ABH Financial Limited

Consolidated Financial Statements

30 June 2003

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders and Board of Directors of ABH Financial Limited:

1 We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 30 June 2003, 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 2003 and the consolidated results of its operations and its cash flows for the six-month period ended 30 June 2003 in accordance with International Financial Reporting Standards.

Moscow, Russia
26 September 2003

(expressed in thousands of US dollars - Note 3)

	Note	30 June 2003	31 December 2002
Assets			
Cash and cash equivalents	5	622 668	382 234
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		290 785	214 252
Trading securities	6	650 727	409 235
Due from other banks	7	216 243	211 149
Loans and advances to customers	8	2 733 863	2 399 266
Investments available for sale	9	99 027	95 776
Other assets and receivables	10	232 205	270 350
Premises and equipment	11	150 970	135 928
Total assets		**4 996 488**	**4 118 190**
Liabilities			
Due to other banks	12	795 567	669 692
Customer accounts	13	2 757 433	1 988 360
Promissory notes issued		475 464	631 187
Other borrowed funds	14	191 685	210 125
Other liabilities and payables	15	280 034	173 843
Deferred tax liability	21	9 274	10 312
Total liabilities		**4 509 457**	**3 683 519**
Minority interest		**3 408**	**3 485**
Shareholders' equity			
Share capital	16	160 800	160 800
Fair value reserve for investments available for sale	9	64 404	62 657
Revaluation reserve for premises and equipment	11	5 731	6 267
Retained earnings		252 688	201 462
Total shareholders' equity		**483 623**	**431 186**
Total liabilities and shareholders' equity		**4 996 488**	**4 118 190**

Approved for issue by the Board of Directors and signed on its behalf on 26 September 2003.

Mr. Alex Knaster
Chief Executive Officer

Mr. Teijo Pankko
Chief Financial Officer

Consolidated Statement of Income for the Six-Month Period Ended 30 June 2003

(expressed in thousands of US dollars - Note 3)

	Note	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Interest income	17	241 399	158 087
Interest expense	17	(108 755)	(72 417)
Net interest income		**132 644**	**85 670**
Provision for loan impairment	7, 8	(18 335)	(16 009)
Net interest income after provision for loan impairment		**114 309**	**69 661**
Fee and commission income	18	56 799	38 915
Fee and commission expense	18	(28 025)	(17 181)
Gains less losses arising from trading securities		16 486	13 397
Gains less losses arising from investments available for sale	9	-	5 275
Gains less losses arising from trading in foreign currencies		10 705	15 397
Foreign exchange translation gains less losses		(14 519)	(3 972)
Other provisions	9, 10, 24	(4 180)	(6 841)
Other operating income	19	30 548	17 642
Operating income		**182 123**	**132 293**
Operating expenses	20	(143 496)	(105 591)
Monetary gain		-	18 600
Profit before tax		**38 627**	**45 302**
Income tax expense	21	(1 494)	(1 617)
Profit after tax		**37 133**	**43 685**
Minority interest		29	(65)
Net profit		**37 162**	**43 620**

(expressed in thousands of US dollars - Note 3)

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Cash flows from operating activities		
Interest received	221 851	141 759
Interest paid	(91 066)	(60 601)
Fees and commissions received	51 475	38 915
Fees and commissions paid	(28 025)	(17 181)
Income received from trading in securities	38 641	16 335
Income received from trading in foreign currencies	10 948	15 253
Other operating income received	11 294	15 542
Operating expenses paid	(124 296)	(114 627)
Income tax paid	(1 492)	(985)
Cash flows from operating activities before changes in operating assets and liabilities	**89 330**	**34 410**
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks	(64 895)	(48 128)
Net increase in trading securities	(246 489)	(68 890)
Net decrease/(increase) in due from other banks	1 470	(39 482)
Net increase in loans and advances to customers	(274 711)	(278 087)
Net decrease/(increase) in other assets and receivables	1 097	(15 011)
Net increase in due to other banks	112 778	111 777
Net increase in customer accounts	712 419	233 985
Net decrease in promissory notes issued	(172 924)	(13 165)
Net increase/(decrease) in other liabilities and payables	11 872	(32 601)
Net cash from/(used) in operating activities	**169 947**	**(115 192)**
Cash flows from investing activities		
Proceeds from disposal of investments available for sale, net	47 056	24 242
Acquisition of investments available for sale	(1 504)	(2 091)
Acquisition of premises and equipment, net	(18 079)	(7 513)
Dividend income received	1 483	1 114
Net cash from investing activities	**28 956**	**15 752**
Cash flows from financing activities		
Contribution from shareholder	48 000	56 400
Proceeds from other borrowed funds	-	28 898
Repayment of other borrowed funds	(19 489)	(10 224)
Net cash from financing activities	**28 511**	**75 074**
Effect of exchange rate changes on cash and cash equivalents	**13 020**	**47 472**
Effect of inflation on cash and cash equivalents	**-**	**(39 004)**
Net increase/(decrease) in cash and cash equivalents	**240 434**	**(15 898)**
Cash and cash equivalents as at the beginning of the period	382 234	458 774
Cash and cash equivalents as at the end of the period	**622 668**	**442 876**

(expressed in thousands of US dollars - Note 3)

	Share capital	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises and equipment**	**Retained earnings**	**Total shareholders' equity**
Balance as at 1 January 2002	**112 800**	**45 678**	**7 339**	**112 207**	**278 024**
Net fair value gains arising on investments available for sale (Note 9)	-	6 672	-	-	6 672
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	-
Net profit for the period	-	-	-	43 620	43 620
Balance as at 30 June 2002	**112 800**	**45 823**	**6 803**	**142 477**	**307 903**

	Share capital	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises and equipment**	**Retained earnings**	**Total shareholders' equity**
Balance as at 1 January 2003	**160 800**	**62 657**	**6 267**	**201 462**	**431 186**
Net fair value gains arising on investments available for sale (Note 9)	-	1 747	-	-	1 747
Translation movement	-	-	-	13 528	13 528
Other movements	-	-	(536)	536	-
Net profit for the period	-	-	-	37 162	37 162
Balance as at 30 June 2003	**160 800**	**64 404**	**5 731**	**252 688**	**483 623**

1 Principal Activities of ABH Financial Limited

ABH Financial Limited and its subsidiaries (the "Group" or "Alfa Bank Group") comprise two main business segments, commercial banking and investment banking. The commercial banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank and its subsidiaries and the investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. A substantial part of the Group's activities are carried out in Russia.

ABH Financial Limited is wholly owned by Alfa Finance Holdings S.A., which is a subsidiary within the Alfa Group Consortium (the "Consortium"). The Consortium operates in the following business segments: oil and gas, financial services, telecommunications, domestic commodities and retail trade.

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a comprehensive listing of principal subsidiaries. The number of employees of the Group as at 30 June 2003 is 6 690 (31 December 2002: 6 358).

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

Commercial Banking. Open Joint Stock Company Alfa Bank (the "Bank") is a wholly owned subsidiary of ABH Financial Limited. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank operates in all sectors of the Russian financial markets, including 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.

