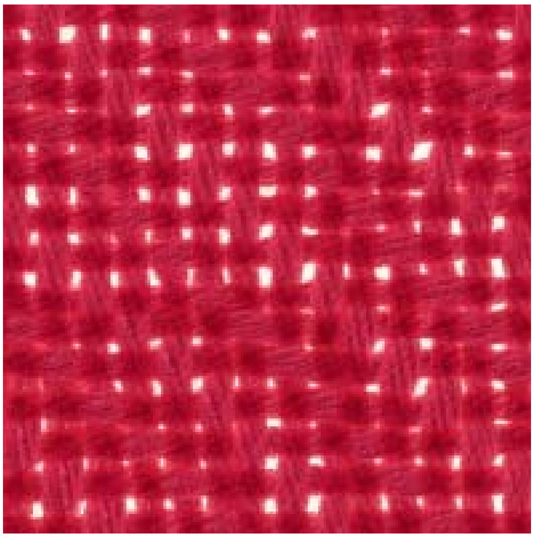
ALFA·BANK



Annual Report 2001

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Alfa Bank **2001** Annual Report

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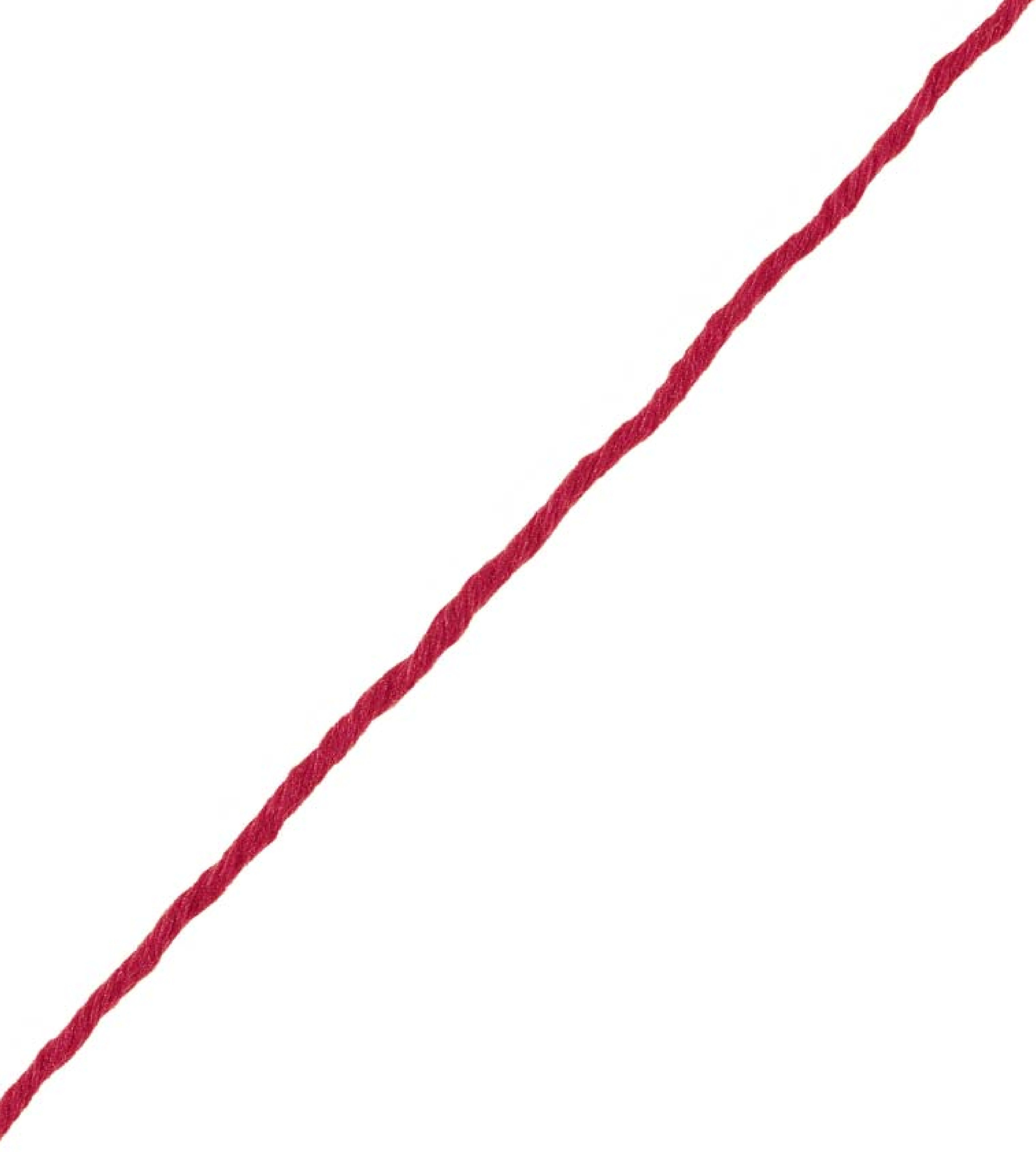


The Bank's Mission

Alfa Bank is the leader among private Russian banks.

Alfa Bank's primary objective is to provide each customer with a full range of the most modern banking products and services by implementing the latest advances in information technology, by developing and enhancing its business processes, and by continuously improving its quality of service.

Alfa Bank is a high-tech, universal bank and is constantly expanding its branch network across Russia and its presence abroad.

Alfa Bank is also playing an active role in helping to integrate the Russian Federation into the world community and in supporting Russia's social development.

Universality – a guarantee of reliability.

All customers of the Bank – both private individuals and large corporations – can always expect to receive a first-class banking service. The stability and competitive capacity of the Bank is underpinned by the fact that the Bank is a leader in all segments of the financial market.

We keep our word. We manage risks.

As an institution that highly values its business reputation, Alfa Bank is committed to being open and transparent and to meeting all its obligations. The Bank continually monitors and professionally analyses the market to enable it to forecast social and economic trends and to make decisions based on careful risk analysis.

The Bank that unites Russia. The Bank without borders.

Alfa Bank is systematically expanding in the Russian regions, in the CIS and in the global financial markets, thus ensuring its customers continuous access to a full range of up-to-date, high quality, streamlined banking products and world-standard services.

Expert on Russia in the West. Expert on the West in Russia.

The Bank constantly draws on its experience and knowledge of Russian business and technology not only to promote and service investments in the Russian economy but also to provide Russian companies with support for their financial operations in the West.

Taking the professional approach.

Believing that investment in well-qualified personnel gives rise to long-term success, Alfa Bank is building up a highly professional team of employees. The Bank focuses not only on training and motivating staff but also on attending to their welfare. In all its activities, the Bank has a strong commitment to its corporate values.

Chairmen's Statement

Alfa Bank has now been trading successfully in Russia and abroad for 11 years. These have been difficult but fruitful years and, although by international standards 11 years is not a long period, for Russia's new banking sector it is a significant milestone.

Throughout these years the Bank has striven to be a market leader and has never ceased to expand and develop. Inside Russia, our branch network now stretches from Sakhalin in the East to Kaliningrad in the West. We have recently opened new branches in Izhevsk, Voronezh, Yaroslavl and Sakhalin, as well as a representative office in Tartarstan and eight additional offices in Moscow and the surrounding regions. Affiliated banks are developing successfully in Bashkortostan, and neighbouring Kazakhstan and Ukraine and in the Netherlands, where we operate the only commercial bank in the European Union that is 100% owned by private Russian capital. In addition we have a well-established UK Representative office and a Securities business in both London and New York.

In the financial markets trust is the real capital. Alfa Bank aims for absolute transparency in its financial operations and is proud that it has always met in full its obligations to clients and partners. We have established an unrivalled reputation and today our name is working for us. We continue to work tirelessly so that the name of Alfa Bank remains a synonym for a reliable and dynamically developing financial institution that combines a thorough knowledge of the specific characteristics of the Russian market with the very highest Western standards. Our record in investment strategy, in which we balance reasonable caution with carefully judged risk, is also second to none.

Alfa Bank continued to win Russian and International awards – being named "Best Russian Bank" by both *Emerging Markets Investor* and *Global Finance* and "Best Russian Trade Finance Bank" by *Global Finance* in 2001 and "Best Russian Bank" by both *Euromoney* and *Global Finance* in 2002. In addition, Russia's Financial Press Club awarded Alfa Bank its Gold Diploma for openness of information, and several managers won top accolades from professional associations.

In 2001 all three international rating agencies also upgraded Alfa Bank's ratings. Moody's raised the long-term rating to B1, Standard & Poor's to CCC+ and Fitch to B–.

This report contains the financial results for the Bank for the past year and records some notable achievements – not least record profits of $85 million, an 11% increase on 2000. We were particularly pleased with one other development – the growth in the number of the Bank's clients. At 31 December 2001, more than 43,000 of Russia's largest companies were using the Bank's services. This represented a 30% increase on the previous year. Even more impressively, over the same period the number of individual account holders more than doubled to 280,000.

Alfa Bank does not just make money. The Bank gives help and material support to those who most urgently need it: medical institutions, children's institutions, social organisations for the disabled. Alfa Bank also supports Russian culture and Russia's cultural ties with the rest of the world.

The successes of Alfa Bank in 2001 and in previous years would not have been possible without the support and confidence of our shareholders, clients and partners and without the hard, honest work of all our employees. We thank you all and we wish you continued health, success and prosperity.

Mikhail Fridman
Chairman of the Board of Alfa Bank

Leonard Vid
Chairman of the Executive Board

Chairman of the Board of Alfa Bank
Mikhail Fridman

Chairman of the Executive Board
Leonard Vid

CEO Alex Knaster on the Key Achievements of 2001 and the Challenges Ahead

Alex Knaster
Chief Executive Officer of Alfa Bank

"We made significant investments for the future, in particular in developing three very important aspects of our business: information technology; our new retail business; and the insurance sector."

What were the key achievements in 2001?

The year's major achievement was our continued growth, both in terms of absolute figures and of market share. Our business lines in virtually every sector grew at around 50% for the year and this far outstripped the growth rate of the sectors themselves. As a result we not only posted very good figures but also succeeded in improving our market share across all sectors. The growth was across the board – the number of branches has doubled in two years, the deposit base more than doubled, the credit portfolio is three-and-a-half times larger, monthly commission income has doubled, the volume of payments is three and a half times bigger, and the number of employees has doubled.

Where there any special factors impacting on the results?

We achieved a very strong financial performance while at the same time making major investments for the future. Our results are all the more impressive when they are looked at in the context of our significant investment and expenditure in areas which will only yield returns in one, two or even three years' time. Such investments would normally depress current results, but we have posted positive gains.

The strong growth in our revenue base was also impressive. Our profit and loss statement now more closely resembles that of a typical Western bank, with the bulk of our revenues coming from interest rate margins; there has also been a growing contribution from the commission income line.

What were the main areas of investment?

We made significant investments for the future, in particular in developing three very important aspects of our business: information technology; our new retail business; and the insurance sector.

