ALFA BANK HOLDINGS LIMITED

Consolidated Financial Statements

30 June 2002

Contents

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AUDITORS' REPORT

To the Shareholders and Board of Directors of Alfa Bank Holdings Limited:

1 We have audited the accompanying consolidated balance sheet of Alfa Bank Holdings Limited (the "Group" as defined in Note 1 to the consolidated financial statements) as at 30 June 2002, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the six-month period then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2002 and the consolidated results of its operations and its cash flows for the six-month period ended 30 June 2002 in accordance with International Accounting Standards.

4 Without qualifying our opinion, we draw attention to Notes 8, 18, 25 and 27 to the consolidated financial statements. A large portion of the Group's assets are due from related parties, a significant component of the Group's earnings are derived from activities with related parties and, in addition, the Group has significant credit commitments with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Moscow, Russia
30 September 2002

(expressed in thousands of US dollars - Note 3)

	Note	30 June 2002	31 December 2001
Assets			
Cash and cash equivalents	5	442 876	458 774
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		190 181	142 053
Trading securities	6	222 626	156 673
Due from other banks	7	165 645	124 357
Loans and advances to customers	8	1 724 256	1 417 459
Investments available for sale	9	118 130	137 180
Other assets and receivables	10	152 486	175 855
Premises and equipment	11	116 435	113 283
Total assets		**3 132 635**	**2 725 634**
Liabilities			
Due to other banks	12	459 531	340 277
Customer accounts	13	1 702 132	1 431 575
Promissory notes		447 664	449 792
Other borrowed funds	14	69 614	51 215
Other liabilities and payables	15	132 473	161 961
Deferred tax liability	21	9 824	9 192
Total liabilities		**2 821 238**	**2 444 012**
Minority interest		**3 494**	**3 598**
Shareholders' equity			
Share capital	16	112 800	112 800
Fair value reserve for investments available for sale	9	45 823	45 678
Revaluation reserve for premises and equipment	11	6 803	7 339
Retained earnings		142 477	112 207
Total shareholders' equity		**307 903**	**278 024**
Total liabilities and shareholders' equity		**3 132 635**	**2 725 634**

Signed on behalf of the Board of Directors on 30 September 2002.

Mr. Alex Knaster Chief Executive Officer	Mr. Teijo Pankko Chief Financial Officer

	Note	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Interest income	17	158 087	83 787
Interest expense	17	(72 417)	(42 738)
Net interest income		**85 670**	**41 049**
Provision for loan impairment	7, 8	(16 009)	(16 518)
Net interest income after provision for loan impairment		**69 661**	**24 531**
Gains less losses arising from trading securities		13 397	21 110
Gains less losses arising from investments available for sale	9	5 275	(1 087)
Gains less losses arising from trading in foreign currency		15 397	12 971
Gains less losses from trading in precious metals		(2 429)	1 915
Foreign exchange translation gains less losses		(3 972)	(9 737)
Fee and commission income	18	38 915	44 958
Fee and commission expense	18	(17 181)	(8 535)
Other provisions	9, 10, 25	(6 841)	(2 128)
Other operating income	19	20 071	23 079
Net revenues		**132 293**	**107 077**
Operating expenses	20	(105 591)	(100 705)
Monetary gain		18 600	32 260
Profit before taxation		**45 302**	**38 632**
Taxation	21	(1 617)	(1 174)
Profit after taxation		**43 685**	**37 458**
Minority interest		(65)	305
Net profit		**43 620**	**37 763**

(expressed in thousands of US dollars - Note 3)

	Note	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Cash flows from operating activities			
Interest received		141 759	78 575
Interest paid		(60 601)	(39 569)
Income received from trading in trading securities		16 335	28 546
Income received from trading in foreign currency		15 253	12 457
(Loss)/income received from trading in precious metals		(3 286)	1 915
Fees and commissions received		38 915	36 865
Fees and commissions paid		(17 181)	(8 419)
Other income received		15 542	16 508
Operating expenses paid		(111 341)	(103 984)
Income tax paid		(985)	(296)
Operating profits before changes in operating assets and liabilities		**34 410**	**22 598**
Net cash increase/(decrease) from operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		(48 128)	(27 089)
Net increase in trading securities		(68 890)	(44 444)
Net increase in due from other banks		(39 482)	(21 708)
Net increase in loans and advances to customers		(278 087)	(178 881)
Net (increase)/decrease in other assets and receivables		(15 011)	149 967
Net increase in due to other banks		111 777	100 995
Net increase in customer accounts		233 985	130 249
Net decrease in promissory notes		(13 165)	(91 585)
Net decrease in other liabilities and payables		(32 601)	(1 502)
Net cash (used in)/from operating activities		**(115 192)**	**38 600**
Cash flows from investing activities			
Purchase of premises and equipment, net		(7 513)	(18 484)
Proceeds from disposal/(acquisition) of investments available for sale, net		22 151	(6 791)
Dividend income received		1 114	872
Acquisition of subsidiaries		-	14 357
Net cash from/(used in) investing activities		**15 752**	**(10 046)**
Cash flows from financing activities			
Contribution from shareholder		56 400	-
Receipt of other borrowed funds		28 898	-
Repayment of other borrowed funds		(10 224)	(12 715)
Net cash from/(used in) financing activities		**75 074**	**(12 715)**
Effect of foreign exchange rate changes on cash and cash equivalents		**8 468**	**4 205**
Net (decrease)/increase in cash and cash equivalents		**(15 898)**	**20 044**
Cash and cash equivalents at beginning of the period		458 774	258 916
Cash and cash equivalents at the end of the period	**5**	**442 876**	**278 960**

Alfa Bank Holdings Limited
Consolidated Statement of Changes in Shareholders' Equity for the Six-Month Period Ended 30 June 2002
(expressed in thousands of US dollars - Note 3)

	Share capital	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises and equipment**	**Retained earnings**	**Total share-holders' equity**
Balance at 31 December 2000 (as previously reported)	**56 40**	**-**	**8 15**	**60 43**	**124 99**
Effect of adopting IAS 39	-	11 39	-	-	11 39
Balance at 1 January 2001 (restated)	**56 40**	**11 39**	**8 15**	**60 43**	**136 38**
Net fair value gains arising on investments available for sale (Note 9)	-	38 51	-	-	38 51
Revaluation of premises and equipment, net of taxation (Note 11)	-	-	189	-	189
Translation movement	-	-	-	(24 739	(24 739
Other movements	-	-	(1 003	1 00	-
Profit for the period	-	-	-	37 76	37 76
Balance at 30 June 2001	**56 40**	**49 91**	**7 33**	**74 46**	**188 11**

	Share capital	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises and equipment**	**Retained earnings**	**Total share-holders' equity**
Balance at 31 December 2001	**112 80**	**45 67**	**7 33**	**112 20**	**278 02**
Net fair value gains arising on investments available for sale (Note 9)	-	6 67	-	-	6 67
Transfer of net fair value gains arising on investments available for sale to net profit	-	(6 527	-	-	(6 527
Translation movement	-	-	-	(13 886	(13 886
Other movements	-	-	(536)	536	-
Profit for the period	-	-	-	43 62	43 62
Balance at 30 June 2002	**112 80**	**45 82**	**6 80**	**142 47**	**307 90**

1 Principal Activities of Alfa Bank Holdings Limited

Alfa Bank Holdings Limited and its subsidiaries (the "Group" or "Alfa Bank Group") are part of the Alfa Group Consortium (the "Consortium") and comprise two main business segments, commercial banking and investment banking. The commercial banking activities of the Group are carried out principally by Alfa Bank and its subsidiaries and the investment banking activities of the Group are carried out principally by Alfa Capital Investments Limited and certain other subsidiaries. Refer to Note 22 for further information on the two primary business segments of the Group.

The Consortium operates in the following business segments: international commodities, domestic commodities, retail trade, food processing, insurance, oil and gas and telecommunications, in addition to its financial services activities all of which are recorded in these consolidated financial statements.

A substantial part of the Consortium's and that of the Group's activities is carried out in Russia. However, a majority of the Group's operations, assets and liabilities are denominated in US Dollars which is regarded by Management as the Group's functional and measurement currency. Refer to Note 23 for a currency analysis of the Group.

A summary of the constituent entities within Alfa Bank Holdings Limited is set out below. Refer to Note 28 for a comprehensive listing of principal subsidiaries. The number of employees of the Group at 30 June 2002 is 6 688 (31 December 2001: 7 071).

