005			31 December 2004/Six-Month Period Ended 30 June 2004		
	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other
Trading securities as at the period end	**531**	**-**	**11 117**	**58**	**-**	**12 545**
Loans and advances to customers as at the period end	**-**	**95 443**	**20 079**	**12 785**	**47 042**	**30 591**
USD, effective contractual rate of 0.0%	-	-	-	-	-	1 903
USD, effective contractual rate of 8.8% - 10.3%	-	37 436	1 910	-	-	-
USD, effective contractual rate of 10.8% - 12.5%	-	26 091	-	-	3 250	-
USD, effective contractual rate of 12.6-14.0%	-	16 606	18 169	131	41 612	28 688
RUR, effective contractual rate of 0.0%	-	66	-	-	-	-
RUR, effective contractual rate of 8.5%	-	14 544	-	-	-	-
RUR, effective contractual rate of 10.7% - 19.0%	-	700	-	12 654	2 180	-
Interest income for the period	**167**	**5 971**	**2 804**	**2 104**	**2 279**	**77**
Receivables as at the period end	**14**	**4 728**	**1**	**9**	**16 074**	**-**
Customer accounts Current/settlement accounts as at the period end	**64 296**	**178 320**	**1 534**	**110 330**	**13 981**	**28 612**
RUR, effective contractual rate of 0.0%-2.0%	61 664	30 122	1 534	105 007	10 196	24 671
USD, effective contractual rate of 0.0%-2.0%	2 630	143 900	-	4 392	3 647	3 941
EUR, effective contractual rate of 0.0%-2.0%	2	13	-	308	138	-
UAH, effective contractual rate of 0.0%-2.0%	-	4 285	-	623	-	-
Term deposits as at the period end	**105 136**	**438 388**	**10 981**	**55 268**	**969 191**	**21 664**
RUR, effective contractual rate of 2.0% - 12.5%	68 937	2 959	-	19 332	5 767	21 664
USD, effective contractual rate of 1.8% - 8.5%	36 199	412 480	10 981	35 936	963 424	-
UAH, effective contractual rate of 9.0%	-	22 949	-	-	-	-
Interest expense for the period	**1 126**	**15 187**	**412**	**802**	**5 844**	**90**

28 Related Party Transactions (Continued)

	30 June 2005/Six-Month Period Ended 30 June 2005			31 December 2004/Six-Month Period Ended 30 June 2004		
	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its share-holders (Note 1)	Other
Promissory notes issued as at the period end	**779**	**16 603**	**3 556**	**1 296**	**2 552**	**-**
RUR, effective contractual interest rate of 0.0%	762	162	3 556	1 259	209	-
RUR, effective contractual interest rate of 5.0% - 11.5%	17	15 929	-	22	2 343	-
USD, effective contractual interest rate of 4.1%-7.7%	-	512	-	15	-	-
Payables as at the period end	**1**	**2 454**	**-**	**-**	**298**	**-**
Guarantees issued by the Group as at the period end	**128 859**	**925**	**-**	**96 883**	**18**	**-**
Import letters of credit as at the period end	**-**	**-**	**2 972**	**-**	**-**	**6 101**
Fee and commission income for the period	**1 389**	**1 180**	**240**	**2 200**	**1 766**	**186**
Other income for the period	**5**	**131**	**-**	**1 166**	**-**	**1 531**
Other expenses for the period	**-**	**224**	**-**	**117**	**984**	**9 890**

Key management compensation is presented below:

	30 June 2005	31 December 2004
Key management compensation accrual	**21 559**	**22 267**
Salaries	474	-
Bonuses	21 085	22 267

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Key management compensation expense	**13 721**	**9 890**
Salaries	3 427	3 489
Bonuses	10 294	6 401

29 Principal Consolidated Subsidiaries

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

As at 30 June 2005 and 31 December 2004 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa Bank Ukraine, which is 96.9% owned and controlled as at 30 June 2005 (31 December 2004: 94.7% owned and controlled).

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printed by **eprint*financial*.com**
tel: + 44 (0) 20 7613 1800 document number 3352