The investment in IT will ensure that Alfa Bank has world-class banking business systems. Among other things this will enable us, during 2002, to launch what will be the first modern retail banking business in Russia, with the roll-out of a large number of small, highly-automated branches.

We have invested heavily in the insurance and securities business. AlfaInsurance is positioned for strong growth and there are plans to cross-sell insurance and banking services. We have also strengthened our securities business to aggressively challenge the Western institutions that dominate this market.

What about staff and management?

We have completed a restructuring of our management team and we now have what is regarded as the best management team in the Russian banking business. Throughout the organisation there is a clear vision of where the Bank is going and that vision is shared not only by senior management but also by all the Bank's staff. Every section of the Bank has contributed to these very successful financial results, but the financial results are not a strategy in themselves. They are the logical outcome of our strategy.

How do you define the strategy?

We want to be a universal bank and be present in every key sector of the financial services industry, including corporate banking, retail banking, investment banking, insurance and asset management. We want to be in the top three in every one of these sectors – if not the number one. We also want to be number one in terms of quality of service and technology base – and to be the most efficiently run and most progressive bank in Russia.

Would Alfa Bank consider a strategic Western partnership?

Competition will increase on the back of banking reform and with the entry of Western banks into the Russian market. It could therefore be advantageous to consider the possibility of a strategic partnership with a large and highly professional financial institution. Such a partnership would make it possible to combine our experience of working in the Russian markets, our local knowledge and our strong client base, with all the benefits that a large Western bank could bring.

What are the main problems and challenges?

All Russian banks are facing the same problems and success will come to those who implement the clearest and quickest solutions. The biggest problem is the limit on funding for financial institutions. A huge amount of money – $50 to $80 billion according to some estimates – remains outside the banking system and this money is therefore not working to develop the economy. At first glance, deposits by individuals are growing at a good rate. Growth rates are comparable with other countries: more than 25% in 2001. But the share of deposits by individuals in relation to GDP in Russia is a meagre 5%, while in Hungary, Poland and the Czech Republic it is 40%, in Germany more than 50% and in the USA 80%. In other words, individuals are not at present prepared to fund the banking system in Russia.

The second common problem is falling margins, which are gradually getting closer to those of economically developed countries. Russian banks can no longer expect to work with margins of 15%–16% as they did before. Competition is growing. In the past year the number of banks with capital of over $100 million has doubled.

In such a situation, the way to succeed is above all to achieve growth in funding while at the same time holding down expenditure.

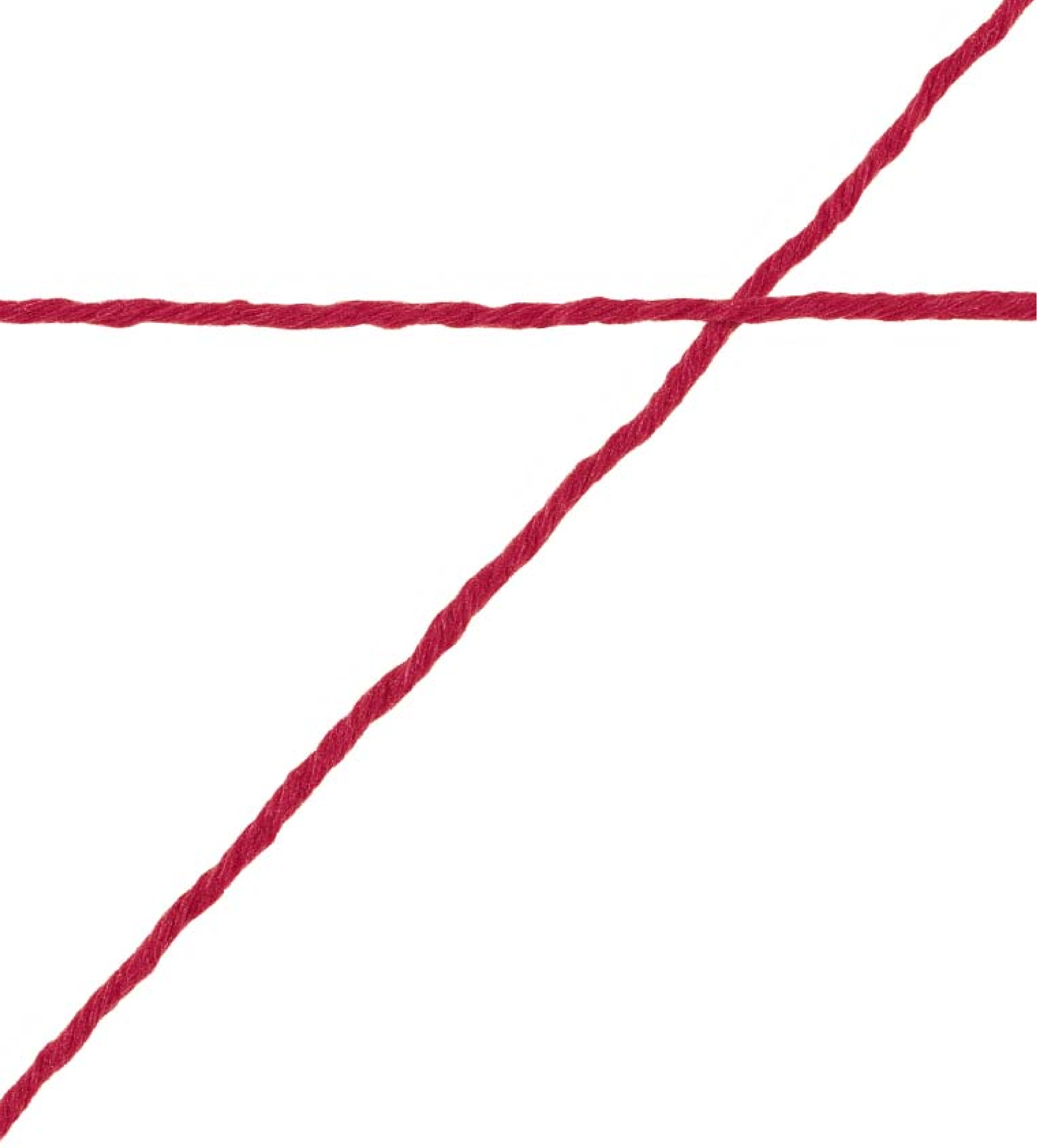
Who are our main competitors?

We have serious competitors in different market segments but none of our competitors is developing as a universal bank. This is clear from the table below. Our only serious competitor is Sberbank, which is subsidised by the government. We cannot compete with them in terms of the scale of their branch network. But in terms of quality of service and employee professionalism we have an enormous advantage over all our competitors.

Where do you see growth coming from in the next 12 to 24 months?

Every single sector of our business should post significant growth. Perhaps we will not see annualised growth of 50% but certainly I would be disappointed with any sector of our business that does not show annual growth of 30% over the next year or two.

Market Segment	Alfa Bank	Competitors
Branch Network	2	Sberbank
Deposits	2–4	Sberbank, Vneshtorgbank
Loan Book	2–4	Gazprombank, IMB, Citibank
Retail Banking	2	Sberbank, Gazprombank, Russky Standard, Delta
Banking Cards	1–2	Sberbank, PSB – St. Petersburg
Acquiring	2	United Cards Service
Precious metals	2–4	Sberbank, Vneshtorgbank, NIKoil
Equity Securities	4–5	Brunswick, Troika Dialog, Renaissance Capital
Internet Brokerage	2–3	Aton, Guta Bank, Rosbank
Fixed Income Securities	1–3	Vnesheconombank, Trust and Investment Bank, MDM, Zenit
Corporate Finance	1–3	Troika Dialogue, Renaissance Capital
Direct investment	1–3	Barings-Vostok, RusAl
Mutual Fund	1–3	NIKoil, Troika Dialog
Insurance	4–5	Rosno, Ingosstrakh, RESO Garantiya, Spasskiye Vorota



A Team of Professionals

Bank's Executive Board

Mikhail Fridman
Chairman of the Board of Directors of Alfa Bank

Mikhail Fridman is a founder of Alfa Group and Alfa Bank. He is one of Russia's most influential business leaders and was named "Best Manager in Russia 2001" by the influential *Kommersant* publishing house and "Businessman of the Year" by *Vedomosti* newspaper. Fridman started out in business while still a student at the Moscow Institute of Steel and Alloys. He graduated in 1986 and two years later he founded Alfa Eco, a trading company out of which Alfa Group Consortium developed. He was born in Lvov, Ukraine on 21 April 1964.

Peter Aven
President of Alfa Bank

Peter Aven has been President of the Bank since 1994. He is responsible for the Bank's overall strategy and for relations with business and government leaders. He is Chairman of the Board of Directors of Golden Telecom and Chairman of the Board of Directors of STS Television.
He is also a trustee of the Board of the Russian Economic School and the Board of the Bolshoi Theatre.
Prior to joining the Bank, Aven was Minister of Foreign Economic Relations for the Russian Federation (1991–1992). He also worked at the International Institute for Applied Systems Analysis in Austria.
Aven is an internationally recognised economist and author of numerous articles. He has also written two books, on econometrics and on Russian agricultural reform. He holds a PhD in Econometrics from Moscow State University. He was born in Moscow on 16 March 1955.

Leonard Vid
Chairman of the Executive Board of Alfa Bank

Leonard Vid has been Chairman of the Executive Board since 1995 and he heads the Bank's Credit and Interest committees. He represents the Bank in the Russian government and the Central Bank, and is responsible for the Bank's administrative and legal divisions.
Vid was awarded the Order of Honour by the Russian President on 13 February 2002. Prior to joining the Bank in 1996, he served as Chairman of the Committee for the political party Our Home is Russia (1995–1996), and held a senior post at the Russian government's Economic Centre. He was previously Deputy Director of Norilsk Nickel and First Deputy Head of Gosplan (the Soviet State Planning Committee). Vid holds a degree in Economics from the Moscow Institute of Metals and Alloys.
He was born in Zaporozhye, Ukraine on 9 November 1931.

Alex Knaster
Chief Executive Officer of Alfa Bank

Alex Knaster joined Alfa Bank in 1998 after serving as President and CEO of Credit Suisse First Boston in Moscow (1995–1998). He is responsible for the Bank's general management and strategy. He held senior executive positions at Deutsche Morgan Grenfell in Moscow, at Bankers Trust Company in New York and London (1993–1995), and at Simmons & Company International in Houston (1985–1993). Knaster has a BSc Degree in Electrical Engineering and Mathematics from Carnegie-Mellon University, an MBA from Harvard University and a PhD in Economics from the Russian Academy of Science. He is a licensed Chartered Financial Analyst and a member of the International Society of Financial Analysts and the Association of Petroleum Industry Analysts. Knaster was born in Russia on 19 February 1959.