As at 30 June 2003 the Bank had 32 branches within the Russian Federation. The Bank's major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Limited and Alfa Capital Markets.

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

Investment banking. ABH Financial Limited is also the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking segment of the Group including proprietary trading and brokerage activities, investment and merchant banking and asset management with a primary emphasis on securities within the Russian Federation and Ukraine. Alfa Capital Holdings (Cyprus) Limited is regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002 by which it is licensed to offer financial services to members of the Group, banking or credit institutions and other experienced or professional investors outside the Group.

2 Operating Environment of the Group

The majority of the Group's operations are tied to the Russian market and accordingly the operating environment present in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group's assets and liabilities as at 30 June 2003 are denominated and settled in US Dollars.

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, 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 in most countries outside of the Russian Federation, and relatively high inflation.

In addition, 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. However, the ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

(expressed in thousands of US dollars - Note 3)

2 Operating Environment of the Group (Continued)

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 for 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 quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Preparation

Basis of preparation. These consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board.

The Bank maintains its accounting records in accordance with Russian banking regulations in the national currency of the Russian Federation, the Russian Rouble ("RR"). Certain other members of the Group (Alfa Leasing and Alfa Capital Asset Management) maintain their accounting records in compliance with Russian Accounting Regulations and 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. These consolidated financial statements have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with IFRS.

The measurement currency of these consolidated financial statements is the US Dollar ("USD"). The US Dollar has been determined to be the measurement currency as a significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars. Moreover, the Group's (and the Bank's) assets and liabilities are largely denominated and settled in US Dollars (refer to Note 23). The US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Group and the Group's cash flows are primarily denominated in US Dollars. Also, the US Dollar is the currency in which Management of the Group manages business risks and exposures, and measures the performance of its business.

The accounting records of the Group are maintained such that original US Dollar and other currency amounts can be determined. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the "Foreign Currency Translation" section of this note.

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:	as at 30 June 2003 and 31 December 2002;
Consolidated statement of income:	six months ended 30 June 2003 and 30 June 2002;
Consolidated statement of cash flows:	six months ended 30 June 2003 and 30 June 2002;
Consolidated statement of changes in shareholders' equity:	six months ended 30 June 2003 and 30 June 2002.

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

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

The Group operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial period.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3 Basis of Presentation (Continued)

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are removed from consolidation from the date the control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiaries. Minority interest related to operational results of the current period is recorded in the consolidated statement of income.

Foreign currency translation. Monetary assets and liabilities originally denominated in US Dollars are stated at their original US Dollar amounts. Monetary assets and liabilities in other currencies have been translated to US Dollars using the exchange rate in effect as at the balance sheet date. Non-monetary assets and liabilities (excluding those expressed in currencies of countries with hyperinflationary economies), whose values are denominated in currencies other than the US Dollar, have been translated at the exchange rates in effect as at the date of transaction. Income and expenses, which were earned and incurred in other currencies (excluding currencies of countries with hyperinflationary economies), have been translated into US Dollars using a basis that approximates the rate of exchange in effect as at the date of transaction. Gains and losses arising from translation of assets and liabilities are recorded in the consolidated statement of income as foreign exchange translation gains less losses. Translation differences on non-monetary items, such as equities held for trading or available for sale, are recorded as part of the fair value gain or loss.

As the Bank and certain other Group companies operate independently of the Group, 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 US Dollars at the exchange rate in effect as at the balance sheet date as required by IAS 21. Refer to "Accounting for the Effects of Hyperinflation" below for an explanation of the adjusting of the Bank's and certain other Group companies' Russian Rouble accounting records for hyperinflation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into US Dollars at the exchange rate in effect as at the balance sheet date.

The conversion method described above leads to a translation of non-monetary assets and liabilities, existing as at 30 June 2003, at two different rates (i.e. 30 June 2003 and 31 December 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 2003 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3483 (31 December 2002: USD 1 = RR 31.7844) and the average exchange rate for the six-month period ended 30 June 2003 was USD 1 = RR 31.2653 (six-month period ended 30 June 2002: USD 1 = RR 31.0168). During the six-month period ended 30 June 2003 the appreciation of the Russian Rouble against the US Dollar was 4.5% (six-month period ended 30 June 2002 devaluation: 4.3%). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

(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 has experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economics". Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current as at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

The restated financial information of the Bank and other Russian companies for the periods prior to 1 January 2003 was calculated using the 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 CPI used to restate the financial information is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors are as follows:

	Index	**Conversion Factor**
Year ended 31 December 1998	1 216 400	2.24
Year ended 31 December 1999	1 661 481	1.64
Year ended 31 December 2000	1 995 937	1.37
Year ended 31 December 2001	2 371 572	1.15
Six-month period ended 30 June 2002	2 587 582	1.06
Year ended 31 December 2002	2 730 154	1.00

The Bank's and certain other Group companies' financial information have been maintained with the principal objective of preparing historical cost financial information. This information has been updated to reflect the effects of hyperinflation 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 exchange rate in effect as at the balance sheet date for translation into US Dollars.

Monetary assets and liabilities have not been restated because they were already expressed in terms of the monetary unit current as at 31 December 2002. Non-monetary assets and liabilities (items which were not already expressed in terms of the monetary unit current as at 31 December 2002) have been restated by applying the relevant conversion factors. The effect of inflation on the Group's net monetary position has been included in the consolidated statement of income as a monetary gain or loss.

Premises and equipment has been indexed by the change in the CPI from the date of purchase or from the date of the last revaluation. Where indexation was applied, an assessment has been made of the potential impairment in value of these assets and, where applicable, such assets has been reduced to their recoverable amounts.

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

Components of equity has 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 has been indexed by the change in the CPI based on following assumptions:

- 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 has 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 US Dollar.

4 Significant Accounting Policies

The following accounting policies have been used by the Group in preparing these consolidated financial statements.

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

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

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within a one to three month period.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realized and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on trading securities. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Originated loans and provisions for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

4 Significant Accounting Policies (Continued)

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying value of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

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

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio as at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

Purchased loans and receivables. Purchased loans and receivables are categorised as held to maturity, available for sale or trading assets depending on the Management's intent. Purchased loans and receivables with a fixed maturity where Management has both the intent and the ability to hold to maturity are classified as held to maturity assets. Purchased loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates are classified as available for sale assets. Purchased loans and receivables that were acquired principally for the purpose of generating a short-term profit are classified as trading assets.

Purchased loans and receivables are initially recorded at cost (which includes transaction costs). Purchased loans and receivables classified as available for sale or trading assets and are subsequently remeasured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of available for sale assets are recorded in the consolidated statement of changes in shareholders' equity. When the available for sale assets are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income. Impairment and reversal of impairment of available for sale assets is recorded through the consolidated statement of income. Realised and unrealised gains and losses arising from changes in the fair value of trading assets are included in the consolidated statement of income in the period in which they arise. Purchased loans and receivables classified as held to maturity assets are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding purchased loans and receivables is recorded in the consolidated statement of income as interest income. All regular way purchases and sales of purchased loans and receivables are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

4 Significant Accounting Policies (Continued)

Investments available for sale. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of investments at the time of purchase.