Alfa Bank Holdings Limited is registered at PO Box 3339, Geneva Place, 333 Waterfront Drive, Road Town, Tortola, British Virgin Islands.

Commercial Banking. Alfa Bank (the "Bank") is an open joint stock commercial bank. 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 inter-bank 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.

The Bank had 31 branches within the Russian Federation at 30 June 2002.

The Bank's registered office is located at 7, bld. 1 Novatorov Str., Moscow 117425. The Bank's principal place of business is 9 Mashi Poryvaevoy Str., Moscow 107078.

At 30 June 2002 the Bank has nine Russian companies as shareholders, all of which are wholly owned by Alfa Bank Holdings Limited. The Bank's major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Ltd and Alfa Capital Markets.

Investment banking. Alfa Bank Holdings Limited is also the parent company of Alfa Capital Investments Limited and certain other subsidiaries which are primarily involved in the investment banking segment of the Group. Most of these companies are located outside of Russia. Refer to Note 22 for further information on the geographical segments of the Group. The activities of these companies include proprietary trading and brokerage activities, investment and merchant banking and asset management with a primary emphasis on securities within the Russian Federation and Ukraine.

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 at 30 June 2002 are denominated and settled in US Dollars.

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets; and relatively high inflation.

(expressed in thousands of US dollars - Note 3)

2 Operating Environment of the Group (Continued)

Additionally, 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. The political stabilisation beginning in 2000 and continuing into 2002 has been a positive contributing factor for the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, all of which are beyond the Group's control.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values of financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market information to reflect their best estimate of fair values where considered necessary.

3 Basis of Presentation

Basis of presentation. These consolidated financial statements of the Group are prepared in accordance with International Accounting Standards ("IAS"). The consolidated financial statements are prepared under the historical cost convention and modified by the revaluation of investments available for sale, financial assets and financial liabilities held for trading, all derivative contracts and premises, as described in Note 4 below.

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 Trust and Alfa Capital Asset Management) maintain their accounting records in compliance with Russian Accounting Regulations and Alfa Capital Ukraine, Alfa Bank Ukraine and Ostra Kiev Insurance Company maintain their accounting records in accordance with Ukrainian Accounting Regulations. Other companies maintain their accounting records in compliance with the applicable companies' law in their respective jurisdictions. As indicated earlier, a majority of the Group's transactions by value are undertaken and settled in US Dollars and its assets and liabilities are primarily denominated in US Dollars. The accounting records of the Group are maintained such that original US Dollar and other currency amounts can be determined. The measurement currency of the Group is the US Dollar. 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. These consolidated financial statements, expressed in US Dollars, have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with International Accounting Standards issued by the International Accounting Standards Committee.

The US Dollar has been selected as the measurement currency for the consolidated financial statements of Alfa Bank Holdings Limited as a significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars ("USD"). Moreover, the Group's (and the Bank's) assets and liabilities are largely denominated and settled in United States Dollars and other freely convertible currencies (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.

In accordance with IAS 34 "Interim Financial Reporting", the Group is required to present in its half-yearly interim consolidated financial statements the following information:

Consolidated balance sheet:	at 30 June 2002 and 31 December 2001;
Consolidated statement of income:	six months ended 30 June 2002 and 30 June 2001;
Consolidated statement of cash flows:	six months ended 30 June 2002 and 30 June 2001; and
Consolidated statement of changes in shareholders' equity:	six months ended 30 June 2002 and 30 June 2001.

These consolidated financial statements are in compliance with the above requirements.

3 Basis of Presentation (Continued)

The accounting policies used in preparing these interim consolidated financial statements are consistent with those used in the annual financial statements.

As at 1 January 2001, the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The financial effects of prospectively adopting IAS 39 are reported in the consolidated statement of changes in shareholders' equity.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period.

Consolidation. Subsidiaries, which are those companies 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 the operations, have been fully consolidated. Subsidiaries are consolidated from the date when effective control is transferred to the Group and are removed from consolidation from the date of disposal. All intercompany accounts, transactions and profits have been eliminated upon consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Minority interests are separately disclosed.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which is not owned, directly or indirectly through subsidiaries, by the Group. Minority interest in the consolidated balance sheet is recorded separate 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 operational results of the current period is recorded in the consolidated statement of income.

Foreign currency translation. Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated to USD using the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities (excluding currencies of countries with hyperinflationary economies), which are denominated in currencies other than USD, 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 (excluding currencies of countries with hyperinflationary economies), have been translated into USD using a basis that approximates the rate of exchange in effect 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.

As the Bank and certain other Group companies operate independently of the Group, 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. Thus, the accounts of the Bank and certain other Group companies have been adjusted for hyperinflation and then translated into USD at the applicable period end exchange rate as required by IAS 21. Refer to "Accounting for the Effects of Hyperinflation" below for an explanation of the conversion of the Bank's and certain other Group companies' Russian Rouble accounting records to USD.

The conversion method described above leads to a translation of non-monetary assets and liabilities, existing as at 30 June 2002, at two different rates (e.g. 31 December 2001 and 30 June 2002). In accordance with IAS 21, this exchange difference arising from the two different rates used forms part of the Group's net investment in a foreign entity and is classified as an element of equity in the consolidated financial statements until the disposal of the net investment, at which time it is recorded as income or expense. This exchange difference is recorded within the translation movement in the consolidated statement of changes in shareholders' equity.

At 30 June 2002 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 31.45 (31 December 2001: USD 1 = RR 30.14) and the average exchange rate for the six-month period ended 30 June 2002 was USD 1 = RR 31.03 (six-month period ended 30 June 2001: USD 1 = RR 28.78). During the six-month period ended 30 June 2002 the devaluation of the RR against the USD was 4.3% (six-month period ended 30 June 2001: 3.2%). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

(expressed in thousands of US dollars - Note 3)

3 Basis of Presentation (Continued)

Accounting for the effects of hyperinflation. A significant proportion of the Group's activities are carried out in the Russian Federation which continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economics". Accordingly, adjustments and reclassifications made for the purposes of IAS presentation include the restatement, in accordance with IAS 29, for changes in the general purchasing power of the Russian Rouble.

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. IAS 29 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 application of IAS 29 results in an adjustment to the consolidated statement of income for the loss of purchasing power of the Russian Rouble. This gain or loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets and liabilities, shareholders' equity and profit and loss account items.

The restated financial information of the Bank and other Russian companies has been prepared using conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Federation Statistics Agency, and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements are based on 1988 prices using 100 as the base index. The inflation indices for the five years ended prior to 30 June 2002 and the respective conversion factors are the following:

	Index	**Conversion Factor**
Year ended 31 December 1997	659 403	3.9
Year ended 31 December 1998	1 216 400	2.1
Year ended 31 December 1999	1 661 481	1.6
Year ended 31 December 2000	1 995 937	1.3
Six-month period ended 30 June 2001	2 252 016	1.1
Year ended 31 December 2001	2 371 572	1.1
Six-month period ended 30 June 2002	2 587 582	1.0

The Bank's and certain other Group companies' financial records have been maintained with the principal objective of preparing historical cost financial information. This information has been updated to reflect the effects of inflation as required by IAS 29 applying the following assumptions and methodology, and thereafter included in the consolidated balance sheet and consolidated statement of income using the period end exchange rate for translation into USD.

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 June 2002. Non-monetary assets and liabilities are restated by applying the relevant conversion factor. The effect of inflation on the net monetary position is included in the consolidated statement of income as a monetary gain or loss.

An independent market appraisal denominated in USD was used as a basis to value the Group's premises. Equipment has been indexed by the change in the CPI from the approximate date of purchase. Where large acquisitions or disposals in the period were known, indexation has been applied from that date. In all other cases, an average indexation has been applied to acquisitions and disposals. An assessment has been made of the potential impairment in the carrying value of premises and equipment, and where applicable such assets have been reduced to their recoverable amounts.

Other non-monetary assets have been indexed from the date that they were acquired.

Components of equity have been indexed by the change in the CPI from the approximate date of transactions resulting in a movement in equity.

3 Basis of Presentation (Continued)

Amounts included in the consolidated statement of income have been indexed by the change in the CPI based on following assumptions:

- In general, inflation occurred evenly over the period; and
- Income and expenditures have accrued evenly over the period except for charges against profit for aggregate movements in:
  - provision for loan impairment;
  - provision for impairment of receivables;
  - provision for impairment of investments available for sale; and
  - provision for losses on credit related commitments.