Oleg Sysuev
First Deputy Chairman of the Board of Directors of Alfa Bank

Oleg Sysuev is responsible for the Bank's relations with the regions. Prior to joining the Bank in 1999, he held prominent posts in government. Under President Yeltsin, Sysuev was First Deputy Head of the Presidential Administration (1998–1999), Vice-Premier of the Federal Government and Minister of Labour and Social Development (1998–1997). Previously, he was Mayor of Samara (1992–1997) and he also represented Russia in the Council of the European Congress for Local and Regional Government. He has published numerous articles on the structures of post-Soviet Russia. A graduate of Kuibyshev Aviation Institute, Sysuev was born in Samara, Russia on 23 March 1953.

Yevgeny Bernshtam
First Deputy Chairman of the Board of Alfa Bank

Yevgeny Bernshtam is responsible for the Bank's commercial banking business, including lending, banking cards, corporate client and retail customer service, and the CIS branch network. He is also a member of the Board of Directors of VISA Russia. Bernshtam was named "Best Manager of the Year 2001" by *Kompania* magazine. Prior to joining the Bank in 1994, he served as President of the post-Soviet Russian investment house Finable and as Director of the International Business Institute ECOPOL (1991–1993). Under his leadership at Finable, the company became a founding member of the National Association of Stock Market Members (NAUFOR) and the Russian Trading System (RTS). Bernshtam holds a PhD in Economics from Moscow State University and a degree in Economics from Dagestan State University. He was born in Maikop, Russia on 1 November 1958.

Andrei Kosogov
First Deputy Chairman of the Executive Board of Alfa Bank

Andrei Kosogov heads the Bank's investment and asset management divisions. He also serves as Chairman of the Bank's Investment Committee. He started his career in banking in 1992 as Chairman of the Board of Directors and CEO of Alfa Capital, an investment company which merged with Alfa Bank in 1998. Under Kosogov's leadership, Alfa Capital became one of the most successful investment banks in Russia in the early post-Soviet years. In 1992–1995 he was Chairman of Alfa Capital Investment Fund, a forerunner of the Bank's mutual fund. While head of Alfa Capital, he received the Medal of Honour for charitable work related to childhood mental and neurological illnesses. Kosogov is a 1987 graduate of the Moscow Power Energy Institute. He was born in Sillamae, Estonia on 15 March 1961.

Oleg Tumanov
Deputy Chief Executive Officer of Alfa Bank

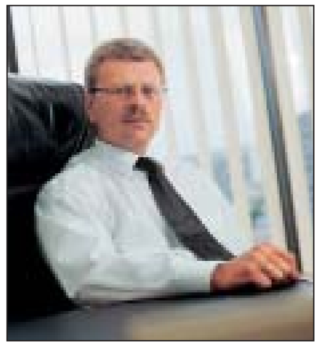
Oleg Tumanov deputises for CEO Alex Knaster and his responsibilities include Assets and Liabilities Management, Treasury, Risk Management, Business Processes and IT. Tumanov joined Alfa Bank in June 2001. Prior to that, he was Deputy Chairman of the Board of Directors at NIKoil Group, Moscow (2000–2001) and Head of Banque Unexim (Suisse), Geneva (1998–2000). From 1994 to 1997 he worked in the US, first as Managing Director at Hermes Capital Management, and later as Head of the International Corporate Finance Department at Ladenburg Thalmann International, New York, a subsidiary of Ladenburg Thalmann, one of the oldest US investment banks. From 1990 to 1994 Tumanov was Deputy Chairman of the Board at Mosbusinessbank. Tumanov graduated from the Moscow Finance Institute in 1986. In 1990 he was awarded a PhD in Economics. He also completed the advanced management programme at Wharton School and the financial management programme at Harvard Business School.

Alexander Tolchinsky
Member of the Executive Board and senior Vice-President of Alfa Bank

Alexander Tolchinsky is Alfa Bank's Head of Corporate Finance. He is responsible for capital markets, M&A and advisory work for the Bank's clients. Prior to joining the Bank in 1998, he was Director of Credit Suisse First Boston in Moscow (1996–1998) and a partner at McKinsey & Company (1989–1995). He holds an MBA from the University of Michigan and is a graduate of the Moscow Civil Engineering Institute. Tolchinsky was born in Ukraine on 6 December 1955.

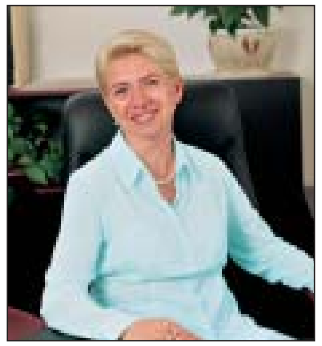
Alexander Lukanov
Deputy Chairman of the Executive Board of Alfa Bank

Alexander Lukanov heads the Bank's Credit Division. His responsibilities include relations with large companies, sales and debt programmes. Lukanov is a member of the board of directors of Alfa Insurance, and a member of the supervisory board of Alfa Bank Kiev. Prior to joining the Bank in 1995, he served as Branch Manager at Vyatka Bank in Moscow, Deputy General Director of the Science and Engineering Youth Centre, and General Director of the Security Formula Finance and Industry Company. Lukanov is a graduate of the Moscow Institute of Energy. He was born in Moscow on 28 October 1962.



Pavel Gorbatsevich
Deputy Chairman of the Executive Board and Chief Operations Officer of Alfa Bank

Pavel Gorbatsevich is responsible for international and domestic payments, trade finance, relations with Western partners, and the Bank's foreign subsidiary network. Before joining the Bank in 1995, he served as Regional Manager of BHF Bank in Frankfurt (1992–1995), where he was responsible for market strategy for Eastern Europe and the CIS. Prior to this, he worked at the Russian state-owned Vneshekonombank (1980–1992) and participated in negotiations with the Paris and London Clubs of Creditors. Gorbatsevich is a graduate of the Moscow State Financial Academy. He was born in Moscow on 6 November 1958.



Marina Savelyeva
Member of the Executive Board and Regional Business Development Director

Marina Savelyeva is responsible for developing the Bank's business in the regions and for medium-sized corporate customers. She began her career at Alfa Bank in 1993 as an economist and in 1994 became the head of the Department. In 1997 she was appointed as the corporate divisional head of the Bank's branch network and she became Regional Business Development Director in 2000. Savelyeva is a 1993 graduate of the Russian Academy of Finance where she qualified as an economist and accountant. She was born in Moscow on 25 October 1971.

Ildar Karimov
Deputy Chairman of the Executive Board of Alfa Bank

Ildar Karimov is responsible for the Bank's financial management, including financial planning, accounting, analysis and control. Before joining the Bank in 1994, he worked at the International Institute for Applied Systems Analysis in Laxenburg, Austria (1991–1994), and prior to that at the Central Economic Mathematics Institute (1987–1992). He previously served as an advisor to the Council on Foreign Economic Policy at the Ministry of Foreign Economic Relations in Moscow (1991–1993). Karimov holds a PhD in Mathematical Economics (1986) and has a Diploma with honours from Moscow State University (1983). He was born in Izhevsk, Russia on 25 October 1961.

Andrei Kalmykov
Deputy Chairman of the Executive Board of Alfa Bank

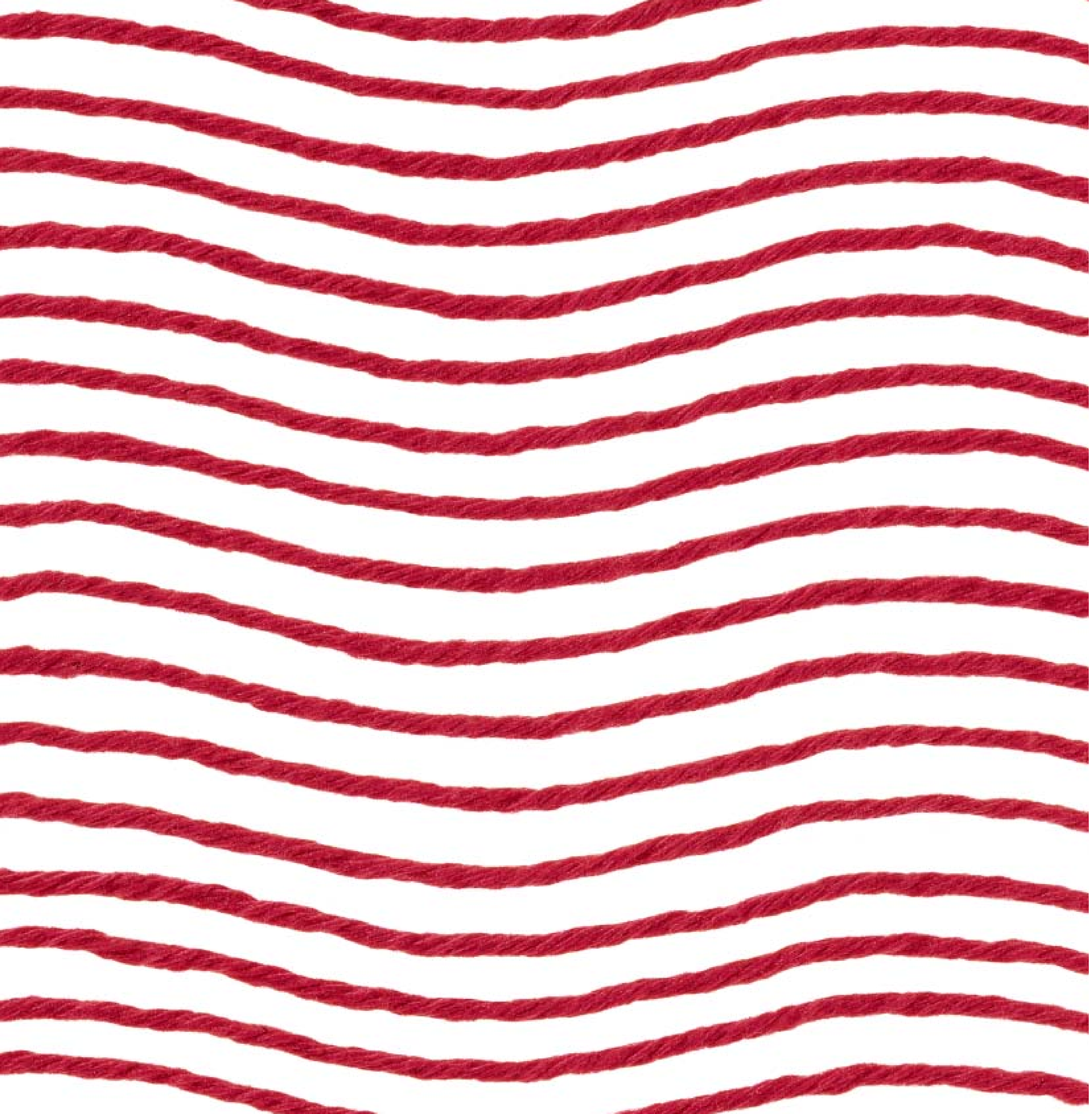
Andrei Kalmykov is responsible for co-ordinating programmes and projects with the Russian government, parliament, and Central Bank. Before joining the Bank in 2000, he served as the Samara region representative in the Federal government and as Vice-Governor of the Samara region (1995–2000). Prior to this, he was a senior scholar at the Russian State University of Medicine and then worked in senior business development roles for Abbott Laboratories (USA) and Elf-Sanofi (France). Kalmykov is a 1980 graduate of the Kubishevsky Institute of Medicine and has a PhD in social hygiene and health care organisations. He also holds a doctorate in medical sciences. In 1998 he graduated from the Russian Federation's Presidential Academy of the Civil Service with honours in Public Administration.
He is the author of two books and numerous scholarly articles. Kalmykov was born in Samara, Russia on 2 May 1957.