Investments available for sale are initially recorded at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recorded in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale. Impairment and reversal of impairment of investments available for sale is recorded through the consolidated statement of income. An investment available for sale is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Dividends received are included in dividend income within the consolidated statement of income.

All regular way purchases and sales of investments available for sale are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recorded as derivative forward transactions until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investments available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated receivables from customers. Originated receivables from customers represent receivables for the sale of trading securities and investments available for sale, advances made for purchases of trading securities and investments available for sale, and other receivables and advances. Receivables are carried at amortised cost less provision for impairment. A receivable is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the receivable. Provisions made during the period are included in the consolidated statement of income.

Premises and equipment. Premises and equipment are stated at cost (restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 31 December 2002), or revalued amounts, as described below, less accumulated depreciation and impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net realisable value or its value in use.

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve included in shareholders' equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

Construction in progress is carried at cost (for assets acquired prior to 31 December 2002 restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002), 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 profit. Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

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

Premises	2.5% per annum;
Office equipment	16% per annum;
Computer equipment	25% per annum;
Motor vehicles	14 - 18% per annum;
Intangible assets	10-20% per annum; and
Leasehold improvements	over the term of the underlying lease.

Operating leases. Where the Group is the lessee, the total payments made under operating leases are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recorded as an expense in the period in which termination takes place.

Finance leases. Where the Group is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within other assets. The difference between the gross receivable and the present value of the receivable is recorded as unearned finance income. Lease income is recorded over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

With the exception as noted below, the inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the inception of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in the lease.

Finance income from leases is recorded within other operating income in the consolidated statement of income.

When impaired, a provision against net investment in lease is recorded. A financial lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the finance lease receivable.

Promissory notes issued. Promissory notes issued by the Group carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Promissory notes issued by the Group are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method.

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

4 Significant Accounting Policies (Continued)

Borrowings. Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying value of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

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

Dividends. Dividends are recorded in equity in the period in which they are ratified by the Directors of ABH Financial Limited. Dividends declared after the balance sheet date are disclosed in the subsequent events note.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income for the period comprises current tax and movements in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the period, using the tax rates enacted as at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual Group companies of the Group.

Deferred income tax relating to the fair value remeasurement of investments available for sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the consolidated statement of income when the gain or loss on the investments is realised.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes accrued coupon, discount and premium earned on fixed income instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans, which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses and portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody fees are recorded ratably over the period the service is provided.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or using the spot rate as at the balance sheet date as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

Changes in the fair value of derivatives are included in gains less losses arising from trading in foreign currency, gains less losses arising from trading securities and gains less losses from trading in precious metals within other operating income, depending on the related contracts.

The Group does not use derivative instruments for hedging purposes.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

Provisions. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Pension costs. The Group contributions to the Russian Federation state pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

5 Cash and Cash Equivalents

	30 June 2003	**31 December 2002**
Cash on hand	140 631	105 819
Cash balances with the CBRF (other than mandatory cash balances)	149 697	72 460
Correspondent accounts with other banks		
- Russian Federation	48 797	13 399
- Other countries	70 672	89 793
Overnight placements with other banks		
- Russian Federation	73 224	48 090
- Other countries	139 647	52 673
Total cash and cash equivalents	**622 668**	**382 234**

Currency and interest rates analyses of cash and cash equivalents are disclosed in Note 23.

(expressed in thousands of US dollars - Note 3)

6 Trading Securities

	30 June 2003	31 December 2002
Russian Federation Eurobonds	223 343	153 463
Corporate Eurobonds	180 125	100 873
Corporate bonds	94 130	61 116
Eurobonds of other states	67 772	19 799
Corporate shares	48 596	29 589
Promissory notes	18 348	17 604
ADRs and GDRs	5 703	10 582
Other	12 710	16 209
Total trading securities	**650 727**	**409 235**

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from June 2007 to March 2030, coupon rates of approximately 5.0%-12.8% during the six-month period ended 30 June 2003 and yields to maturity from 6.5% to 6.9% as at 30 June 2003, depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from February 2004 to February 2033, coupon rates of approximately 5.8% to 12.8% during the six-month period ended 30 June 2003 and yields to maturity from 5.7% to 10.5% as at 30 June 2003, depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. These bonds have maturity dates ranging from July 2003 to June 2009, coupon rates of approximately 8.8%-20.5% during the six-month period ended 30 June 2003 and yields to maturity from 7.6% to 25.6% as at 30 June 2003, depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in US Dollars, issued by governmental bodies of other states, and are freely tradable internationally. These bonds have maturity dates ranging from June 2013 to August 2040, coupon rates of approximately 7.7%-12.8% during the six-month period ended 30 June 2003 and yields to maturity from 7.0% to 12.0% as at 30 June 2003, depending on the type of bond issue.

Corporate shares are shares of Russian and Ukrainian companies.

Promissory notes are securities denominated in Russian Roubles, issued at a discount by large Russian companies, and freely tradable in the Russian Federation. These notes have maturity dates ranging from July 2003 to December 2005 and yields to maturity from 8.0% to 12.2% as at 30 June 2003, depending on the type of note issue.

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

Trading securities with a fair value of USD 339 205 thousand (31 December 2002: USD 136 772 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

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

Currency and interest rates analyses of trading securities are disclosed in Note 23. The information on trading securities issued by related parties and owned by the Group is disclosed in Note 26.

(expressed in thousands of US dollars - Note 3)

7 Due from Other Banks

	30 June 2003	31 December 2002
Term placements with other banks	202 345	110 718
Reverse sale and repurchase agreements with other banks	13 898	100 481
Less: Provision for loan impairment	-	(50)
Total due from other banks	**216 243**	**211 149**

Movements in the provision for loan impairment are as follows:

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Provision for loan impairment as at 1 January	**50**	**630**
(Release of)/provision for loan impairment during the period	(50)	477
Provision for loan impairment as at the period end	**-**	**1 107**

As at 30 June 2003 fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 17 081 thousand (31 December 2002: USD 120 750 thousand).

As at 30 June 2003 balances due from other banks in the amount of USD 1 869 thousand were of a restricted nature (31 December 2002: USD 1 825 thousand).

As at 30 June 2003 the estimated fair value of due from other banks was USD 216 243 thousand (31 December 2002: USD 211 149 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23.