All such movements have been treated, for the purposes of this calculation, as occurring at the period end.

With the exception of the Bank and other Russian, Ukrainian and Kazakhstan companies, the measurement currency of all other material subsidiaries of the Group is the United States Dollar.

4 Significant Accounting Policies

The following accounting policies have been used by the Group in preparing financial statements of the individual entities forming part of the Group. Alfa Bank, the largest subsidiary of the Group, has also used these policies in preparing its financial information, which has been adjusted for the effects of inflation in accordance with IAS 29 (refer to Note 3) and thereafter incorporated in the accompanying 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, except 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 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 dealer'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 recognised at cost (which includes transaction costs) and subsequently re-measured 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.

Changes in fair values are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the consolidated statement of income as interest income. Dividends received are included in dividend income within other operating income.

Because of the inherent settlement risk of the securities market, trading securities purchases and sales are recorded when the transaction is settled.

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 are categorised as loans originated by the Group and are carried at amortised cost less provision for loan impairment. All loans and advances are recognised when cash is advanced to borrowers.

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 amortization 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 rate 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. 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.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio 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 legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are recorded as income and included in other operating 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" line in the consolidated statement of income.

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.

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 recognised 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 current negotiations for disposal of these investments to the third parties, 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. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recognised in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale or impairment of investments available for sale, respectively. Dividends received are included in dividend income.

Because of the inherent settlement risk, investments available for sale purchases and sales are recorded when the transaction is settled.

Sale and repurchase agreements. 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 term placements with other banks and 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.

4 Significant Accounting Policies (Continued)

Securities lent to counterparties are retained in the consolidated financial statements. Securities borrowed are not recognised 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. Provisions made during the period are included in the consolidated statement of income.

Premises and Equipment. Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimate recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

The Group's premises have been revalued to market value. The valuation was performed on the basis of an appraisal performed by a professional, internationally recognised real estate appraisal company located in Russia. Any revaluation surplus is credited to the revaluation reserve for premises and equipment.

Construction in progress is carried at cost less provision for impairment. 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.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

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

Premises	2.5% per annum;
Office equipment	16% per annum;
Computer equipment	25% per annum;
Motor vehicles	14 - 18% per annum; and
Intangible assets	10-20% per annum.

Finance leases. Upon inception of a finance lease, the Group records the net investment in lease which consists of the sum of the minimum lease term payments, initial direct costs and unguaranteed residual value (gross investment) less the unearned income. The difference between the gross investment and the cost of the leased equipment for finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortised over the life of the lease using the effective yield method.

Promissory notes. Promissory notes issued by the Group, more commonly known as "veksels", 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 recognised initially at cost, being their issue proceeds 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 recognised in the consolidated statement of income over the period of the security issue using the effective yield method.

The Group also purchases promissory notes from its customers or in the market. These promissory notes are included in trading securities, due from other banks or in loans and advances to customers, depending on their substance and subsequently remeasured and accounted in accordance with the accounting policies described above for those categories of assets.

4 Significant Accounting Policies (Continued)

Borrowings. Borrowings are recognised initially at ‘cost’, being their issue proceeds 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 amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective interest rate 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 included in gains arising from retirement of debt.

Dividends. Dividends payable are not recorded until they have been ratified by the Directors of Alfa Bank Holdings Limited.

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. Taxation on the profit or loss 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 at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet 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 recognised 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 at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual Group companies due to the number of tax jurisdictions in which the Group operates.

Deferred taxation relating to the fair value remeasurement of investment securities available for sale, which are 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 securities is realised.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income on an accruals basis using the effective yield method. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Interest income includes coupons earned on fixed income securities and accrued discount. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Derivative financial instruments. Derivative financial instruments include forward and spot transactions in foreign exchange markets and other derivative financial instruments.

Derivative financial instruments are initially recognized in the 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, options pricing models or using the spot rate at the period end as the basis 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 foreign currency derivatives are included in gains less losses arising from trading in foreign currencies. When the Group had contracts to both buy and sell foreign currencies with the same counterparty, the gains and losses have been offset.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

The Group also trades in derivatives in securities and precious metals. All related gains and losses are included within gains less losses arising from trading securities and gains less losses from trading in precious metals respectively.

The Group does not trade in derivative instruments for hedging purposes.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the 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.

Pension costs. The Group contributes to the Russian Federation state pension schemes, social insurance, obligatory medical insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred. The contributions are included in staff costs.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

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 more of all the segments are reported separately.

5 Cash and Cash Equivalents

	30 June 2002	31 December 2001
Cash on hand	72 155	74 070
Cash balances with the CBRF (other than mandatory reserve deposits)	81 404	208 620
Correspondent accounts with other banks		
- Russian Federation	26 116	12 385
- Other countries	45 130	50 702
Overnight placements with other banks		
- Russian Federation	60 675	23 781
- Other countries	157 396	89 216
Total cash and cash equivalents	**442 876**	**458 774**

6 Trading Securities

	30 June 2002	31 December 2001
Corporate Eurobonds	51 890	44 198
Russian Federation Eurobonds	51 419	28 620
Corporate bonds	46 757	29 401
Corporate shares	33 478	19 767
Promissory notes of Russian banks and enterprises	28 691	22 339
ADRs and GDRs	4 773	878
Other securities	5 618	11 470
Total trading securities	**222 626**	**156 673**

(expressed in thousands of US dollars - Note 3)

6 Trading Securities (Continued)

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally. The annual coupon rates on these bonds range from 10.5% to 12.8%. The bonds have maturity dates from December 2004 to February 2007 and yield to maturity from 11.5% to 12.1%.

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Bank's portfolio of Russian Federation Eurobonds consists of 3 tranches with maturity dates ranging from 2007 to 2030 and yield to maturity from 8.4% to 10.5%. The annual coupon rates on these bonds range from 5.0% to 12.8%, and interest is payable semi-annually.

Corporate bonds are interest bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. The bonds have maturity dates from February 2002 to November 2006 and yield to maturity from 10.1% to 20.8%. The annual coupon rates on these bonds range from 5.0% to 24.6%.

Corporate shares are shares of Russian and Ukrainian companies.

Promissory notes are interest bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. The notes have maturity dates from July 2002 to November 2002 and yield to maturity from 15.7% to 31.8%. The annual interest rate on these notes range from 15.7% to 31.8%.

American Depository Receipts ("ADRs") and Global Depository Receipts ("GDRs") are based on shares of Russian companies.

Russian Federation Eurobonds with a fair value of USD 11 813 thousand (31 December 2001: corporate eurobonds with a fair value of USD 14 841 thousand) have been pledged to third parties as collateral with respect to term placements of other banks.

The Bank is licensed by the Federal Commission on Securities Market for trading in securities.

7 Due from Other Banks

	30 June 2002	31 December 2001
Term placements with other banks	166 752	124 987
Less: Provision for loan impairment	(1 107)	(630)
Total due from other banks	**165 645**	**124 357**

Movements in the provision for loan impairment are as follows:

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Provision for loan impairment at 1 January	**630**	**1 524**
Provision for loan impairment during the period	477	506
Provision for loan impairment at the period end	**1 107**	**2 030**

As at 30 June 2002 balances due from other banks amounting to USD 1 755 thousand were of a restricted nature (31 December 2001: USD 4 245 thousand).

Geographical and currency analysis of due from other banks is disclosed in Note 23. The effective interest rates and maturity structure of due from other banks is detailed in Note 24.

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers

	30 June 2002	31 December 2001
Current loans and advances	1 752 422	1 503 625
Overdue loans and advances	82 778	10 154
Less: Provision for loan impairment	(110 944)	(96 320)
Total loans and advances to customers	**1 724 256**	**1 417 459**

Movements in the provision for loan impairment are as follows:

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Provision for loan impairment at 1 January	**96 320**	**69 549**
Provision for loan impairment during the period	15 532	16 012
Loans and advances written off during the period as uncollectable	(908)	(1 415)
Provision for loan impairment at the period end	**110 944**	**84 146**

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

	30 June 2002		31 December 2001	
	Amount	%	Amount	%
Manufacturing and construction	698 826	38	369 736	25
Energy and oil related enterprises	517 571	28	557 947	37
Trade and commerce	291 288	16	335 081	22
Telecommunications	184 496	10	199 798	13
Finance and investment companies	58 411	3	12 656	1
Agriculture	30 455	2	28 153	2
Individuals	18 050	1	3 880	-
Other	36 103	2	6 528	-
Total loans and advances to customers (aggregate amount)	**1 835 200**	**100**	**1 513 779**	**100**

As an illustration of risk concentration, at 30 June 2002 the Group had 8 borrowers with aggregated loan amounts above USD 50 000 thousand. The aggregate amount of these loans was USD 832 935 thousand or 45% of the gross loan portfolio.