Maciej Lebkowski
Deputy Chairman of the Board of Directors of Alfa Bank

Maciej Lebkowski is a member of the Executive Board. He joined Alfa Bank in 2001 and is responsible for developing the Bank's retail business. Previously he was in charge of rolling out Bank Handlowy's Handlobank green field retail operation in Poland. Lebkowski began his career in banking at BIG Bank SA in 1993 as Director of Corporate Banking. Since then he has held senior positions in numerous Polish banks with responsibilities in marketing, operations and IT. Lebkowski, previously worked at Deloitte & Touche as a consultant and served the Polish government in a variety of capacities. Lebkowski holds a PhD in International Economics and Marketing from Warsaw University and an MSc in foreign trade. He was born in Warsaw on 1 May 1952.

Financial Highlights 2001

US$ millions	% change	2001	2000
Net Profits	11	$85	$77
Net Revenue	61	$264	$164
Net Interest Income	306	$111	$27
Loan Book	59	$1 500	$1 000
Assets	45	$2 700	$1 900
Shareholder Equity	122	$278	$125
Return on Equity	40		



The Macro-Economic Situation in Russia

Russia's economy has achieved a remarkable turnaround. During the years 1999–2001 GDP grew at an average rate of 6.4%, exceeding even that of China. The 1999 GDP growth (5.4%) stemmed primarily from import substitution and the buoyancy of the textile and food sectors and other consumer industries. GDP growth in 2000 (9%) was to a significant extent caused by a rise in exporters' income, particularly from oil, which in turn fuelled a growth in investment (17.7%). Oil prices were on average lower in 2001, but the flow of investment into Russia continued.

Russia is still heavily dependent on the oil and gas sectors. Some 20% of GDP comes from oil and gas companies, and these two industries finance 25% of investment. Also they account for a significant slice of Russian exports (in 2001 $52 billion, or 50% of all exports), and revenue for the federal budget (40%).

Peter Aven,
President of Alfa Bank

"It is scarcely worth considering foreign investors as a source of economic growth. In the past year, Russia only received 1% of the total amount of foreign investment in the world. This means that we should only look at internal reserves."

Balance of Payments

Oil exports and a relatively stable level of imports since the 1998 devaluation have produced a healthy trade balance (even after a rise of 18% in 2001

Alfa Bank Today

	Branch Network	84
	Affiliated banks and their branches	6
Electronic Business		
	Bank cards issued	218 000
	Acquisition turnover	$824 million
	Number of acquisition client-companies	4 400
Clients		
	Number of legal entities	43 000
	Number of individuals	280 000

imports remained at 1993 levels). A change of $1 a barrel in the price of oil raises or lowers the amount of export revenue by about $2 billion and federal budget income by $1 billion. Russia is less dependent on oil prices than, for example, Venezuela but more than other countries considered to be developing markets.

Despite a positive trade balance, capital flight remains at the level of $20–$26 billion a year. It is now estimated that Russian citizens have accumulated $200 billion abroad – a huge source of potential investment. If this money did start to return, however, anti-inflationary measures would need to be applied to curb a sudden strengthening of the real rouble exchange rate.

The Exchange Rate

The nominal rouble exchange rate fell during 2000–2001, in large part because of the increase in Central Bank reserves. Since Central Bank policy is to maintain reserves at current high levels, we expect a further fall in the rouble exchange rate of up to 10% over the year. However, taking inflation into account, we expect a rise in the real exchange rate, which increased by 10% in 2001.

Although a floating exchange rate allows the Central Bank to influence the competitiveness of the economy, the problem of the rate of inflation remains very real. In 2001 inflation remained at a quite high level (18.6%), though it was lower than in 2000 (20.2%) and 1999 (36.5%). With the government planning further structural reforms, including the raising of domestic utilities tariffs, we forecast inflation in 2002–2003 will be in the 15%–20% range. Under these conditions a decrease in the nominal exchange rate will be the only way to prevent excessive strengthening of the real exchange rate.

Budget Performance

Throughout 2001 budget indicators constantly improved. Rapid economic growth and more efficient administration resulted in an increase in tax revenues to a record level of 17% of GDP (in 1997–1998 tax revenues were just 10% of GDP). Average monthly revenues for the federal budget in 2001 were $4.5 billion.

The growth in budget income allowed the government to create a budget surplus and set aside financial reserves. Accumulated reserves at the start of 2002 totalled $3.2 billion. The budget for 2001 was completed with a surplus of 2.8% of GDP. As in previous years, the performance of the budget in 2002 will to a greater or lesser extent be dependent on the stability of oil prices. The 2002 budget is the first Russian budget with a projected surplus, but if the average price of Brent crude falls below $14.50 a barrel the budget will have to be cut.

Government Debt

The government has gone a long way to lowering internal debt but Russia still has a substantial external debt ($134 billion or 46% of GDP). However, the government managed to lower the volume of foreign debt repayment in 2001 and international concerns about the debt eased noticeably. As the result of early repayment of $2.7 billion of debts due to the IMF in 2003, the volume of debt repayment planned for 2003 has been reduced to $14.6 billion, which is only slightly higher than the volume of external debt repayments in 2002 ($14.2 billion).

Commercial Banking

Alfa Bank's primary activity is commercial banking, which essentially involves attracting deposits, lending money and, of course, making payments.

The Commercial business grew impressively in 2001. According to Central Bank data, Alfa Bank ended the year in third place in Russia in terms of equity capital, behind only Sberbank and Vneshtorgbank, whose majority shareholder is the government. Alfa Bank was the leading Russian private bank in terms of growth rate in equity capital. The Bank's growth rate of equity capital in 2001 was 59%. Vneshtorgbank's growth for this indicator in 2001 was 57% and Sberbank's 63%.

The Bank's credit portfolio grew by more than 50% over the year. The number of businesses to which credit was given also rose and the range of credit options – such as overdrafts, bills of credit, leasing and different forms of guarantee – expanded. As a result the Bank managed to attract new customers both in Moscow and the regions.

Over the year the volume of deposits placed with the Commercial Bank by companies and individuals grew by more than 50%. The proportion of customer client money placed on term deposit increased from 20% to 42% over the year, a further sign of client confidence in Alfa Bank. The growth in individual deposits was 169% and at the end of 2001 Alfa Bank was firmly in second place after Sberbank in terms of individual deposits, with 2.1% of the market (up from 1.1% in 2000).

The Bank's loan portfolio increased 59% over the year. The proportion of credits granted to clients by the Moscow branches of the Bank also rose steadily over the year. Almost 80% of the loan portfolio was to Russia's largest firms and their customers.

Over 2001 the size of the average monthly income from settlement and cash services grew by 1.7 times and the proportion of revenue received by non-Moscow branches of the Bank also rose.

Serving large clients, that is to say the top 200 Russian companies, was always a priority for the Bank because it provided the largest income for the smallest expenditure. This strategy, however, exposed the Bank to greater risk and consequently the Bank has been looking to aggressively expand its services to cater to medium and small sized businesses in the regions. This results in a larger and ultimately more stable client base. Indeed, the Bank's corporate client base increased by 32% during 2001 (from 36 000 to 47 000), with the largest growth coming from businesses in the regions.

Overall, commercial banking showed strongest growth in the regions. This underscored the importance of developing the regional branch network. Regional branches accounted for more than 69% of the Bank's earnings in 2001 – a dramatic increase on 2000, when they only accounted for 30% of the total.

Alfa Bank provides its customers with the full range of commercial banking services, primarily:

- Non-Cash Accounts
- Cash Operations
- Documentation
- Conversion Operations
- Deposit Taking
- Lending
- Trade and Project Finance
- Corporate Bank Cards.

Yevgeny Bernshtam
First Vice-Chairman of Alfa Bank's Board of Directors

"We have a founding principle: wherever our affiliate is located – in Kaliningrad, Moscow, Vladivostok, or Nakhodka – the range of products which we sell and the quality of service must be the same."

Wealth

Fabric has always been a symbol of wealth and prosperity.

The Bank helps to increase the wealth of our shareholders, the wealth of our clients, and the wealth of our business partners.

Maciej Lebkowsky
Director for Alfa Bank's Retail Business Development

"We must forget yesterday and think of tomorrow."

At the end of 2001 the Bank provided more than 60 products and services, all of which can be mixed and matched and tailored to customer needs. The Bank tries wherever possible to meet clients' individual needs and build long term relationships. The extensive regional branch network, which was further developed in 2001, helps underpin the services provided to the business community.

Recent service enhancements have included on-line banking which enables enable clients to work with their accounts from their offices and to take payments and pay salaries through bank cards.

One overriding principle is that all clients – whether dealing with a branch in Moscow or the regions or with an affiliate bank, are offered the same services and equal price.

Alfa Bank continued developing its regional network in 2001. The Bank set up four new branches – in Izhevsk, Voronezh, Sakhalin and Yaroslavl. In addition, the Bank expanded its presence in some regions, in particular by opening additional offices in St. Petersburg, Izhevsk, Novosibirsk, Chelyabinsk, Krasnodar, Ekaterinburg and Saratov. With the opening of several new offices in Moscow during the year the number of Alfa Bank branches in the capital reached 25.

The Creation of New Retail Business

The consequences of the financial crisis of 1998 continue in one important respect – an enormous amount of money circulates in Russia outside the retail banking system. This is money that is waiting to be drawn into investment in the economy.

With a view to attracting this vast pool of under-used money, Alfa Bank developed a programme in 2001 to build a new retail business called Project Mercury. The aim is to establish an entirely new approach to retail banking business in Russia based on low-cost, high-tech mini-branches. They will trade under the name Alfa Bank Express. We want to make high street banking accessible to a far larger section of the population by rolling out a new brand of highly automated branches which are efficient and user-friendly but run by a very small number of staff.

Primary goals are:

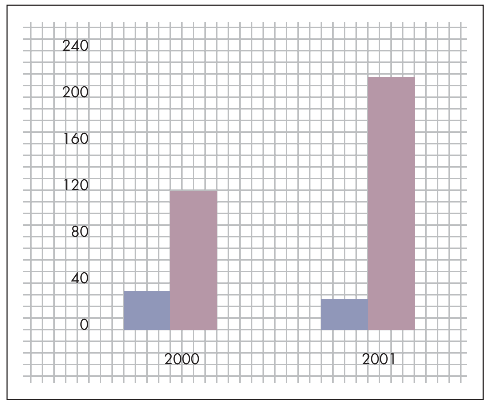
- To introduce new user-friendly, low-cost products
- To simplify and automate the procedure for lending
- To introduce new channels of service, including a telephone call-centre, remote credit card servicing, internet banking and a network of commercial agents
- To offer clients new services, including an automatic cashier and night safe (drop-box)
- To offer round-the-clock banking, seven days a week.