8 Loans and Advances to Customers

	30 June 2003	31 December 2002
Current loans	2 871 211	2 518 725
Overdue loans	15 958	15 462
Less: Provision for loan impairment	(153 306)	(134 921)
Total loans and advances to customers	**2 733 863**	**2 399 266**

Movements in the provision for loan impairment are as follows:

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Provision for loan impairment as at 1 January	**134 921**	**96 320**
Provision for loan impairment during the period	18 385	15 532
Loans and advances written off during the period as uncollectable	-	(908)
Provision for loan impairment as at the period end	**153 306**	**110 944**

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers (Continued)

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

	30 June 2003		31 December 2002	
	Amount	**%**	**Amount**	**%**
Energy and oil and gas	936 506	33	962 012	38
Manufacturing and construction	764 587	26	769 871	31
Trade and commerce	462 086	16	404 290	16
Telecommunications	402 033	14	212 729	8
Finance and investment companies	122 536	4	56 291	2
Individuals	20 148	1	17 895	1
Agriculture	10 623	-	29 187	1
Other	168 650	6	81 912	3
Total loans and advances to customers (aggregate amount)	**2 887 169**	**100**	**2 534 187**	**100**

As at 30 June 2003 the Group had 12 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of these loans is USD 1 477 851 thousand or 51.2% of the gross loan portfolio. As at 31 December 2002 the Group had 13 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of those loans was USD 1 442 877 thousand or 56.9% of the gross loan portfolio.

As at 30 June 2003 the estimated fair value of loans and advances to customers was USD 2 738 461 thousand (31 December 2002: USD 2 397 452 thousand). Refer to Note 25.

Loans totalling USD 50 000 thousand (31 December 2002: USD 50 000 thousand) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

9 Investments Available for Sale

The movements in the fair value of investments available for sale are as follows:

	Six-Month Period Ended 30 June 2003	**Six-Month Period Ended 30 June 2002**
As at 1 January	**95 776**	**137 180**
Net fair value gains arising on investments available for sale	1 747	6 672
Acquisition of investments available for sale	1 504	2 091
Disposal of investments available for sale	-	(24 242)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in shareholders' equity	-	(1 252)
Impairment of investments available for sale	-	(2 319)
Total investments available for sale as at the period end	**99 027**	**118 130**

(expressed in thousands of US dollars - Note 3)

9 Investments Available for Sale (Continued)

These investments cover industries, which are not part of the long-term strategy of the Group or the Consortium. Management of the Group is focused on an eventual exit strategy for each of these companies. The principal equity investments available for sale are:

			Fair value	
Name	**Nature of business**	**Country of registration**	**30 June 2003**	**31 December 2002**
STS TV	Television	Russia	42 110	42 110
Akrikhin	Pharmaceutical	Russia	30 540	30 540
Borskoe Steklo	Manufacturing	Russia	11 141	9 000
Svet	Manufacturing	Russia	5 741	5 500
Other			9 495	8 626
Total			**99 027**	**95 776**

External independent market quotations were not available for Akrikhin, Svet and certain other investments available for sale. The fair values of these assets were determined by Management on the basis of results of recent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees, and application of other valuation methodologies.

Investments available for sale with a fair value of USD 5 036 thousand (31 December 2002: USD 5 227 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 2003	**31 December 2002**
Receivables on operations with securities	76 742	62 966
Accrued interest income	65 777	48 296
Net investment in lease	21 514	12 243
Plastic card debtors and other settlements with clients	19 047	13 882
Trade debtors and prepayments	15 788	10 065
Receivables from related parties	11 249	94 919
Conversion operations and derivative financial instruments	7 945	5 971
Precious metals	6 745	121
Prepaid taxes	4 904	7 713
Other	5 082	16 049
	234 793	**272 225**
Less: Provision for impairment of receivables	(2 588)	(1 875)
Total other assets and receivables	**232 205**	**270 350**

Movements in the provision for impairment of receivables are as follows:

	Six-Month Period Ended 30 June 2003	**Six-Month Period Ended 30 June 2002**
Provision for impairment of receivables as at 1 January	**1 875**	**4 082**
Provision/(recovery of provision) for impairment of receivables during the period	713	(689)
Provision for impairment of receivables as at the period end	**2 588**	**3 393**

(expressed in thousands of US dollars - Note 3)

10 Other Assets and Receivables (Continued)

As at 31 December 2002 receivables from related parties included USD 48 000 thousand receivable from Alfa Finance Holdings S.A. with respect to a share capital contribution. This amount was fully paid to ABH Financial Limited in April 2003. Refer to Notes 13 and 16.

As at 30 June 2003 accrued interest income included USD 47 595 thousand (31 December 2002: USD 33 078 thousand) of interest income accrued on a loan to Alfa Telecom Limited in the amount of USD 110 000 thousand issued in May 2001 with an initial maturity in May 2004 and carrying a nominal interest rate of 20% p.a., payable at maturity. In June 2003 the parties agreed to change the maturity of the loan to 1 September 2003. On 1 September 2003 the loan was fully repaid along with the interest income accrued to date.

In addition, included in accrued interest income is an amount of USD 2 060 thousand (31 December 2002: USD 651 thousand) outstanding from other related parties.

Currency and maturity analyses of other assets and receivables are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

11 Premises and Equipment

	Premises	Leasehold improvements	Office and computer equipment	Intangible assets	Construction in progress	Total
Net book amount as at 31 December 2002	**50 336**	**8 024**	**48 540**	**23 681**	**5 347**	**135 928**
Cost or valuation						
Opening balance	57 188	9 342	84 781	31 725	5 347	188 383
Additions and transfers	3 602	875	8 819	3 104	3 963	20 363
Disposals	(533)	(27)	(1 441)	(283)	-	(2 284)
Translation movement	2 442	442	4 240	511	194	7 829
Closing balance	**62 699**	**10 632**	**96 399**	**35 057**	**9 504**	**214 291**
Accumulated depreciation						
Opening balance	6 852	1 318	36 241	8 044	-	52 455
Depreciation charge	891	300	6 229	2 044	-	9 464
Disposals	(4)	(3)	(749)	(1)	-	(757)
Translation movement	333	34	1 598	194	-	2 159
Closing balance	**8 072**	**1 649**	**43 319**	**10 281**	**-**	**63 321**
Net book amount as at 30 June 2003	**54 627**	**8 983**	**53 080**	**24 776**	**9 504**	**150 970**

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

As at 30 June 2003 no premises and equipment (31 December 2002: USD 3 571 thousand) have been pledged to third parties. Refer to Note 14.

(expressed in thousands of US dollars - Note 3)

12 Due to Other Banks

	30 June 2003	31 December 2002
Term placements of other banks	403 272	279 800
Sale and repurchase agreements with other banks	280 797	163 840
Correspondent accounts of other banks		
- Russian Federation	68 390	157 833
- Other countries	43 108	68 219
Total due to other banks	**795 567**	**669 692**

Trading securities with a fair value of USD 339 205 thousand (31 December 2002: USD 136 772 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

In addition, as at 30 June 2003 securities purchased by the Group under reverse sale and repurchase agreements with a fair value of USD 6 075 thousand (31 December 2002: USD 61 811 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

As at 30 June 2003 the estimated fair value of due to other banks was USD 795 567 thousand (31 December 2002: USD 669 692 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23.