Included in overdue loans at 30 June 2002 is an exposure to a large petrochemical company in the amount of USD 67 476 thousand. In September 2002 the Group finalised a restructuring of this loan and received a guarantee from a large Russian gas company.

On 2 April 2001 the Group entered into an agreement to purchase shares representing a 43.8% interest in Golden Telecom, an internet and telecommunications provider, for USD 110 000 thousand. On 10 April 2001 all rights and obligations of the Group related to the agreement were reassigned to Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A. On 10 May 2001 the shares were reregistered on the name of Alfa Telecom Limited. Purchase consideration in the amount of USD 55 000 thousand was paid on 11 May 2001 and a further USD 55 000 thousand was paid on 30 May 2001. The acquisition was financed by a loan in the amount of USD 110 000 thousand issued by the Group to Alfa Telecom Limited. The loan is repayable by May 2004 and carries nominal interest rate of 20% p.a., payable at maturity (effective interest rate of 17.0%). Also, refer to Notes 10 and 18.

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers (Continued)

The geographical and currency analysis of loans and advances to customers is disclosed in Note 23. The effective interest rates and maturity structure of the loan portfolio is detailed in Note 24. The Group has several loans to related parties. The relevant information on related party loans is disclosed in Note 27.

Loans totalling USD 15 000 thousand (31 December 2001: USD 115 000 thousand) have been pledged to third parties as collateral. Refer to Note 14.

9 Investments Available for Sale

The movement in investments available for sale is as follows:

	Six-Month Period Ended 30 June 2002	**Six-Month Period Ended 30 June 2001**
Carrying value at 1 January	**137 180**	**88 202**
Movement in fair value reserve for investments available for sale	6 672	49 915
(Proceeds from disposal)/acquisition of investments available for sale, net	(22 151)	6 791
Gains less losses arising from investments available for sale operations, net of gains previously recognised in the consolidated statement of changes in shareholders' equity	(1 252)	(1 087)
Impairment of investments available for sale	(2 319)	-
Total investments available for sale at the period end	**118 130**	**143 821**

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 investments available for sale are:

			Fair value	
Name	**Nature of business**	**Country of registration**	**30 June 2002**	**31 December 2001**
Akrikhin	Pharmaceutical	Russia	32 885	32 885
UIF Alfa Capital	Investment	Russia	26 107	21 082
Siracuse	Construction	Russia	17 279	17 279
STS TV	Television	Russia	14 425	13 438
New Channel	Television	Ukraine	10 574	9 698
Svet	Manufacturing	Russia	5 510	5 510
TV Service	Television	Russia	-	25 000
Other			11 350	12 288
Total			**118 130**	**137 180**

UIF Alfa Capital is a specialised investment fund (the "Fund") in which the Group has a majority investment. Management has valued the underlying assets in order to determine the fair value of the Group's share of the Fund's net assets.

External independent market quotations were not available for Akrikhin, Siracuse, STS TV, New Channel and certain other investments available for sale. The fair values of these assets were determined by Management on the basis of current negotiations for disposal of these investments to third parties, 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.

(expressed in thousands of US dollars - Note 3)

9 Investments Available for Sale (Continued)

Investments available for sale with a fair value of USD 6 510 thousand (31 December 2001: USD 5 704 thousand) have been pledged to third parties as collateral with respect to other borrowed funds (refer to Note 14).

10 Other Assets and Receivables

	30 June 2002	31 December 2001
Accrued interest income	38 454	17 510
Escrow account with a foreign bank	33 256	-
Receivables on operations with securities	18 175	24 872
Trade debtors and prepayments	12 888	14 471
Net investment in lease	12 378	10 189
Plastic card debtors and other settlements with clients	10 436	5 274
Receivable from related parties	8 878	64 990
Taxation receivable	5 089	2 669
Settlements on foreign exchange transactions	4 992	11 855
ATM debtors	3 213	5 344
Precious metals	2 227	11 752
Other	5 893	11 011
Subtotal	**155 879**	**179 937**
Less: provision for impairment of receivables	(3 393)	(4 082)
Total other assets and receivables	**152 486**	**175 855**

As at 30 June 2002 an amount of USD 33 256 thousand on escrow account with a foreign bank represents funds blocked with respect to acquisition of a significant investment by a related party. This escrow account was released subsequent to 30 June 2002 once the investment was made by the related party.

As at 30 June 2002 and 31 December 2001, receivable from related parties includes USD 4 400 thousand of commission income receivable from Alfa Telecom Limited for services provided by the Group in relation to the acquisition of Golden Telecom by Alfa Telecom Limited (refer to Note 8). The balance is repayable by May 2004 and carries an interest rate of 20% p.a., payable at maturity.

As at 30 June 2002 accrued interest income includes USD 21 923 thousand (31 December 2001: USD 11 720 thousand) of interest income accrued on the loan to Alfa Telecom Limited. Refer to Note 8. In addition, included in accrued interest income is an amount of USD 1 785 thousand (31 December 2001: USD 520 thousand) outstanding from other related parties.

At 31 December 2001 receivable from related parties included USD 56 400 thousand receivable from Alfa Finance Holdings S.A. with respect to a share capital contribution. This amount was fully paid in March 2002. Refer to Notes 13 and 16.

A summary of the movements in the provision for impairment of receivables is as follows:

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Provision for impairment of receivables at 1 January	4 082	11 024
(Recovery of)/provision for impairment of receivables during the period	(689)	1 040
Receivables written off during the period as uncollectable	-	(111)
Provision for impairment of receivables at the period end	**3 393**	**11 953**

(expressed in thousands of US dollars - Note 3)

11 Premises and Equipment

	Premises	Leasehold Improve-ments	Office and computer equipment	Intangible assets	Construction in progress	Total
Net book amount at 31 December 2001	**42 869**	**7 204**	**41 971**	**16 863**	**4 370**	**113 283**
Cost or valuation						
Opening balance	**47 860**	**7 798**	**70 889**	**21 913**	**4 370**	**152 842**
Additions and transfers	1 440	426	1 460	4 111	397	7 834
Disposals	-	-	(1 846)	-	-	(1 846)
Translation movement	2 036	355	2 634	339	73	5 437
Impairment (Note 20)	(615)	-	-	-	-	(615)
Closing balance	**50 727**	**8 579**	**73 137**	**26 363**	**4 840**	**163 652**
Accumulated depreciation						
Opening balance	**4 997**	**594**	**28 918**	**5 050**	**-**	**39 559**
Depreciation charge	513	983	4 650	1 404	-	7 550
Disposals	-	-	(1 525)	-	-	(1 525)
Translation movement	261	23	1 227	122	-	1 633
Closing balance	**5 771**	**1 600**	**33 270**	**6 570**	**-**	**47 217**
Net book amount at 30 June 2002	**44 956**	**6 979**	**39 867**	**19 787**	**4 840**	**116 435**

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment at their carrying value.

The branch network was revalued as at 31 December 1998 and has been restated in accordance with IAS 29 since that date. Other significant premises of the Group have been independently valued as at 31 December 2000. These valuations were carried out by an independent firm of valuers, American Appraisers. The basis used for the appraisal was market value. Included in the above net book amount of premises is USD 8 951 thousand (31 December 2001: USD 9 657 thousand) representing revaluation surplus relating to the external valuation. A cumulative deferred tax of USD 2 149 thousand (31 December 2001: USD 2 318 thousand) was calculated with respect to this revaluation adjustment and has been recorded directly to equity in accordance with the applicable accounting standards. Refer to Note 21.

Premises and equipment with carrying value of USD 3 487 thousand (31 December 2001: USD 2 972 thousand) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

(expressed in thousands of US dollars - Note 3)

12 Due to Other Banks

	30 June 2002	31 December 2001
Correspondent accounts of other banks		
- Russian Federation	245 791	181 226
- Other countries	49 798	57 524
Term placements of other banks		
- Russian Federation	38 034	17 253
- Other countries	125 908	84 274
Total due to other banks	**459 531**	**340 277**

The geographical and currency analysis of due to other banks are disclosed in Note 23. The effective interest rates and maturity structure of due to other banks is detailed in Note 24.