Project Mercury is dependent on the implementation of the OMEGA programme which aims to create the most modern and efficient back office system. The project is being driven by Maciej Lebkowski, who established a similar new banking concept for Bank Handlowy in Poland.

Alfa Bank in the Precious Metals Market

Alfa Bank is one of the leading operators in the Russian precious metals market and is involved in:

- Financing mining organisations
- Treasury operations with precious metals
- Export operations with precious metals, including the transportation of precious metals and their storage in certified depositories.



Volume of Alfa Bank's Precious Metals Operations
– Silver (tones) – Gold (tones)

International Financial Institutions and Domestic Correspondent Banking

2001 was a successful year for Alfa Bank in developing relations with foreign financial institutions. By establishing new correspondent relations and consolidating existing ones with the most important banks in Europe, Africa, and Asia, Alfa Bank maintained its position as the leading Russian clearer among non-state banks. With Russia's favourable economic indicators and Alfa Bank's improved international credit ratings, foreign counterparty limits with the Bank increased considerably. This led to an overall reduction in the cost of international transactions for the Bank and its clients.

The volume of transactions with foreign banks rose to a new level both in quantitative and qualitative terms. Alfa Bank provides its counterparties with a diversified range of high-quality services to attract financial resources, including tied credits for projects and syndicated credits for trade, project and export finance, as well as such services as clearing, currency exchange and bank note operations.

Political stability and significant economic growth within the Russian Federation in 2001 made it easier for Russian banks to borrow money from foreign investors. Alfa Bank was the first privately owned Russian bank since the 1998 financial crisis to obtain an unsecured loan – of $20 million – from a consortium of leading European banks. Borrowing from the international markets enables Alfa Bank to play a more active role in the international capital markets and to satisfy its clients' larger and longer-term credit requirements.

Alfa Bank is providing medium and long-term export credits. A large number of transactions of this nature are already in place, and there is a long history of relationships with many of the main export credit agencies of the countries which are Russia's main trading partners. The list is headed by Hermes of Germany, under whose guarantee Alfa Bank was the first bank after the 1998 crisis to secure a long-term commercial credit, and includes US ExIm Bank (USA), SACE (Italy), Ducroire (Belgium), NEXI (Japan), KUKE (Poland), EGAP (Czech Republic) and ECGC (India).

With the expectation that Russian companies over time will forge more business with Africa, Latin America and Asia, Alfa Bank continued actively working in 2001 to establish relations with banks and export credit agencies in these regions.

In 2001 Alfa Bank continued to supervise the activities of the Claims Conference Foundation of Germany with regard to restitution payments to victims of Nazi persecution residing in Russia and CIS countries.

Alfa Bank's UK Representative office, which was established in 1995, continued to play an active role in promoting Alfa Bank's position in the London financial markets as a sophisticated Russian financial institution.

Pavel Gorbatsevich
Deputy Chairman of Alfa Bank's Board of Directors

"I want to stress the synergy between our international activities and our domestic Russian business. Our successes in the international arena actively contribute to the increase in the number of domestic customers coming to the Bank, which in turn determines the growth of the branch network. In its turn this draws foreign partners' attention to Alfa Bank and encourages them to develop deeper and more comprehensive co-operation with us."

Alfa Bank made a significant contribution to the introduction of euro in Russia, making payments, servicing clients and initiating financial transactions in the new European currency from day one.

Alfa Bank's fully owned subsidiary in the Netherlands – Amsterdam Trade Bank – now provides an important link in financing trade between the European Union and Russia. Amsterdam Trade Bank came under Alfa Bank's ownership in 2001 and is the first and only bank in the European Union fully owned by Russian private capital.

At the end of 2001, the Bank had LORO correspondent relations and partnerships with more than 700 financial institutions across the CIS. The average balances on LORO accounts increased by 2.9 times from $132.8 million in January to $387.9 million in December.

Alfa Bank has substantially expanded its range of partners in the FOREX and DEPO transactions market. The number of bank-counter-parties reached 773, which is 20% higher than at the end of 2000.

Bank Cards and Electronic Business

In 2001 Alfa Bank consolidated its position as one of the leaders in Russia's fast growing plastic bank cards market. The Bank had issued 218,000 cards by the end of 2001, a two-fold increase on 2000.

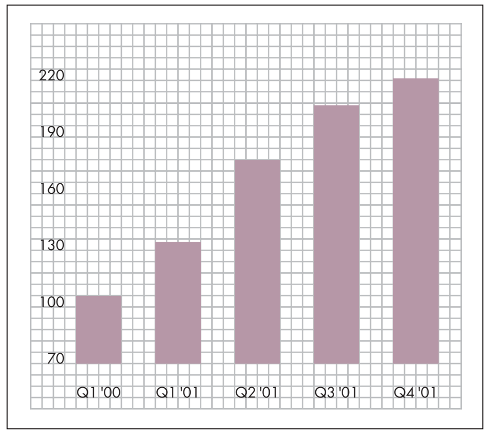
At the end of 2001 the balance on the accounts of Alfa Bank cardholders reached $115 million. Total card turnover for 2001 exceeded $650 million, a 140% increase on 2000.

During the year the Bank extended its product range by distributing pre-paid Thomas Cook Visa TravelMoney, as well as issuing for the first time both Diners Club International and EuroCard / MasterCard Platinum cards. The Bank also introduced new services for internet shopping in accordance with the international SET standards for electronic payments.

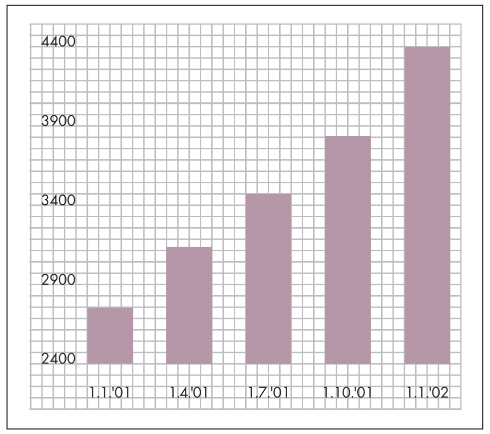
Responding to the enormous growth in bank card business, Alfa Bank's Electronic Business Division set up a 24-hour Call Centre in the first half of 2001 to service plastic card holders and business outlets.

The Bank also took steps to increase the use of bank cards in the Russian regions, which now account for 60% of total cards issued. Payroll services linked to international cards were implemented with a number of big companies.

Being one of Russia's largest issuer of cards and number two in terms of turnover, Alfa Bank is also one of the top acquirers in the bank card business. Some 1 100 new trade outlets signed up with Alfa Bank in 2001, bringing the total number of acquiring firms at the end of the year to more than 4 300.



Balance Totals on Card Accounts, %
(Q4 2000 = 100%)



Trade Points Served by Alfa Bank

Also in 2001, the Bank's subsidiaries in Kazakhstan and Ukraine began to issue Visa International cards as associate members.

In 2002 the Bank's Electronic Business Division plans to start issuing a number of new plastic products in euros, including EuroCards and MasterCards. The bank also plans to issue cards valid for two years and give customers the option of running more than one card on the same account. In 2002 the Division also plans to open a new internet site – www.alfacard.ru – to deal with Alfa Bank plastic card products, and in the near future there are plans to launch internet banking.

Financial Equipment Leasing

Alfa-Leasing was established in 1999 and is a 100% subsidiary of Alfa Bank. Alfa-Leasing acquires capital assets and leases them to corporate clients in a variety of different industries. The company's services for leasing vehicles and machinery are in steady demand. The Bank's experts provide clients with assistance in forming cost-effective leasing structures based on minimizing tax exposure and maximizing depreciation.

The company co-operates with the largest foreign manufacturers of vehicles and equipment, including Caterpillar (USA) and Liebherr (Germany).

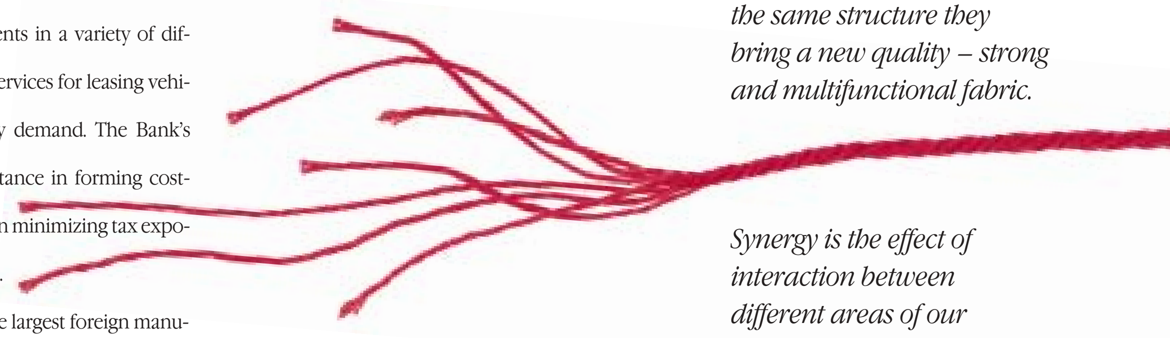
The advantages of leasing over credit and outright purchase include:

• The taxable base is decreased due to a reduction in profit tax
• The depreciation of capital assets is accelerated
• At the end of the leasing period the equipment can be bought at minimal book value
• Leasing transactions do not impact on the financial stability and liquidity of a company as the balance sheet only reflects current liabilities for leasing payments
• As a rule, leasing companies do not demand the same level of guarantees as are usually imposed in credit agreements.

Trade and Project Finance

Alfa Bank finances the creation of new factories and the reconstruction, modernisation and extension of existing factories. With the backing of foreign financial institutions and their national export credit agencies, the Bank can finance investment projects requiring longer payback periods and more efficient interest rates. Long borrowing periods and deferments enable debts to be repaid from new revenues generated by the investments.

U.S. *Global Finance* magazine voted Alfa Bank "Best Trade Finance Bank in Russia" in 2001.



Money Markets and Foreign Exchange

Alfa Bank's turnover in the domestic currency market grew throughout 2001 and the Bank consolidated its position as one of the main market makers. This was due to increases both in client operations and in the Bank's own transactions on the interbank market

Synergy

Several hair-thin threads are woven together to form a solid fibre. Joined by the same structure they bring a new quality – strong and multifunctional fabric.

Synergy is the effect of interaction between different areas of our business, the effect that allows us not only to combine our efforts, but to multiply them.