13 Customer Accounts

	30 June 2003	31 December 2002
Commercial organisations		
- Current/settlement accounts	1 386 058	847 255
- Term deposits	291 615	265 450
Individuals		
- Current/demand accounts	291 586	232 470
- Term deposits	751 446	555 562
State and public organisations		
- Current/settlement accounts	12 822	53 342
- Term deposits	23 906	34 281
Total customer accounts	**2 757 433**	**1 988 360**

Economic sector concentrations within customer accounts are as follows:

	30 June 2003		31 December 2002	
	Amount	%	Amount	%
Individuals	1 043 032	39	788 032	40
Energy and oil and gas	536 574	19	434 600	22
Manufacturing and construction	402 151	15	155 810	8
Finance and investment companies	229 731	8	228 392	11
Trade and commerce	150 575	5	145 598	7
Mass media and telecommunications	80 917	3	80 628	4
State and public organisations	36 728	1	87 623	4
Agriculture and food processing	6 603	-	18 695	1
Other	271 122	10	48 982	3
Total customer accounts	**2 757 433**	**100**	**1 988 360**	**100**

(expressed in thousands of US dollars - Note 3)

13 Customer Accounts (Continued)

As at 31 December 2002 a balance of USD 48 000 thousand was blocked with respect to a contribution to share capital of the Group. Refer to Notes 10 and 16.

Included in customer accounts are deposits of USD 11 728 thousand (31 December 2002: USD 10 463 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 30 June 2003 the estimated fair value of customer accounts was USD 2 757 433 thousand (31 December 2002: USD 1 988 360 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

14 Other Borrowed Funds

	30 June 2003	31 December 2002
Eurobonds	171 558	171 143
Russian Rouble denominated bonds	16 124	22 468
Loan from the Agency for Restructuring of Credit Organisations	4 003	15 930
Other	-	584
Total other borrowed funds	**191 685**	**210 125**

On 19 November 2002 the Group issued US Dollar denominated Eurobonds with a nominal value of USD 175 000 thousand. The bonds carry a fixed coupon at a rate of 10.75% per annum payable semi-annually and mature on 19 November 2005. The bonds have been issued at a discount of 0.5% to the nominal value and issue costs amounted to USD 3 032 thousand. Thus, net issue proceeds amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

On 14 June 2002 the Group issued Russian Rouble denominated bonds maturing in June 2007 at a nominal value of RR 908 758 thousand. The bonds have a floating interest rate and the coupon is payable semi-annually. As at 30 June 2003 coupon was to be paid at an interest rate of 18% per annum. The Bank has issued an irrevocable offer to redeem the bonds at nominal value along with accrued interest on 19 September 2003.

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 as at 30 June 2003 was RR 123 600 thousand (31 December 2002: RR 508 800 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 2003, the Group pledged customer loans with a total nominal amount of USD 50 000 thousand (31 December 2002: USD 50 000 thousand) and investments available for sale with fair value of USD 5 036 thousand (31 December 2002: USD 5 227 thousand) as collateral (refer to Notes 8 and 9). Also, as at 30 June 2003 and 31 December 2002, 25% of the Bank's shares were pledged as collateral which gave ARCO voting rights, but not an economic interest in Alfa Bank. In addition, as at 31 December 2002 premises and equipment in the amount of USD 3 571 thousand had been pledged to third parties as collateral with the respect of this liability.

As at 30 June 2003 the estimated fair value of other borrowed funds was USD 198 323 thousand (31 December 2002: USD 212 779 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 23.

(expressed in thousands of US dollars - Note 3)

15 Other Liabilities and Payables

	Note	30 June 2003	31 December 2002
Payable on operations with securities		103 931	41 414
Accrued interest expense		42 300	27 832
Accrued staff compensation expenses		36 141	43 160
Conversion operations and derivative financial instruments		15 360	2 708
Trade creditors		14 767	12 479
Provision for losses on credit related commitments	24	12 929	9 462
Plastic card creditors		12 096	13 079
Settlements with clients		10 412	518
Payable to related parties		2 978	7 298
Taxation payable		1 618	407
Other		27 502	15 486
Total other liabilities and payables		**280 034**	**173 843**

Currency and maturity analyses of other liabilities are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

16 Share Capital

Authorised, issued and fully paid share capital of ABH Financial Limited comprises:

	30 June 2003		31 December 2002	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	160 800 000	160 800	160 800 000	160 800
Total share capital	**160 800 000**	**160 800**	**160 800 000**	**160 800**

All shares have nominal value of USD 1 per share, rank equally and carry one vote.

The increase in share capital of USD 48 000 thousand during 2002 was authorised by the shareholders of ABH Financial Limited on 30 December 2002. As at 31 December 2002 this amount was blocked on the account of Alfa Finance Holdings S.A. with the Group in respect to the contribution (refer to Notes 10 and 13). This amount was fully paid to ABH Financial Limited in April 2003.

(expressed in thousands of US dollars - Note 3)

17 Interest Income and Expense

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Interest income		
Loans and advances to customers	199 991	138 133
Trading securities	27 758	8 341
Due from other banks	13 650	11 613
Total interest income	**241 399**	**158 087**
Interest expense		
Promissory notes issued	33 255	19 622
Term deposits of individuals	25 342	18 828
Term placements of other banks	19 795	18 362
Other borrowed funds	12 705	2 741
Term deposits of legal entities	9 049	5 269
Current/settlement accounts	8 609	7 595
Total interest expense	**108 755**	**72 417**
Net interest income	**132 644**	**85 670**

18 Fee and Commission Income and Expense

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Fee and commission income		
Commission on settlement transactions	21 967	16 741
Commission on cash transactions	9 251	7 679
Commission income from the Alfa Eco Group	7 000	-
Commission for consulting services	5 665	3 023
Commission on guarantees issued	4 074	6 613
Commission on transactions with securities	3 660	2 716
Other	5 182	2 143
Total fee and commission income	**56 799**	**38 915**
Fee and commission expense		
Commission for consulting services	20 813	11 665
Commission on settlement transactions	3 128	2 984
Commission on transactions with securities	1 593	498
Commission on cash transactions	657	483
Other	1 834	1 551
Total fee and commission expense	**28 025**	**17 181**
Net fee and commission income	**28 774**	**21 734**

During 2003 commission income in the amount of USD 7 000 thousand from Alfa Eco Group, a party related to the Group, represented fees in relation to a significant transaction of Alfa Eco Group.

(expressed in thousands of US dollars - Note 3)

19 Other Operating Income

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Gains from structured debt operations	21 682	2 726
Leasing and other income on premises and equipment	2 796	3 519
Late charges on loans and other penalties	2 752	6 540
Income from insurance operations	2 068	2 196
Dividend income	1 483	1 114
Gains less losses from trading in precious metals	(821)	(2 429)
Other	588	3 976
Total other operating income	**30 548**	**17 642**

Structured debt operations represent operations with debts of other companies, which were acquired at a discount, and then settled at a higher value resulting in a gain for the Group. Gains from the structured debt operations for the six-month period ended 30 June 2003 included a gain in the amount of USD 20 863 thousand from the restructuring of a debt of a large telecommunication company.