13 Customer Accounts

	30 June 2002	31 December 2001
State and public organisations		
- Current/settlement accounts	27 676	61 520
- Term deposits	22 292	5 663
Other legal entities		
- Current/settlement accounts	868 685	829 416
- Term deposits	86 114	50 417
Individuals		
- Current/demand accounts	255 307	179 186
- Term deposits	442 058	305 373
Total customer accounts	**1 702 132**	**1 431 575**

Economic sector concentrations within customer accounts are as follows:

	30 June 2002		31 December 2001	
	Amount	%	Amount	%
Individuals	697 365	41	484 559	34
Energy and oil	407 093	24	274 837	19
Manufacturing and construction	155 345	9	183 576	13
Trade and commerce	131 452	8	48 467	3
Mass media and telecommunications	97 716	5	93 032	6
Agriculture and food processing	66 329	4	23 867	2
Finance and investment companies	62 603	4	248 103	17
Government bodies and municipals	49 968	3	67 183	5
Other	34 261	2	7 951	1
Total customer accounts	**1 702 132**	**100**	**1 431 575**	**100**

As at 30 June 2002 customer accounts included a current account of Alfa Finance Holdings S.A. in an amount of USD 10 899 thousand (31 December 2001: USD 97 880 thousand). At 31 December 2001 a balance of USD 56 400 thousand was blocked with respect to a contribution to share capital of the Group. Refer to Notes 10 and 16.

(expressed in thousands of US dollars - Note 3)

13 Customer Accounts (Continued)

As at 30 June 2002 customer accounts included deposits of USD 5 820 thousand (31 December 2001: USD 7 897 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 25.

The geographical and currency analysis of customer accounts is disclosed in Note 23. The effective interest rates and maturity structure of customer accounts is detailed in Note 24. The Group has several deposits from related parties. The relevant information on related party deposits is disclosed in Note 27.

14 Other Borrowed Funds

	30 June 2002	31 December 2001
Russian Rouble denominated bonds	28 898	-
Loan from the Agency for Restructuring of Credit Organisations	25 272	30 571
US Commercial Paper Notes	15 444	20 644
Total other borrowed funds	**69 614**	**51 215**

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. The first coupon is to be paid at an interest rate of 18% per annum. The Bank has issued an irrevocable offer to redeem the bonds at par value along with accrued interest after six months from the issue date.

In 1999 the Group obtained financing from the Agency for Restructuring of Credit Organisations in the Russian Federation (“ARCO”). The total nominal principal amount outstanding at 30 June 2002 was RR 812 300 thousand (31 December 2001: RR 950 800 thousand). The loan bears a nominal annual interest rate of 50% of the refinancing rate set by the CBRF. Initially, the loan was due to mature during the second half of 2001. During 2001, the loan was rescheduled on the same terms and currently is to be repaid by 30 September 2003. With respect to the loan, as at 30 June 2002, the Group pledged customer loans with a total nominal amount of USD 15 000 thousand (31 December 2001: USD 115 000 thousand), investments available for sale with fair value of USD 6 510 thousand (31 December 2001: USD 5 704 thousand) and premises and equipment with a carrying value of USD 3 487 thousand (31 December 2001: USD 2 972 thousand) as collateral (refer to Notes 8, 9 and 11). Also, as at 30 June 2002 and 31 December 2001 25% of the Bank’s shares were pledged as collateral which gave ARCO voting rights, but not an economic interest in Alfa Bank.

In 1997 the Group obtained a term loan in the form of US Commercial Paper Notes in the amount of USD 77 000 thousand with a maturity date of 29 October 1998. On 23 December 1998 the Group signed a Framework Rescheduling Agreement. According to the agreement, the Group made an interim payment of USD 7 700 thousand from its own funds and paid USD 2 000 thousand from the proceeds of subordinated loans received from a related company of the Alfa Group Consortium.

In July 1999, the Group and the issuing banks signed a Reimbursement Agreement whereby the Group paid USD 17 283 thousand of principal and USD 2 907 thousand of accrued interest on the date of signing the agreement. The remaining principal amount is to be paid via scheduled repayments until 31 December 2002. The first repayment took place on 30 September 2000.

In addition, from the date of the Reimbursement Agreement until 31 December 1999, the Group capitalised additional accrued interest. From 1 January 2000 interest is to be paid on a quarterly basis at a rate of LIBOR plus 3.7% p.a. As at 30 June 2002 the outstanding principal balance of US Commercial Paper Notes was USD 14 440 thousand (31 December 2001: USD 19 302 thousand) and capitalised interest amounted to USD 1 004 thousand (31 December 2001: USD 1 342 thousand).

(expressed in thousands of US dollars - Note 3)

15 Other Liabilities and Payables

	Note	30 June 2002	31 December 2001
Accrued compensation expenses		30 064	41 058
Payable on operations with securities		26 743	38 002
Accrued interest expense		19 106	7 290
Payable to related parties		10 546	4 874
Provision for losses on credit related commitments	25	9 148	3 937
Settlements on foreign exchange transactions		5 968	8 782
Settlements with clients		5 950	34 833
Trade creditors		5 167	4 699
Plastic card creditors		5 161	7 934
Taxation payable		946	955
Other		13 674	9 597
Total other liabilities and payables		**132 473**	**161 961**

16 Share Capital

	30 June 2002		31 December 2001	
	Number of shares	Nominal amount	Number of share	Nominal amount
Ordinary shares	112 800 000	112 800	112 800 000	112 800
Total share capital	**112 800 000**	**112 800**	**112 800 000**	**112 800**

All shares have nominal value of USD 1, rank equally and carry one vote. The increase in share capital of USD 56 400 thousand during 2001 was authorised by the shareholders of Alfa Bank Holdings Limited on 30 December 2001. This amount was blocked on the current account of Alfa Bank Holdings Limited at 31 December 2001 with respect to the contribution (refer to Notes 10 and 13). This amount was fully paid in March 2002.

17 Interest Income and Expense

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Interest income		
Loans and advances to customers	138 133	68 745
Due from other banks	11 613	6 237
Trading securities	8 341	8 805
Total interest income	**158 087**	**83 787**
Interest expense		
Promissory notes	19 622	12 835
Term deposits of individuals	18 828	5 181
Term placements of other banks	18 362	2 840
Current and demand accounts	7 595	10 701
Term deposits of legal entities	5 269	7 071
Other borrowed funds	2 741	4 110
Total interest expense	**72 417**	**42 738**
Net interest income	**85 670**	**41 049**

(expressed in thousands of US dollars - Note 3)

18 Fee and Commission Income and Expense

	Note	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Commission on settlement transactions		16 741	13 469
Commission on cash transactions		7 679	5 984
Commission on guarantees issued		6 613	3 029
Commission for consulting services		3 023	2 338
Commission on transactions with securities		2 716	2 309
Commission income from the Alfa Eco Group		-	12 547
Commission income from Alfa Telecom Limited	8, 10	-	4 400
Other		2 143	882
Total fee and commission income		**38 915**	**44 958**
Commission for consulting services		11 665	3 770
Commission on settlement transactions		2 984	2 390
Commission on transactions with securities		498	1 748
Commission on cash transactions		483	248
Other		1 551	379
Total fee and commission expense		**17 181**	**8 535**
Total fee and commission income, net		**21 734**	**36 423**

For the six-month period ended 30 June 2001 commission income from the Alfa Eco Group, a member of the Consortium, relates mainly to advisory and other services provided by the Group to Alfa Eco Group in assisting them with their acquisition of a significant associate.

19 Other Operating Income

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Late charges on loans and other penalties	6 540	1 777
Leasing and other income on premises and equipment	3 519	189
Structured debt operations	2 726	13 275
Income from insurance operations	2 196	954
Dividend income	1 114	872
Other	3 976	6 012
Total other operating income	**20 071**	**23 079**

Structured debt operations represent operations with debts of other companies, which were acquired at a discount, and then sold at a higher value resulting in a gain for the Group.