Teijo Pankko
Alfa Bank Treasurer

"Setting up a Treasury Department enables the Bank to work with financial resources to Western standards. The success of Treasury is determined by whether it is able to secure the maximum possible profit margin for all the Bank's balance transactions, while keeping optimum rates of debt and placement in place and deliver the growth as determined in our strategy."

and MICEX. Alfa Bank's share of the Russian rouble/dollar market averaged between 9% and 11%.

Total daily turnover in rouble/US dollar transactions grew by more than 20% during 2001 – from $120 million in January to $150 million in December. Turnover in transactions by bank clients in purchases and sales of US dollars during the Uniform Trade Session on MICEX started the year at $7 million and ended on $10 million. The number of direct transactions with the Central Bank doubled.

The volume of correspondent bank operations grew continuously in 2001. Tight conversion rates, reduced spreads, extended operating hours and advantageous settlement terms all contributed to attracting new banks. By the end of 2001 more than 650 agreements for domestic currency dealing were in place with correspondent banks. The daily turnover of rouble/US dollar transactions with correspondent banks increased from $10 million in January to $20 million in December.

In 2001 the Bank consolidated its position in the currency markets of CIS and Baltic countries, and the number of clients using accounts in limited convertible currencies (OKV's) for payment of contracts via Alfa Bank increased. The Bank is a leader in the limited currency markets, with a 25% share, and is one of the five main operators on the OKV market authorised by the Central Bank to set CIS countries' exchange rates.

Alfa Bank has developed an extensive correspondent network in the CIS and also has its own affiliate banks in Kazakhstan and Ukraine and a representative office in Belarus.

In 2001 the Bank became the leading player in the FOREX market in Russia and the CIS with daily turnover reaching as high as $100 million.

Treasury

One of the main tasks of Treasury is to develop and implement appropriate interest rate policy including transfer pricing. Treasury monitors the performance of both the economy and the Bank's competitors and creates a balance between the Bank's competitiveness and its profit margins. Throughout 2001 Treasury applied a flexible approach on interest rates especially in short-term markets. Business trend analysis resulted in a downward shift in long-term rates and the overall level of long-term interest rates for US dollars decreased by an average of 2%. During the year, Treasury worked closely with the Bank's Risk Management Department, introducing targets proportions on the balance sheet both by product and currency to achieve the best possible risk/yield ratio.

International credit rating agencies upgraded Alfa Bank in the course of 2001 and at the end of the year Treasury led the Bank back to the international capital markets for the first time since Russia's 1998 financial crisis with an unsecured $20 million syndicated loan arranged in London by Standard Bank. Nine banks from eight different countries underwrote the short-term facility.

Treasury was also involved with other departments in developing new banking products for clients, such as structured products that combine the benefits of different financial instruments. Treasury launched euro-denominated promissory notes and currency options, which give clients the right to choose either dollars or euros at the end of the term.

In 2001, Treasury also put a lot of efforts into developing a clearly defined regulatory base for the Bank. A milestone was a document called Bank Liquidity Management and Control Policy, approved by the Committee for Assets and Liabilities Management and the Bank's senior management. The Policy sets down rules, procedures and methods of efficient liquidity management. It identifies

the departments responsible for control and maintenance of liquidity and stipulates the required reporting lines and documentary procedures.

Another milestone in Treasury's activity was the development of Methods of Setting Liquidity Standards for Regional Branches, which was approved by the Bank's management in 2001.

Risk Management

Alfa Bank is unique in Russia in having built up a unified Risk Management Division which implements risk management in a manner that comprises both portfolio and transaction level management, and embraces the principles of Credit, Market, and Operational Risk Management in an integrated and interdisciplinary manner.

The Credit Risk Management Department (CRM) assesses credit risks in transactions with counterparties (banks, investment funds and companies), risks in corporate lending, and strategic and portfolio credit issues.

The CRM Counterparties Group provides:

- Risk assessment and limit setting for all Bank counterparties on all types of operations
- Monthly monitoring of all Bank counterparties
- Quarterly risk / return optimisation of counterparties' portfolio.

The CRM Lending Group is responsible for:

- Client solvency assessment and identification of credit rating
- Monitoring lending operations and highlighting potential problems.

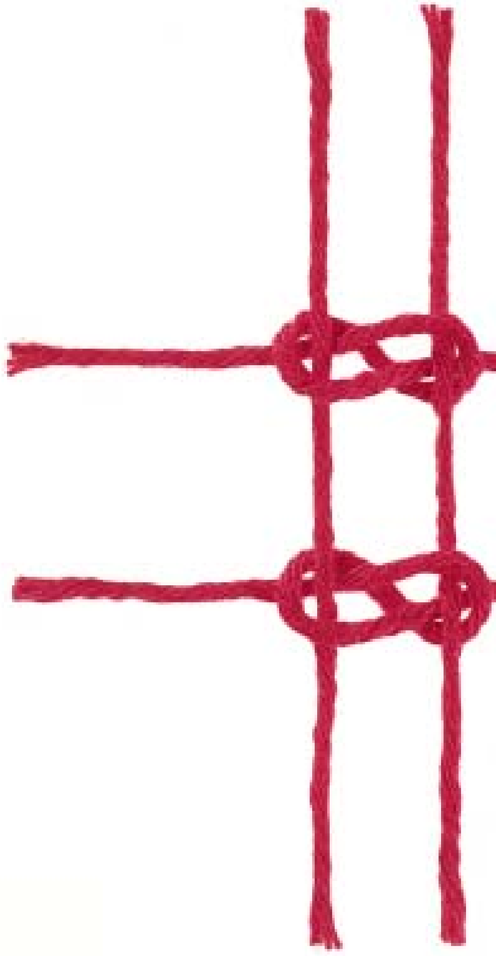
The CRM Methodologies Group organises:

- Methodologies development, scoring models, processes
- Portfolio analysis and diversification limits
- The Annual Credit Policy.

The Market Risk Management Department (MRM) assesses and manages market risks both in individual banking transactions and across the entire Bank. MRM's work includes the management of price risks, interest-rate risks and exchange risks, and also the market re-evaluation of credit risks.

Alfa Bank employs the following principal methods of market risk management:

- Risk monitoring, including risk calculation and analysis of risk dynamics
- Calibration and model verification
- Risk limiting, including setting limits on various risk indicators
- Stress-testing and scenario analysis.



Reliability

Internal tension that holds the knots together converts a number of simple straight threads into a reliable and solid fabric.

Reliability and the trust of our clients have always been our main asset.

We aim for maximum reliability by working in the area of risk management and tying together all of our business into a single information field.

Denis Kisilev
President of AlfaInsurance Group

"The tendency towards unification of insurance, bank and investment business can be seen in both Europe and America. Here Alfa has not invented the bicycle, but rather applied to the Russian market principles which already operate elsewhere in the world."

The Operations Risk Management Department (ORM) carries out risk-auditing activities, assessing operating risks and proposing ways to decrease them. Risk-audit methods are based on: identification of Key Risk Indicators (KRI) and identification of single points of failure present in process cycles and systems, and devising corrective procedures, test procedures and methods of improving systemic robustness.

The ORM Department is also responsible for analysing new products, intra-bank regulations, applications from business units, and payment and settlement procedures. In addition, the Department gathers and analyses information, and also investigates failures in procedure, over-running of limits, operating mistakes and settlement delays.

The Risk Management Division of Alfa Bank sees as its mission the adoption of international best practice in the context of Russian culture, and the implementation of a modern risk culture across the entire Bank.

Partnership Business: AlfaInsurance

AlfaInsurance Group is one of Russia's leading insurance companies. The Company was consolidated in October 2001 with the operational merger of Eastern-European Insurance Agency, Alfa-Guarantee Insurance Company and Ostra-Kiev Joint Stock Insurance Company. The year saw similar mergers within other banking groups in Russia among some of the 1 200 insurance companies licensed in the country.

AlfaInsurance ranks second in Russia and is one of the leaders in Ukraine in terms of premium income, with receipts in 2001 totalling 276 billion roubles – 1.6 times higher than in 2000. Measured by premium income, AlfaInsurance's market share increased to 7.4% in 2001 from 3.4% in 2000.

AlfaInsurance has a universal portfolio of licences for 64 types of insurance and provides business insurance to more than 20 000 companies and general insurance to more than 100 000 individuals. The Group's total insured liability is about 100 billion roubles.

AlfaInsurance is a member of the All-Russian Union of Insurers, Russian Nuclear Insurance Pool, All-Russian P&I Pool, Association of Insuring Agencies and Transport Enterprises, Russian Car Dealers Association, Russian Association of Car Insurers, Russian and Moscow Chambers of Commerce and Industry, Finnish-Russian and American Chambers of Commerce, and many others. The Group reinsures risks with the largest companies in the world: Munich Re, Swiss Re, General Cologne Re, SCOR and Gerling.

AlfaInsurance Group actively markets its services through Alfa Bank's branch network, leveraging off the Bank's client base. This allows the Bank to offer a complex of bank-insurance products. Alfa Bank also provides an insurance policy for people travelling abroad when it issues bank cards and insures its clients against loss of cards and non-authorised use of funds. Similarly, when purchasing an AlfaMobile card, the Bank's client insures his civil motor liability.

In addition to its business outlets in Alfa Bank, AlfaInsurance Group has a comprehensive independent network of 44 regional branches with representative insurance offices in Kazakhstan and Ukraine.

Investment Banking

Equities

In 2001 the Russian stock market proved to be one of the fastest-growing in the world. Over the year the RTS index rose by 98% and returned to above the 300 level for the first time since before the 1998 financial crisis.

The surge in Russian shares came against the backdrop of plunging stock markets in the USA and Western Europe as well as in developing countries. The first wave of falls in March and April coincided with early signals of recession in the main developed economies, which triggered a 15%–20% slump in the main indices. A short period of partial recovery in stock prices then petered out in the face of a global 15% decline in corporate profits.

The tragic events of 11 September 2001 only intensified the downward spiral. By late September the main indices of US shares had lost a further 20%, and, although the markets subsequently recovered a little, investors remained nervous and cautious.

Developing markets were affected by the global crisis in 2001, and had additional problems of their own. At the beginning of the year Turkey had to introduce a floating rate for the lira (instantly devalued by more than 50%) to prevent sovereign bond default, and at the end of the year Argentina's debt burden forced the government to adopt a package of emergency measures and float the peso.

Against this backdrop the strong performance of the Russian economy and markets was even more remarkable.

The steady growth of Russian shares in 2001, in spite of the shocks in other markets, was only possible thanks to increased activity from local investors.

Shares of oil and gas companies continued to lead, even though the average annual export price for oil fell to $22 a barrel in 2001 from $27 in 2000. By the end of 2001 the oil and gas sector accounted for 60% of the total market capitalisation. Share prices in other export-orientated sectors also rose between one-and-a-half and two times. Progress in structural reforms in Russia and a change in the management at Gazprom contributed to the growth in demand for energy stocks. The consolidation of regional telecommunications companies (Alfa Bank acted as an advisor in this process) also raised interest in the telecoms sector.