20 Operating Expenses

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Staff compensation expenses	62 470	52 014
Advertising and marketing	13 829	3 553
Depreciation and other expenses related to premises and equipment	12 022	8 540
Taxes	11 653	7 833
Maintenance	10 803	5 876
Computer and telecommunications expenses	8 427	8 840
Rent, heat and utilities	8 161	4 816
Consulting and professional services	6 824	6 052
Travel expenses	1 788	1 194
Other	7 519	6 873
Total operating expenses	**143 496**	**105 591**

21 Income Taxes

Income tax expense comprises the following:

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Current tax charge	2 532	985
Deferred taxation movement due to origination and reversal of temporary differences	(1 038)	632
Income tax expense for the period	**1 494**	**1 617**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

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

	Six-Month Period Ended 30 June 2003	**Six-Month Period Ended 30 June 2002**
IFRS profit before taxation	**38 627**	**45 302**
Theoretical tax charge at the applicable statutory rate	9 270	10 873
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Recalculation of provisions in accordance with IFRS	(10 949)	(26 456)
- Non deductible expenses	15 618	17 635
- Income which is exempt from taxation	(13 114)	(18 689)
- Gain/loss earned in tax free jurisdictions	(866)	17 305
- Negative taxable base which has no future income tax benefit	-	3 702
- Other IFRS adjustments of a non-temporary nature	1 344	(3 167)
Tax effect of loss carry forward	191	414
Income tax expense for the period	**1 494**	**1 617**

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

	31 December 2002	**Movement**	**30 June 2003**
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	7 777	532	8 309
Tax loss carry forward	2 283	(191)	2 092
Accruals	876	10 806	11 682
Other	(257)	2 679	2 422
Gross deferred tax asset	**10 679**	**13 826**	**24 505**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(16 010)	(757)	(16 767)
Provision for loan impairment	(4 857)	(9 106)	(13 963)
Accruals	(124)	(2 925)	(3 049)
Gross deferred tax liability	**(20 991)**	**(12 788)**	**(33 779)**
Total net deferred tax liability	**(10 312)**	**1 038**	**(9 274)**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

	31 December 2001	Movement	30 June 2002
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	6 080	1 001	7 081
Tax loss carry forward	3 009	(414)	2 595
Accruals	4 262	(4 262)	-
Other	1 775	(471)	1 304
Gross deferred tax asset	**15 126**	**(4 146)**	**10 980**
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	-
Gross deferred tax liability	**(24 318)**	**3 514**	**(20 804)**
Total net deferred tax liability	**(9 192)**	**(632)**	**(9 824)**

Deferred income tax assets are recorded for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

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

22 Analysis by Segment

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of two main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

Funds are ordinarily reallocated between segments free of charge. There are no material items of income or expense between the business segments.

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group is set out below for the period ended 30 June 2003:

Six-Month Period Ended 30 June 2003	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**261 814**	**94 123**	**-**	**355 937**
Segment results	94 059	88 064	-	182 123
Unallocated costs	-	-	-	(143 496)
Profit before tax	-	-	-	**38 627**
Income tax expense	-	-	-	(1 494)
Profit after tax	-	-	-	**37 133**
Minority interest	-	-	-	29
Net profit	-	-	-	**37 162**
30 June 2003				
Total assets	**4 085 058**	**1 091 075**	**(179 645)**	**4 996 488**
Total liabilities	**4 264 503**	**424 599**	**(179 645)**	**4 509 457**
Six-Month Period Ended 30 June 2003				
Other segment items				
Capital expenditure	(18 327)	(2 036)	-	(20 363)
Depreciation expense	(8 518)	(946)	-	(9 464)
Other non-cash income/(expenses)	(22 127)	21 294	-	(833)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	1 747	-	1 747

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group is set out below for the period ended 30 June 2002 and as at 31 December 2002:

Six-Month Period Ended 30 June 2002	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**218 314**	**30 399**	**-**	**248 713**
Segment results	104 711	27 582	-	**132 293**
Unallocated costs	-	-	-	(105 591)
Monetary gain				18 600
Profit before tax	-	-	-	**45 302**
Income tax expense	-	-	-	(1 617)
Profit after tax	-	-	-	**43 685**
Minority interest	-	-	-	(65)
Net profit	-	-	-	**43 620**
31 December 2002				
Total assets	**3 375 167**	**865 397**	**(122 374)**	**4 118 190**
Total liabilities	**3 555 751**	**250 142**	**(122 374)**	**3 683 519**
Six-Month Period Ended 30 June 2002				
Other segment items				
Capital expenditure	(7 051)	(783)	-	(7 834)
Depreciation expense	(5 285)	(2 265)	-	(7 550)
Other non-cash income/(expenses)	(17 310)	(5 257)	-	(22 567)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	6 672	-	6 672

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the period ended 30 June 2003.

	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	404 447	132 368	16 092	69 502	259	622 668
Mandatory cash balances with the CBRF and other local central banks	286 727	-	4 058	-	-	290 785
Trading securities	552 763	6 783	30 102	9 070	52 009	650 727
Due from other banks	203 111	5 968	4 726	2 438	-	216 243
Loans and advances to customers	2 592 792	18 135	96 688	1 627	24 621	2 733 863
Investments available for sale	98 527	-	500	-	-	99 027
Other assets and receivables	166 930	33 174	20 169	3 218	8 714	232 205
Premises and equipment	140 571	972	9 427	-	-	150 970
Total assets	**4 445 868**	**197 400**	**181 762**	**85 855**	**85 603**	**4 996 488**
Liabilities						
Due to other banks	314 857	299 218	112 197	69 295	-	795 567
Customer accounts	2 574 363	27 582	85 944	55 211	14 333	2 757 433
Promissory notes issued	453 403	6 859	15 202	-	-	475 464
Other borrowed funds	20 127	171 558	-	-	-	191 685
Other liabilities and payables	182 569	73 514	20 506	221	3 224	280 034
Deferred tax liability	9 274	-	-	-	-	9 274
Total liabilities	**3 554 593**	**578 731**	**233 849**	**124 727**	**17 557**	**4 509 457**
Net balance sheet position as at 30 June 2003	**891 275**	**(381 331)**	**(52 087)**	**(38 872)**	**68 046**	**487 031**
Net balance sheet position as at 31 December 2002	**791 499**	**(322 816)**	**(1 988)**	**18 939**	**(50 963)**	**434 671**

The majority of credit related commitments are issued in favour of Russian counterparties and their off-shore companies as at both 30 June 2003 and 31 December 2002.

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

The majority of the Group's revenues are generated in the Russian Federation.