(expressed in thousands of US dollars - Note 3)

20 Operating Expenses

	Note	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Staff costs		52 014	42 191
Computer and telecommunications expenses		8 840	12 076
Premises and equipment related expenses		8 540	10 180
Taxes		7 833	3 323
Consulting and professional services		6 052	9 119
Maintenance		5 876	6 549
Rent, heat and utilities		4 816	5 525
Advertising and marketing		3 553	5 497
Travel expenses		1 194	1 325
Impairment of premises and equipment	11	615	1 100
Other		6 258	3 820
Total operating expenses		**105 591**	**100 705**

21 Income Taxes

Income tax expense is comprised of the following:

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Current tax expense	985	296
Deferred taxation movement due to origination and reversal of temporary differences	632	878
Total income tax expense for the period	**1 617**	**1 174**

The income tax rate applicable to the majority of the Bank's income is 24% (30 June 2001: 43%). Effective 1 January 2001, the statutory tax rate was increased from 38% to 43%. A 24% statutory income tax rate was enacted in August 2001 and became effective starting from 1 January 2002. The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 5% (30 June 2001: from 0% to 5%). A reconciliation between the expected and the actual taxation charge is provided below.

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
IAS profit before taxation	**45 302**	**38 632**
Theoretical tax charge at the applicable statutory rate	10 873	16 612
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Recalculation of provisions in accordance with IAS	(26 456)	4 924
- Non deductible expenses	17 635	49 116
- Income which is exempt from taxation	(18 689)	(88 650)
- Loss earned in tax free jurisdictions	17 305	17 949
- Negative taxable base which has no future income tax benefit	3 702	7 918
- Income on government securities taxed at different rates	(36)	(175)
- Other IAS adjustments that have non-temporary nature	(3 005)	(7 418)
Tax effect of loss carry forward	288	898
Total income tax expense for the period	**1 617**	**1 174**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

Differences between IAS and Russian and other countries' statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits 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 2001	Movement	30 June 2002
Tax effect of deductible temporary differences			
Accumulated depreciation	6 080	1 001	7 081
Tax loss carry forward	3 009	(414)	2 595
Accruals	4 262	(4 262)	-
Other	1 775	(265)	1 510
Gross deferred tax asset	**15 126**	**(3 940)**	**11 186**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(12 826)	(1 767)	(14 593)
Provision for loan impairment	(9 453)	3 242	(6 211)
Accruals	(2 039)	2 039	-
Other	-	(206)	(206)
Gross deferred tax liability	**(24 318)**	**3 308**	**(21 010)**
Total net deferred tax liability	**(9 192)**	**(632)**	**(9 824)**

At 30 June 2002, a deferred tax liability of USD 9 824 thousand (31 December 2001: USD 9 192 thousand) has been recorded in the consolidated balance sheet, of which USD 2 149 thousand (31 December 2001: USD 2 318 thousand) relates to the Group's premises. Refer to Note 11.

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

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment

In accordance with IAS 14, “Segment Reporting”, the Group’s primary format for reporting segment information is business segments and the secondary format is geographical segments. Segment information for the two main reportable business segments of the Group, commercial banking and investment banking, is set out below for the period ended 30 June 2002.

	Commercial Banking	Investment Banking	Eliminations	Consolidated Group
Six-Month Period Ended 30 June 2002				
Net interest income after provision for loan impairment	**61 763**	**7 898**	**-**	**69 661**
Other revenues	42 948	19 684	-	62 632
Net revenues	**104 711**	**27 582**	**-**	**132 293**
Profit before taxation	**29 710**	**15 592**	**-**	**45 302**
Taxation	(1 617)	-	-	(1 617)
Profit after taxation	**28 093**	**15 592**	**-**	**43 685**
Minority interest	(65)	-	-	(65)
Net profit for the period	**28 028**	**15 592**	**-**	**43 620**
Other segment items				
Capital expenditure	(7 051)	(783)	-	(7 834)
Depreciation charge	(5 285)	(2 265)	-	(7 550)
Other non-cash income/(expenses) including provisions	(17 310)	(5 257)	-	(22 567)
30 June 2002				
Total assets	**2 594 037**	**590 017**	**(51 419)**	**3 132 635**
Total liabilities	**2 767 032**	**105 625**	**(51 419)**	**2 821 238**

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Segment information for the main geographical segments of the Group is set out below for the period ended 30 June 2002. The total carrying amount of segment assets by geographical location of assets has been presented based on the domicile of the respective Group companies (refer to Note 28), and not necessarily the ultimate domicile of the counterparty. In general, a majority of the Group's activities is carried in the Russian Federation and with Russian counterparties.

	Russia	British Virgin Islands	Isle of Man	Other	Eliminations	Consolidated Group
Six-Month Period Ended 30 June 2002						
Net interest income after provision for loan impairment	**63 614**	**5 659**	**(3 422)**	**3 810**	**-**	**69 661**
Other revenues	51 311	(7 613)	15 774	3 160	-	62 632
Net revenues	**114 925**	**(1 954)**	**12 352**	**6 970**	**-**	**132 293**
Capital expenditure	**(3 763)**	**(3 616)**	**-**	**(455)**	**-**	**(7 834)**
30 June 2002						
Total assets	**2 674 040**	**330 496**	**174 878**	**301 676**	**(348 455)**	**3 132 635**

Segment information for the two main reportable business segments of the Group, commercial banking and investment banking, is set out below for the period ended 30 June 2001 and as at 31 December 2001.

	Commercial Banking	Investment Banking	Eliminations	Consolidated Group
Six-Month Period Ended 30 June 2001				
Net interest income after provision for loan impairment	**15 725**	**8 806**	**-**	**24 531**
Other revenues	44 675	37 871	-	82 546
Net revenues	**60 400**	**46 677**	**-**	**107 077**
Profit before taxation	**2 490**	**36 142**	**-**	**38 632**
Taxation	(1 174)	-	-	(1 174)
Profit after taxation	**1 316**	**36 142**	**-**	**37 458**
Minority interest	305	-	-	305
Net profit for the period	**1 621**	**36 142**	**-**	**37 763**
Other segment items				
Capital expenditure	(16 793)	(1 866)	-	(18 659)
Depreciation charge	(4 139)	(460)	-	(4 599)
Other non-cash income/(expenses) including provisions	(17 893)	(8 452)	-	(26 345)
31 December 2001				
Total assets	**2 286 756**	**549 033**	**(110 155)**	**2 725 634**
Total liabilities	**2 473 789**	**80 378**	**(110 155)**	**2 444 012**

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Segment information for the main geographical segments of the Group is set out below for the period ended 30 June 2001 and as at 31 December 2001.

	Russia	British Virgin Islands	Isle of Man	Other	Eliminations	Consolidated Group
Six-Month Period Ended 30 June 2001						
Net interest income after provision for loan impairment	**23 398**	**982**	**(2 445)**	**2 596**	**-**	**24 531**
Other revenues	63 850	33 394	5 890	(7 644)	(12 944)	82 546
Net revenues	**87 248**	**34 376**	**3 445**	**(5 048)**	**(12 944)**	**107 077**
Capital expenditure	**(16 920)**	**-**	**-**	**(1 739)**	**-**	**(18 659)**
31 December 2001						
Total assets	**2 891 549**	**346 312**	**98 374**	**234 212**	**(844 813)**	**2 725 634**

23 Geographical Analysis and Currency Risk

Geographical analysis. The Group extended loans and received deposits, including interbank loans and deposits within the following regions:

	30 June 2002		31 December 2001	
	Loans	**Deposits**	**Loans**	**Deposits**
Russia	1 861 298	1 823 275	1 438 346	1 420 845
Europe	25 621	199 523	63 853	249 877
CIS	86 348	87 290	71 201	75 921
United States	3 137	5 710	15 000	1 092
Other	25 548	45 865	50 366	24 117
Total	**2 001 952**	**2 161 663**	**1 638 766**	**1 771 852**

Currency analysis. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At period end, the Group had balances in US dollars, Russian Roubles, the EURO and other currencies. Other currencies represent mainly amounts in Kazakhstan Tenge and Ukrainian Hryvnya.