Dominic Gualtieri
Head of Equities Alfa Bank

"Alfa-Direct is unique in that its clients can enjoy the freedom of trading via the internet in the knowledge that they are supported by the services of the country's largest private bank."

Dynamics of the World's Main Share Indices 2001

Country	Index Name	Year Change, %	Year Close	Year High	Year Low
Developed Markets Markets					
USA	S&P 500 Index	-10.53	1 148.08	1 373.73	965.80
United Kingdom	FTSE 100 Index	-15.50	5 217.40	6 334.50	4 433.70
Germany	DAX Index	-17.96	5 160.10	6 795.14	3 787.23
Japan	Nikkei 225 Index	-23.00	10 542.62	14 529.41	9 504.41
Emerging Markets					
Poland	Warsaw Stock Exchange WIG 20 Index	-32.67	1 208.34	1 826.19	990.23
Hungary	Budapest Stock Exchange Index	-6.22	7 131.13	8 146.03	5 670.98
Turkey	Turkey Stock Market National 100	+45.59	13 783.00	13 783.00	7 160.00
Brazil	Brazil Bovespa Stock Index	-11.98	13 577.60	17 899.05	10 005.87
Russia	Russian RTS Index	+95.96	256.75	256.75	131.02

Source: Bloomberg

The increased investment demand in 2001 was accompanied by an improvement in liquidity and a broadening of investor interest in less liquid shares and second tier stocks.

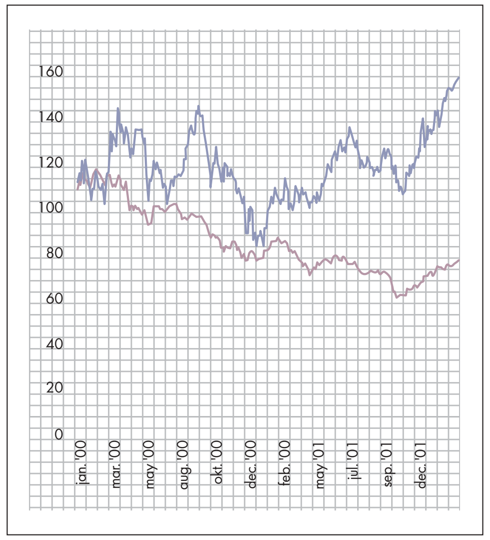
Alfa Bank aims to be the brokerage house of choice for investors in Russia, offering clients an unrivalled combination of Russian and Western expertise and the highest international standards of service.

In addition, the Bank, a pioneer in the Russian stock market and one of the leading domestic brokerages, has built a world-class international equities business. With teams of specialists (drawn mostly from blue-chip institutions) in London, New York, Kiev and Moscow, the Bank comprehensively covers the world's major financial centres and provides unparalleled service for those investing in Russia. The Bank has international reach but is unique in its special focus on Russia and in its ability to match its clients' needs.

In Moscow, Kiev, London and New York the Bank's traders and sales traders are active on all the exchanges that trade Russian securities, principally the Russian Trading System (RTS), the Moscow Interbank Currency Exchange (MICEX), the ADR market and the trading floors of the U.S. exchanges. The Bank also operates Alfa-Direct, an internet brokerage service.

Alfa Bank's Equities Division complements its expertise in trading and distribution with in-depth proprietary research by a Moscow-based team of internationally respected analysts. They produce regular industry, sector and company reports as well as macro and strategic analysis.

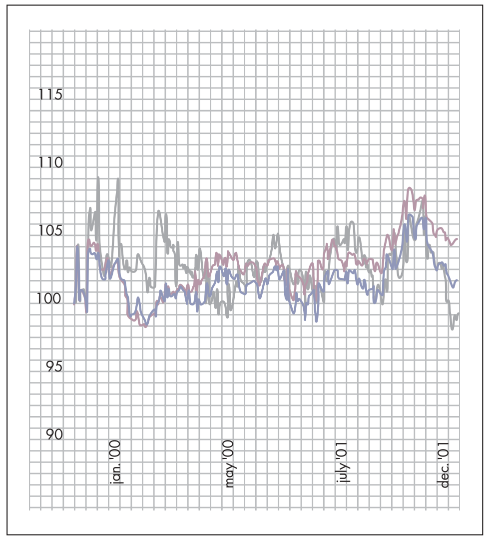
Alfa Bank is now one of the leaders by volume on the RTS, MICEX and international ADR/GDR markets. Despite the fact that the volumes on the RTS fell from $5.6 billion in 2000 to $4.5 billion in 2001, Alfa Bank saw both its volumes and market share increase significantly. The Bank's trading volume grew by 30% on all exchanges and totalled $1.6 billion. The number of clients, from large international funds to individual Russian investors, rose substantially. Alfa Securities in London, the hub of the Bank's international equities business, doubled its monthly volume of transactions, and the Bank's New York operation, Alfa Capital Markets Inc., opened for business.



RTS vs MSCI EM, Relative Performance,

January 2000 – December 2001, January 2000 opening values taken as 100& Sources: RTS, Bloomberg

– RTS Index – MSCI EM Index



Alfa-Bank Model Portfolios Performance,

April 2001 – December 2001, Source: Alfa-Bank Estimate

– ADR vs RTS

– Bluechip vs RTS – Investible vs RTS

The Alfa-Direct System and Internet Trading: www.alfadirect.ru

In 2001 Alfa Bank launched a new project – an internet stock market trading system called Alfa-Direct. The system has been designed to be fully integrated with the Bank's other investment products and offers clients a road range of investment and consulting services.

Alfa-Direct has opened the doors to a whole new range of small investors and is helping to promote personal financial planning among the Bank's Russian clients. Currently more than 4 000 orders are processed every day. Alfa-Direct provides investors with a full range of on-line investment services, including market quotes, financial news, trading, and technical analysis.

It took only one year for Alfa Bank to consolidate its position among the top ten internet-brokers in Russia. The system's monthly trade turnover exceeds $300 million (without taking into account REPO transactions), and more than 700 new investment accounts were opened during the year. Both private investors and large domestic financial institutions make use of the system.

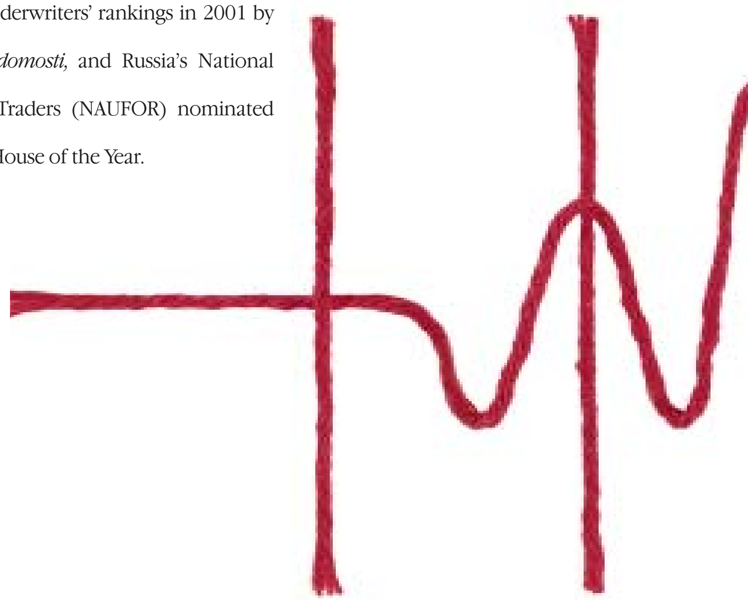
Fixed Income

Alfa Bank provides various services in the fixed income market where the Bank is an all around leader. The Bank is a market maker in all segments of rouble denominated instruments (government debt, corporate bonds and promissory notes) as well as sovereign and corporate bonds. Following implementation of new systems and expansion of the client base, profits from REPO transactions in 2001 increased three-fold in comparison with the previous year. Alfa Bank provides complex services to clients, including brokerage services to non-residents using C type accounts (such services are only provided by a few banks in the Russian market).

The Debt Capital Markets Group acts as an underwriter of rouble instruments, provides consulting services to the Bank's clients for Eurobond issues, and supplies a range of structured financial products. The Fixed Income team prides itself on its ability to create innovative and market leading solutions for both Russian and non-resident clients. The Bank's fixed income analytical research is highly rated in the West. Alfa Bank was rated second in the underwriters' rankings in 2001 by the financial daily *Vedomosti*, and Russia's National Association of Stock Traders (NAUFOR) nominated Alfa Bank as the Debt House of the Year.

New Technologies

Technological breakthrough can convert a simple fabric into a material with unsurpassed qualities, capable of working in the most extreme conditions.



New technologies allow the Bank to analyse and structure enormous volumes of information, manage this information and react to market impulses in a timely manner.

Alexander Tolchinsky
Head of Corporate Finance Department

"Alfa Bank sees Russia's booming M&A market as a key growth area."

Corporate Finance

The Corporate Finance Department achieved remarkable success in 2001, completing a number of complex and large-scale deals which in terms of structure and size broke new ground in Russia. The volume of transactions which the Department advised rocketed to $1.8 billion in 2001 from $300 million in 2000, making Alfa Bank an undisputed market leader in M&A advisory work.

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

The Corporate Finance Department has hired a number of top Russian bankers with Western experience and education, and this combination gives the Bank and its customers a unique blend of Western and local knowledge.

Headline deals included the purchase by Tyumen Oil Company (TNK) of the controlling block of shares in Sidanco, and the purchase of a 43% stake in Golden Telecom by Alfa Group and a consortium of Western investors. This latter deal required working with American legislation as Golden Telecom is listed on NASDAQ.

The Corporate Finance Department also acted as advisor to Svyazinvest for the integration of regional electricity companies in Siberia and the Far East. The project involved evaluating 18 separate companies and then producing a unified valuation for the merged operation.

The Bank organised a number of events to bring together the management of the 18 companies and the investors to pave the way for a successful merger.

Another outstanding deal – the acquisition of a controlling interest in Volga, the largest pulp and paper mill in Russia – involved the first big leveraged buy-out in the country. To bring this to success, the Department had to work with five national jurisdictions and co-ordinate the work of seven international law firms.

A 100% shareholding in the Amsterdam Trade Bank (ATB) was also purchased for Alfa Bank, as a result of which Alfa Bank became the only private Russian commercial bank with an affiliate bank with a full banking licence in the European Union. The deal involved working with Dutch judicial authorities, the Dutch National Bank, ARKO, and the creditors of ATB.