23 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (market, credit, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Executive Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

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

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

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

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

Geographical risk. Refer to Note 22 for the geographical analysis of the Groups' assets and liabilities.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values. As at 30 June 2003, the Group has the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	238 999	288 605	78 431	16 633	622 668
Mandatory cash balances with the CBRF and other local central banks	-	286 727	-	4 058	290 785
Trading securities	512 252	122 204	13 899	2 372	650 727
Due from other banks	24 272	187 097	514	4 360	216 243
Loans and advances to customers	1 671 911	1 011 290	9 280	41 382	2 733 863
Investments available for sale	99 027	-	-	-	99 027
Other assets and receivables	155 341	39 119	10 929	26 816	232 205
Premises and equipment	-	140 571	972	9 427	150 970
Total assets	**2 701 802**	**2 075 613**	**114 025**	**105 048**	**4 996 488**
Liabilities					
Due to other banks	509 513	245 462	17 157	23 435	795 567
Customer accounts	1 264 089	1 370 017	83 333	39 994	2 757 433
Promissory notes issued	140 902	300 668	18 691	15 203	475 464
Other borrowed funds	171 558	20 127	-	-	191 685
Other liabilities and payables	174 493	76 487	23 988	5 066	280 034
Deferred tax liability	-	9 274	-	-	9 274
Total liabilities	**2 260 555**	**2 022 035**	**143 169**	**83 698**	**4 509 457**
Net balance sheet position	**441 247**	**53 578**	**(29 144)**	**21 350**	**487 031**
Off-balance sheet net notional position (Note 24)	**(17 558)**	**10 053**	**14 908**	**(8 045)**	**(642)**
Credit related commitments (Note 24)	**554 511**	**47 060**	**38 875**	**3 415**	**643 861**

As at 31 December 2002, the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
Net balance sheet position	**464 681**	**14 423**	**(22 022)**	**(22 411)**	**434 671**
Off-balance sheet net notional position	**(13 814)**	**6 254**	**(484)**	**9 366**	**1 322**
Credit related commitments (Note 24)	**713 032**	**14 095**	**23 072**	**1 342**	**751 541**

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

The Group has extended loans and advances denominated in currencies other than operating currencies of the borrowers. Depending on the revenue stream of the borrower, the appreciation of the foreign currencies against the operating currencies may adversely affect the borrowers' repayment ability and therefore may increase the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Group.

The table below shows assets and liabilities as at 30 June 2003 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Group as at 30 June 2003 is set out below.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	622 668	-	-	-	-	622 668
Mandatory cash balances with the CBRF and other local central banks	290 785		-	-	-	290 785
Trading securities	650 727	-	-	-	-	650 727
Due from other banks	213 187	1 135	-	52	1 869	216 243
Loans and advances to customers	422 765	1 216 830	393 781	700 487	-	2 733 863
Investments available for sale	-	-	-	-	99 027	99 027
Other assets and receivables	126 590	86 658	5 342	13 615	-	232 205
Premises and equipment	-	-	-	-	150 970	150 970
Total assets	**2 326 722**	**1 304 623**	**399 123**	**714 154**	**251 866**	**4 996 488**
Liabilities						
Due to other banks	618 524	107 490	50 000	19 553	-	795 567
Customer accounts	1 915 086	506 705	254 931	80 711	-	2 757 433
Promissory notes issued	104 340	202 863	147 623	20 638	-	475 464
Other borrowed funds	-	4 003	-	187 682	-	191 685
Other liabilities and payables	204 029	52 419	18 311	5 275	-	280 034
Deferred tax liability	-	-	-	-	9 274	9 274
Total liabilities	**2 841 979**	**873 480**	**470 865**	**313 859**	**9 274**	**4 509 457**
Net liquidity gap as at 30 June 2003	**(515 257)**	**431 143**	**(71 742)**	**400 295**	**242 592**	**487 031**
Cumulative liquidity gap as at 30 June 2003	**(515 257)**	**(84 114)**	**(155 856)**	**244 439**	**487 031**	
Cumulative liquidity gap as at 31 December 2002	**(683 213)**	**(759 612)**	**(264 156)**	**184 306**	**434 671**	

23 Financial Risk Management (Continued)

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Executive Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks as at 30 June 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ non-interest bearing	Total
Assets						
Cash and cash equivalents	622 668	-	-	-		622 668
Mandatory cash balances with the CBRF and other local central banks	290 785	-	-	-	-	290 785
Trading securities	596 428	-	-	-	54 299	650 727
Due from other banks	213 187	1 135	-	52	1 869	216 243
Loans and advances to customers	422 765	1 216 830	393 781	700 487	-	2 733 863
Investments available for sale	-	-	-	-	99 027	99 027
Other assets and receivables	126 590	86 658	5 342	13 615	-	232 205
Premises and equipment	-	-	-	-	150 970	150 970
Total assets	**2 272 423**	**1 304 623**	**399 123**	**714 154**	**306 165**	**4 996 488**
Liabilities						
Due to other banks	618 524	107 490	50 000	19 553	-	795 567
Customer accounts	1 915 086	506 705	254 931	80 711	-	2 757 433
Promissory notes issued	104 340	202 863	147 623	20 638	-	475 464
Other borrowed funds	4 003	16 124	-	171 558	-	191 685
Other liabilities and payables	204 029	52 419	18 311	5 275	-	280 034
Deferred tax liability	-	-	-	-	9 274	9 274
Total liabilities	**2 845 982**	**885 601**	**470 865**	**297 735**	**9 274**	**4 509 457**
Net sensitivity gap as at 30 June 2003	**(573 559)**	**419 022**	**(71 742)**	**416 419**	**296 891**	**487 031**
Cumulative sensitivity gap as at 30 June 2003	**(573 559)**	**(154 537)**	**(226 279)**	**190 140**	**487 031**	
Cumulative sensitivity gap as at 31 December 2002	**(743 712)**	**(821 236)**	**(318 909)**	**153 597**	**434 671**	

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective contractual rates.

	30 June 2003				31 December 2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	2.3%	3.6%	2.3%	0.0%	5.9%	16.2%	0.0%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	-	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	8.2%	11.5%	5.7%	3.4%	8.8%	14.1%	-	-
Due from other banks	3.9%	7.8%	0.0%	7.5%	4.3%	14.5%	3.1%	14.5%
Loans and advances to customers	13.4%	18.6%	12.2%	14.0%	13.2%	20.1%	11.4%	14.0%
Liabilities								
Due to other banks	3.3%	5.2%	4.7%	5.4%	3.3%	12.3%	5.4%	5.0%
Customer accounts								
- current and settlement accounts	1.0 %	1.5%	1.7%	1.5%	2.1%	2.3%	2.1%	2.3%
- term deposits	4.3%	6.7%	4.1%	11.0%	6.1%	10.2%	6.1%	10.2%
Promissory notes issued	4.6%	16.1%	3.2%	10.0%	6.1%	15.6%	3.0%	15.6%
Other borrowed funds	12.0%	17.8%	-	-	12.0%	17.6%	-	17.0%

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

24 Contingencies, Commitments and Derivative Financial Instruments

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

Tax legislation. 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.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group's profit before taxation or the tax charge recorded in these consolidated financial statements.

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.

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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.

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.