(expressed in thousands of US dollars - Note 3)

23 Geographical Analysis and Currency Risk (Continued)

At 30 June 2002, the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	226 892	171 202	29 553	15 229	442 876
Mandatory cash balances with the CBRF and other local central banks	-	190 181	-	-	190 181
Trading securities	144 917	75 480	249	1 980	222 626
Due from other banks	143 052	15 568	5 628	1 397	165 645
Loans and advances to customers	1 168 419	531 633	14 687	9 517	1 724 256
Investments available for sale	118 130	-	-	-	118 130
Other assets and receivables	109 191	34 499	2 139	6 657	152 486
Premises and equipment	18 528	92 530	-	5 377	116 435
Total assets	**1 929 129**	**1 111 093**	**52 256**	**40 157**	**3 132 635**
Liabilities					
Due to other banks	236 424	213 546	9 259	302	459 531
Customer accounts	986 566	658 413	37 781	19 372	1 702 132
Promissory notes	250 267	186 003	5 867	5 527	447 664
Other borrowed funds	15 444	54 170	-	-	69 614
Other liabilities and payables	102 936	14 343	8 433	6 761	132 473
Deferred tax liability	-	9 824	-	-	9 824
Total liabilities	**1 591 637**	**1 136 299**	**61 340**	**31 962**	**2 821 238**
Net balance sheet position	**337 492**	**(25 206)**	**(9 084)**	**8 195**	**311 397**
Off-balance sheet net notional position	**(26 745)**	**26 426**	**(1 562)**	**2 882**	**1 001**
Credit related commitments	**718 441**	**3 647**	**23 919**	**2 555**	**748 562**

At 31 December 2001, the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Net balance sheet position	**207 007**	**22 975**	**18 626**	**33 014**	**281 622**
Off-balance sheet net notional position	**20 485**	**(82 690)**	**3 120**	**63 706**	**4 621**
Credit related commitments	**759 457**	**4 213**	**24 599**	**2 156**	**790 425**

The off-balance sheet net notional position represents forward and spot exchange positions on foreign currency and other derivative contracts entered into during 2001 and 2002.

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 increases the likelihood of future loan losses.

(expressed in thousands of US dollars - Note 3)

24 Interest Rate, Liquidity, Market and Credit Risks

Interest rate risk. The 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.

In practice, interest rates are generally fixed on a short term basis normally at three month intervals. Also, interest rates, that are contractually fixed on both assets and liabilities, are often renegotiated to reflect current market conditions.

The tables below summarise the effective average period end interest rate, 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 contractual rates.

30 June 2002	**USD**	**RR**	**Euro**	**Other currencies**
Assets				
Overnight placements with other banks	2.5%	7.8%	-	-
Interest bearing trading securities	12.4%	22.8%	-	-
Due from other banks	3.9%	8.3%	4.0%	9.1%
Loans and advances to customers	14.2%	19.8%	19.9%	14.0%
Liabilities				
Term placements of other banks	5.9%	11.2%	5.3%	8.9%
Current and demand accounts	2.0%	2.3%	2.0%	-
Term deposits of customers	7.7%	14.1%	6.2%	12.0%
Promissory notes	7.5%	16.6%	5.0%	15.5%
Other borrowed funds	5.8%	17.5%	-	-

31 December 2001	**USD**	**RR**	**Euro**	**Other currencies**
Assets				
Overnight placements with other banks	5.5%	23.0%	7.0%	6.8%
Interest bearing trading securities	10.8%	22.7%	-	-
Due from other banks	2.0%	13.0%	8.0%	6.8%
Loans and advances to customers	15.2%	21.1%	12.5%	14.0%
Liabilities				
Term placements of other banks	6.0%	9.6%	5.2%	7.3%
Current and demand accounts	2.1%	2.4%	2.1%	-
Term deposits of customers	9.5%	13.2%	6.2%	10.0%
Promissory notes	10.5%	11.6%	5.8%	-
Other borrowed funds	6.3%	17.0%	-	-

The sign "-" in the tables above mean that either the interest rate on these type of assets or liabilities is 0% or that the Group does not have the respective assets or liabilities in corresponding currencies.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 30 June 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of 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.

(expressed in thousands of US dollars - Note 3)

24 Interest Rate and Liquidity, Market and Credit Risk (Continued)

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.

The liquidity position of the Group as at 30 June 2002 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/ overdue	Total
Assets						
Cash and cash equivalents	442 876	-	-	-	-	442 876
Mandatory cash balances with the CBRF and other local central banks	190 18	-	-	-	-	190 181
Trading securities	222 626	-	-	-	-	222 626
Due from other banks	127 24	38 346	58	-	-	165 645
Loans and advances to customers	214 702	570 071	555 781	290 928	92 774	1 724 256
Investments available for sale	-	-	-	-	118 130	118 130
Other assets and receivables	84 019	25 107	845	40 288	2 227	152 486
Premises and equipment	-	-	-	-	116 435	116 435
Total assets	**1 281 645**	**633 524**	**556 684**	**331 216**	**329 566**	**3 132 635**
Liabilities						
Due to other banks	400 067	19 958	31 064	8 442	-	459 531
Customer accounts	1 303 942	256 317	132 587	9 286	-	1 702 132
Promissory notes	166 537	204 600	40 641	35 886	-	447 664
Other borrowed funds	-	51 645	12 105	5 864	-	69 614
Other liabilities and payables	68 394	34 109	9 998	19 972	-	132 473
Deferred tax liability	-	-	-	-	9 824	9 824
Total liabilities	**1 938 940**	**566 629**	**226 395**	**79 450**	**9 824**	**2 821 238**
Net liquidity gap	**(657 295**	**66 895**	**330 289**	**251 766**	**319 742**	**311 397**
Cumulative liquidity gap at 30 June 2002	**(657 295**	**(590 400)**	**(260 111)**	**(8 345)**	**311 397**	
Cumulative liquidity gap at 31 December 2001	**(647 286**	**(506 492)**	**(135 828)**	**4 291**	**281 622**	

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. 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 Management believes this is a fairer portrayal of its liquidity position.

Management believes that in spite of a substantial portion of deposits from customers having maturity on demand and less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicates that these deposits provide a long-term and stable source of funding for the Group.

24 Interest Rate and Liquidity, Market and Credit Risk (Continued)

The Group is exposed 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 also may reduce or create losses in the event that unexpected movements arise. The Group's interest rate sensitivity analysis based on the re-pricing of the Group's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above. This is primarily due to the fact that with exception to other borrowed funds (refer to Note 14) most of the interest bearing assets and liabilities have contractually fixed interest rates. However, it should be noted that often contractually fixed interest rates are amended before maturity since there is a practice in Russian banking sector to renegotiate interest rates to reflect current market conditions.

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 Board of Directors 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved quarterly by the Board of Directors.

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

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the 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.

25 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group's business activities may not coincide with the interpretation of the same activities by tax authorities. If a particular treatment was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. Tax years in Russia remain open to review by the tax authorities for three years.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there are opportunities for banks 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. 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.

(expressed in thousands of US dollars - Note 3)

25 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The Group's Management is confident 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 these consolidated financial statements.

In addition, 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.

Capital commitments. As at 30 June 2002 the Group had capital commitments in respect of new computer systems totalling USD 17 478 thousand (31 December 2001: USD 8 600 thousand). Management has already allocated the necessary resources in respect of this commitment. 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:

	30 June 2002	**31 December 2001**
Not later than 1 year	4 217	8 568
Later than 1 year and not later than 5 years	9 450	-
Later than 5 years	4 431	-
Total operating lease commitments	**18 098**	**8 568**

Credit related commitments. The credit related commitments comprise letters of credit and guarantees. The contractual amount of these commitments represents the value of risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, the Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk. Outstanding credit related commitments are as follows:

	30 June 2002	**31 December 2001**
Guarantees issued	502 229	620 298
Export letters of credit	235 617	149 283
Import letters of credit	19 864	24 781
Less: provision for losses on credit related commitments (Note 15)	(9 148)	(3 937)
Total credit related commitments	**748 562**	**790 425**

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

In May 2001 the Group entered into a performance guarantee in which it partially guaranteed TNK's payment of USD 510 000 thousand in respect of TNK's acquisition of 40% of Sidanko. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. At 31 December 2001 25% of the Bank's statutory capital amounted to approximately USD 184 780 thousand. This amount is included within total guarantees issued at 31 December 2001. Payments, that were guaranteed by the Group, were completed by TNK by the end of February 2002. No payments were made by the Group with respect to this guarantee.

(expressed in thousands of US dollars - Note 3)

25 Contingencies, Commitments and Derivative Financial Instruments (Continued)

In August 2001, with respect to an additional acquisition of 44% of Sidanko by TNK, the Group partially guaranteed TNK's payment of USD 726 000 thousand. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. At 30 June 2002 25% of the Bank's statutory capital was approximately USD 175 573 thousand (31 December 2001: USD 184 780 thousand). Respective amounts were included within total guarantees issued at 30 June 2002 and 31 December 2001.