Capital commitments. As at 30 June 2003 the Group had capital commitments in respect of new computer systems totalling USD 5 091 thousand (31 December 2002: USD 13 287 thousand). In addition, other capital commitments amounted to USD 8 622 thousand (31 December 2002: USD 4 434 thousand). The Group's Management has already allocated the necessary resources in respect of these commitments. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable premises and equipment operating leases are as follows:

	30 June 2003	31 December 2002
Not later than 1 year	6 788	10 876
Later than 1 year and not later than 5 years	11 689	15 965
Later than 5 years	11 459	5 210
Total operating lease commitments	**29 936**	**32 051**

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

Outstanding credit related commitments are as follows:

	Note	30 June 2003	31 December 2002
Guarantees issued		397 871	538 946
Export letters of credit		229 247	191 712
Import letters of credit	13	29 672	30 345
Less: provision for losses on credit related commitments	15	(12 929)	(9 462)
Total credit related commitments		**643 861**	**751 541**

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

(expressed in thousands of US dollars - Note 3)

24 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 was jointly and severally with other related parties and the maximum liability of the Group was limited to 25% of the Bank's statutory capital. As at 31 December 2002, 25% of the Bank's statutory capital was approximately USD 173 936 thousand. Payments, that were guaranteed by the Group were completed by TNK by the end of April 2003. No payments were made by the Group with respect to the guarantee.

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

	Six-Month Period Ended 30 June 2003	Six-Month Period Ended 30 June 2002
Provision for losses on credit related commitments as at 1 January	**9 462**	**3 937**
Provision for losses on credit related commitments during the period	3 467	5 211
Provision for losses on credit related commitments as at the period end	**12 929**	**9 148**

Derivative financial instruments. Foreign exchange and other off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 30 June 2003. These contracts were entered mainly into in June 2003 and are short term in nature.

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic			Foreign		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	2 111	-	3	16 959	-	1
- purchase of foreign currency	2 117	-	3	16 982	-	22
Securities						
- sale of securities	271 951	(2 375)	2 402	24 154	(882)	120
- purchase of securities	4 883	-	328	-	-	-
Precious metals						
- sale of precious metals	-	-	-	5 149	(18)	-
- purchase of precious metals	-	-	-	11 097	(492)	-
Spot						
Foreign currency						
- sale of foreign currency	1 510 208	(1 614)	-	1 237 085	(973)	-
- purchase of foreign currency	1 510 010	-	1 416	1 237 529	-	1 417
Total		**(3 989)**	**4 152**		**(2 365)**	**1 560**

For these deals the Group has recorded a net gain of USD 275 thousand which is included within gains less losses arising from trading in foreign currency, a net loss of USD 407 thousand which is included within gains less losses arising from trading securities and a net loss of USD 510 thousand which is included within gains less losses arising from trading in precious metals within other operating income.

Refer to Note 26 for information on a call option received by the Group from a related party.

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

	30 June 2003 Nominal value	**31 December 2002 Nominal value**
Promissory notes held in custody	384 932	275 294
Shares held in custody	236 696	212 879
Corporate bonds held in custody	63 488	64 574
OVGVZ held on account with Vneshtorgbank	35 104	40 343
Eurobonds in Euroclear	22 500	135 450
Client OFZ securities held on an account with NDC	12 399	18 521
Other	1 512	2 842

Assets pledged. As at 30 June 2003 the Group has the following assets pledges as collateral:

	Notes	**30 June 2003**	**31 December 2002**
Trading securities	6, 12	339 205	136 772
Loans and advances to customers	8, 14	50 000	50 000
Investments available for sale	9, 14	5 036	5 227
Premises and equipment	11, 14	-	3 571
Total		**394 241**	**195 570**

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

In addition, as at 30 June 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 6 075 thousand (31 December 2002: USD 61 811 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 290 785 thousand (31 December 2002: USD 214 252 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

Refer to Note 14 with respect to a pledge of the Bank's shares.

25 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by Management using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the economy of the Russian Federation continues to display characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used the best available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investments available for sale are carried on the balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investments available for sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Originated loans. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers as at 30 June 2003.

Borrowings. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 30 June 2003. As at 30 June 2003 the estimated fair value of promissory notes issued was USD 476 207 thousand (31 December 2002: USD 629 673 thousand).

The fair value of derivatives is disclosed in Note 24.

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions

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

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Group has significant shareholders in common, including other companies in Alfa Group Consortium and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. A vast majority of these transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

The outstanding balances as at the 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 2003	31 December 2002	Six-Month Period Ended 30 June 2002
Trading securities outstanding as at the period end	58 823	62 193	
Loans to customers			
Loans outstanding as at the period end	384 736	431 082	
Interest income for the period	26 349		27 344
Receivables outstanding as at the period end	60 904	128 648	
Customer accounts			
Balances outstanding as at the period end	184 625	181 516	
Interest expense for the period	4 413		2 914
Promissory notes issued outstanding as at the period end	3 680	87 884	
Payables outstanding as at the period end	5 403	8 750	
Guarantees issued by the Group outstanding as at the period end	37 808	218 723	
Export letters of credit outstanding as at the period end	-	2 321	
Fee and commission income for the period	9 947		4 264
Fee and commission expense for the period	989		474
Other income for the period	2 497		33
Other expenses for the period	2 714		1 851

For the six-month period ended 30 June 2003 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 3 634 thousand (six-month period ended 30 June 2002: USD 3 105 thousand).

In December 2002 the Group's investment in Siracuse was sold to a related party for USD 39 345 thousand payable by instalments by the end of May 2003. Sale proceeds were received by the Group in full by the end of May 2003.

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions (Continued)

In November 2002 Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., granted to the Group for no consideration a call option (the "Option") representing the right of the Group to acquire an interest of up to 6% in Golden Telecom Inc, an associated company of Alfa Telecom Limited. The Option is exercisable in whole or in part at any time until 11 May 2004. As at 30 June 2003 and 31 December 2002 the Option was not exercised and was in a favourable position for the Group.

ABH Financial Limited is a wholly owned subsidiary of Alfa Finance Holdings S.A. and thus both the Option holder and the Option writer are entities under common control. If the Option is exercised then the acquisition will be accounted for by the Group using the "predecessor" basis of accounting, i.e. at the carrying value of the entity disposing of the interest and any difference between the carrying value of the investment recorded by Alfa Telecom Limited and the consideration paid will be accounted for in the consolidated financial statements of the Group as an adjustment to shareholders' equity. Since the predecessor basis of accounting will be used if the Option is exercised, no gains have been recorded in these consolidated financial statements with respect to this Option.

27 Principal Consolidated Subsidiaries

Russian Federation and CIS	Rest of the World
Alfa Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Bank Ukraine	Alfa-Russia Finance B.V. (Netherlands)
Alfa Capital Asset Management	Alfa Securities Limited (UK)
Alfa Leasing	Amsterdam Trade Bank (Netherlands)
Ostra Kiev Insurance Company (Ukraine)	Manwood Limited (Isle of Man)
	Merrow Ventures Limited (British Virgin Islands)
	Tormead Marketing Limited (Isle of Man)
	Westlaw Incorporated (Nevis, West Indies)

All principal consolidated subsidiaries of the Group, except for Alfa Bank Ukraine (94.7% owned and controlled) and Ostra Kiev Insurance Company (61.5% owned and controlled), are wholly owned and controlled by the Group.