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

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Provision for losses on credit related commitments at 1 January	**3 937**	**8 945**
Provision for losses on credit related commitments during the period	5 211	1 088
Provision for losses on credit related commitments at the period end	**9 148**	**10 033**

Derivatives financial instruments. At 30 June 2002 the Group, primarily through the Bank's operations, had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell Russian Roubles in exchange for another currency at an exchange rate agreed to at the date of the contract. Some of these contracts were entered into prior to 17 August 1998 and matured during 1998 but have not yet been settled. The Group has been able to settle outstanding contracts with a few counterparties and any resultant gains or losses have been recorded in the consolidated statement of income.

Contracts entered into prior to 17 August 1998. The Group has calculated the exposure on these outstanding contracts using the exchange rates ruling on the maturity dates of the contracts as the Group has historically settled domestic derivatives in Russian Roubles. Principal or agreed amount of contracts for which the date of maturity is past due and no settlement had been completed as of 30 June 2002 amounted to USD 163 300 thousand (31 December 2001: USD 163 300 thousand) for purchase of foreign currency with total gains of USD 29 703 thousand (31 December 2001: USD 30 991 thousand) and USD 158 000 thousand (31 December 2001: USD 158 000 thousand) for sale of foreign currency with total losses of USD 34 113 thousand (31 December 2001: USD 35 592 thousand). The Group's net loss after fully providing for receivables as at 30 June 2002 with respect of contracts entered into during 1998 is equal to USD 29 656 thousand (31 December 2001: USD 30 942 thousand).

The Civil Code of the Russian Federation stipulates a three year period for commencing action to enforce contracts. This period expired during 2001. On the basis of independent external legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, Management is of the opinion that these contracts with domestic banks are no longer legally enforceable, and that therefore no losses will arise for the Bank as a result of these contracts.

Management of the Group has therefore not recorded any liabilities in respect of these contracts in the consolidated financial statements of the Group for the periods ended 30 June 2002 and 31 December 2001. Previously recorded liabilities under these contracts, amounting to USD 2 000 thousand as at 30 June 2001, have been derecognised.

Current derivative financial instruments. The Group also engages in transactions with other 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.

The following table provides an analysis of the principal or agreed amounts of contracts outstanding at the period end and loss or gain arising. This table reflects the gross position before the netting of any counterparty position by type of instrument.

(expressed in thousands of US dollars - Note 3)

25 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The table below includes contracts with a maturity date subsequent to 30 June 2002. These contracts are short term in nature.

	Domestic		Foreign	
	Principal or agreed amount	**Unrealised gains/(losses)**	**Principal or agreed amount**	**Unrealised gains/(losses)**
Deliverable forwards				
Foreign currency				
- sale of foreign currency	-	-	17 342	-
- purchase of foreign currency	337	(8)	40 880	45
Precious metals				
- sale of precious metals	-	-	22 571	(93)
- purchase of precious metals	101 154	967	-	-
Securities				
- sale of securities	19 906	-	66 367	-
- purchase of securities	18 852	-	22 913	-
Spot				
Foreign currency				
- sale of foreign currency	1 250 968	600	986 926	(493)
- purchase of foreign currency	1 233 419	-	978 797	-
Precious metals				
- sale of precious metals	-	-	1 032	(17)
- purchase of precious metals	-	-	-	-
Securities				
- sale of securities	-	-	-	-
- purchase of securities	4 462	-	36 737	-
Total		**1 559**		**(558)**

For these deals the Group has recorded a net gain of USD 144 thousand which was included within gains less losses arising from trading in foreign currency and a net gain of USD 857 thousand with was included within gains less losses arising from trading in precious metals.

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 may be different from the fair values of certain securities. The fiduciary assets fall into the following categories:

	30 June 2002 Nominal value	**31 December 2001 Nominal value**
Shares in companies held in custody	182 162	98 768
OVGVZ held on account with Vneshtorgbank	49 669	50 988
Commercial bonds held in custody	48 545	-
Client OFZ securities held on an account with NDC	22 569	28 09
Eurobonds in Euroclear	14 952	14 700
Other	59 090	400

Assets pledged. At 30 June 2002, the Group has assets in the total amount of USD 36 810 thousand pledged (31 December 2001: USD 138 517 thousand). Refer to Notes 6, 8, 9 and 11. Also refer to Note 14 with respect to pledge of the Bank's shares.

26 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 Russian Federation has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its 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.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash and cash equivalents, mandatory cash balances with central banks, balances due from other banks, loans and advances to customers, balances due to other banks, customer accounts, promissory notes, other borrowed funds and other assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, respectively, majority of interest bearing assets and liabilities carry interest at rates approximating market interest rates. Refer to Note 24. The fair value of off-balance sheet derivative contracts is shown in Note 25.

Trading securities and investments available for sale are carried at fair value in these consolidated financial statements. As set out in Note 9, 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 current negotiations for disposal of these investments to the third parties, results of resent 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.

The fair values of share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, “Financial Instruments: Disclosure and Presentation”.

27 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.

Transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Group has significant shareholders in common. As stated in Note 1, the Group is part of the Alfa Group Consortium, and thus, the Group has certain business arrangements with other members of the Consortium. These transactions are reflected in the table below.

(expressed in thousands of US dollars - Note 3)

27 Related Party Transactions (Continued)

During period ended 30 June 2002, a number of transactions were entered into with related parties in the normal course of business. These included settlements, loans, deposit taking, trade finance, corporate finance and foreign currency transactions. A vast majority of these transactions were priced at market rates. The outstanding balances at the period end and income and expense items as well as other transactions for the period with related parties are as follows:

	Six-Month Period Ended 30 June 2002	Six-Month Period Ended 30 June 2001
Trading securities outstanding at 30 June 2002 and 31 December 2001	39 274	-
Loan to customers		
Loans outstanding at 30 June 2002 and 31 December 2001	435 427	376 157
Interest income for the period	27 344	6 258
Receivables outstanding at 30 June 2002 and 31 December 2001	32 586	77 230
Customer accounts		
Balance outstanding at 30 June 2002 and 31 December 2001	153 145	169 464
Interest expense for the period	2 914	5 863
Promissory notes outstanding at 30 June 2002 and 31 December 2001	48 056	22 918
Payables outstanding at 30 June 2002 and 31 December 2001	10 546	4 874
Guarantees issued by the Group outstanding at 30 June 2002 and 31 December 2001	201 432	433 263
Import letters of credit outstanding at 30 June 2002 and 31 December 2001	734	4 674
Export letters of credit outstanding at 30 June 2002 and 31 December 2001	1 035	-
Commission income for the period	4 264	16 947
Commission expense for the period	474	-
Other operating income for the period	33	2 663
Expense on other operations for the period	(1 851)	-

At 30 June 2002 an amount of USD 33 256 thousand on an escrow account with a foreign bank represents funds blocked with respect to acquisition of a significant investment by a related party. Refer to Note 10.

For the six-month period ended 30 June 2002 the total remuneration of the directors and key management personnel, including pension contributions, and discretionary compensation amounted to USD 1 778 thousand (six months ended 30 June 2001: USD 1 700 thousand).

28 Principal Subsidiaries

Russian Federation and CIS
Alfa Bank
Alfa Bank Kazakhstan
Alfa Bank Ukraine
Alfa Capital Asset Management
Alfa Capital Ukraine
Alfa Leasing
Alfa Trust
Ostra Kiev Insurance Company (Ukraine)

British Virgin Islands
Alfa Asset Management Limited
Alfa Capital Investments Limited
Merrow Ventures Limited

Cyprus
Alfa AM Services Limited
Alfa Capital Holding (Cyprus) Limited
Firefly Holdings Limited
Sypten Management Limited

Rest of the World
Alfa Capital Markets (USA)
Alfa-Russia Finance B.V. (Netherlands)
Alfa Securities Limited (UK)
Amsterdam Trade Bank (Netherlands)
Manwood Limited (Isle of Man)
Tormead Marketing Limited (Isle of Man)
Westlaw Incorporated (Nevis, West Indies)

29 Subsequent Events

On 24 September 2002 the name of Alfa Bank Holdings Limited was changed for ABH Financial Limited.