Alfa Bank's Deal Flow in 2001

Alfa Bank	Acquisition of a 100% stake in Amsterdam Trade Bank	Undisclosed
Svyazinvest	Merger of regional operators in the Far East region of Russia	$90 million
Kubansakhar	Merger with Intek; restructuring	$30 million
Alfa-Eco/Ost-West Group	Acquisition of Volga Paper Mill (the largest newsprint mill in Russia); acquisition financing; restructuring of company debt	$149 million
Alfa Group & Consortium of Investors	Acquisition of 43% stake in Golden Telecom	$125 million
Golden Telecom	Acquisition of 100% of Cityline	$23 million
TNK Oil Company	Acquisition of 84% of the shares of Sidanco Oil Company	$1.25 billion

Partnership Business: Alfa Capital Mutual Fund

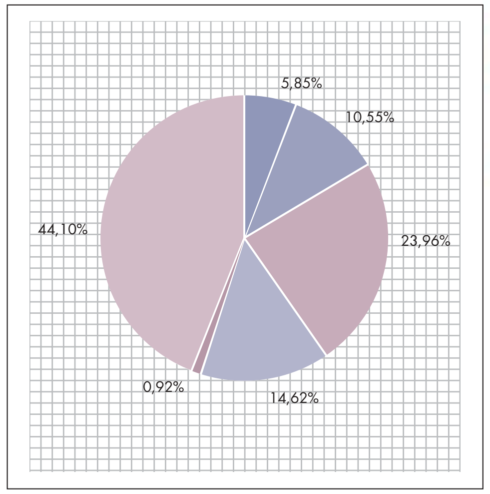
Alfa Capital is one of the leading fund managers in Russia. The Company serves private investors, pension funds, insurance companies and corporate treasurers, and runs the country's biggest mutual fund.

Alfa Capital develops and markets products based on investments in listed stocks, bonds, debt instruments, unlisted securities and real estate. These products are designed for individual portfolios as well as for mutual funds and pension funds. It also provides trust management and other client services in areas such as valuation and tax. The Company benefits from the reputation of its parent Alfa Bank and has ready access to its clients through an agent network based on Alfa Bank's branches.

Alfa Capital Mutual Fund is one of Russia's oldest and most successful investment vehicles with more than a million investors – the largest number in any such fund in Russia. The Fund had assets of $40 million at the end of 2001 and the value of the portfolio grew by 24% over the year.

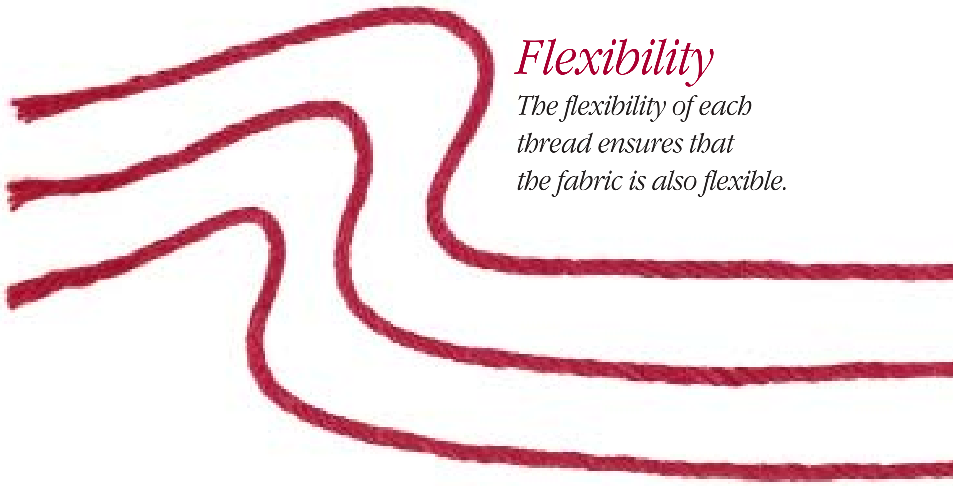
The Fund started as Alfa Capital Voucher Fund in 1992 and was reconstituted as Alfa Capital Mutual Fund in 1999. Its aim is to achieve high returns. Income is not taxed and the investor has the right to exit twice a year. The Fund guarantees that the investor's capital will be spent only according to the Fund's rules. The investment portfolio is well-diversified and therefore well-protected against unexpected price fluctuations. Alfa Capital Mutual Fund investors demonstrated their confidence in the Fund when Alfa Capital Mutual Fund was created out of the original voucher fund. Investors had three chances to exit and only 1 500 did so – 0.15% of the total.

Alfa Capital also manages the pension funds of such companies as TNK and Mosenergo as well as the reserves of AlfaInsurance. The Company expects that government plans to introduce pension reform will generate considerable growth in its pension fund activities.



Alfa Capital Assets 29.12.2001

– Cash
– State Bonds
– Other Assets
– Unlisted Shares
– Corporate Bonds
– Liquid Stocks

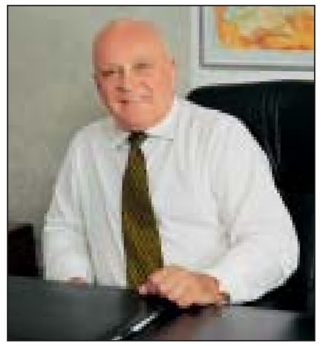


Flexibility

The flexibility of each thread ensures that the fabric is also flexible.

The flexible approach to each client and our readiness to change according to market conditions are the basis of our highly competitive position.

Subsidiaries and Representative Offices Abroad



Leonard Vid
Alfa Bank Chairman

"Alfa Bank differs from other Russian banks because of our infusion of Western banking experience. We actively attract Western specialists who bring their experience to Alfa Bank to work for us. Alfa Bank is, it goes without saying, a Russian bank, but in many important ways it has a Western mentality."

Amsterdam Trade Bank

Amsterdam Trade Bank N.V., incorporated in September 1994 in Amsterdam, the Netherlands, holds a full banking licence from the Dutch Central Bank. ATB is the first and only bank in the European Union (EU) fully owned by a privately owned Russian banking institution. In March 2001 ATB became a wholly owned subsidiary of Alfa Bank.

ATB is a member of S.W.I.F.T., TARGET and BGC, the clearing system of the Netherlands. The Bank has full membership of Interpay Netherlands and issues private and corporate EuroCards and MasterCards.

ATB is operating in the niche market of trade finance activities, primarily those involving Russia, CIS countries and the EU. The Bank provides banking and consultancy services to Russian business, together with structured project finance. The Bank also facilitates Western investment in Russia and the CIS.

In May 2001 the capitalisation of the Bank was further increased, and the authorised capital currently amounts to €45.4 million, of which €16.4 million were fully paid-in.

ATB's operating profit in 2001 amounted to €2.7 million and the Bank's assets increased by 500% to €124.3 million, with the loan portfolio accounting for €31 million. The Bank's BIS solvency ratio at the end of the year, at 72.9%, was well above the minimum requirement of 8%.

In mid-2001 ATB became the main correspondent bank of Alfa Bank for clearing services in euros.

Mr Anne van't Veer, former Secretary-General of the Berne Union, the International Union of Credit and Investment Insurers, was appointed Managing Director of ATB in October 2001.

Alfa Bank Ukraine

Alfa Bank Ukraine became a serious player in 2001 and secured its position among the country's top 20 banks (it is currently ranked 18th by amount of equity). The Bank has now set itself the target of being in the top 10 in Ukraine.

In 2001, Alfa Bank Ukraine's assets rose by 97% to $34.7 million, and the loan portfolio increased almost fourfold and the securities portfolio by 1.4 times. The balances on corporate current and deposit accounts increased by 33%, and on individual accounts by 75%. The Bank's equity and reserves climbed to $14 million.

In May 2001, Alfa Bank Ukraine was admitted into Visa International as an associate member under the sponsorship of Alfa Bank Russia. As a result, Alfa Bank now holds a licence to issue four types of Visa cards and also to carry out Visa cash transactions, including through its own ATM's. In October 2001, the Bank launched a card project of its own. It also implemented a number of wage and salary payment projects, including for employees of TRK News Channel, TNK-Ukraine and the Ukrainian branch of Unified Energy Systems of Russia.

The number of individual account holders increased by 159% in the course of the year and the number of business accounts jumped by 145%. The first full-fledged year of operations saw revenues from the sale of banking products increase fourfold.

In late 2001, Alfa Bank Ukraine became a full S.W.I.F.T. member.

Alfa Bank Kazakhstan

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

In 2001, the Bank succeeded in expanding its credit portfolio and assets by 18% in each case, while client deposits increased by 36%. The Bank's equity rose by 90% to about $9 million. Return on capital was 17% per annum. Nearly 3 000 new client accounts were opened with Alfa Bank Kazakhstan in 2001.

In August 2001, the Bank started issuing Visa cards under licence from Visa International.

In November 2001, in compliance with the decision of a general shareholders meeting, Alfa Bank Kazakhstan carried out a fifth issue of ordinary shares to boost its authorised capital to 1 billion tenges.

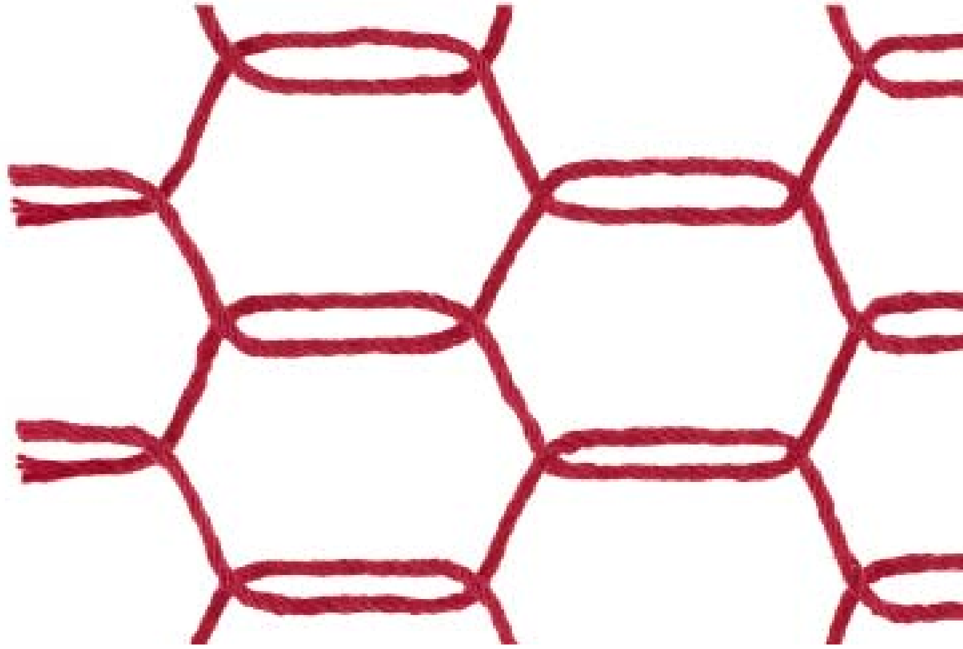
In December 2001, the Bank received a subordinated loan from Alfa Bank Russia and this raised its net worth to 2 billion tenges. In the same month the Bank introduced a new information system enabling it to adopt international accounting principles. In late 2001, the Bank became a full member of S.W.I.F.T.

Alfa Securities is the hub of Alfa Bank's international Equities business. The UK-based Equities business is run jointly by Guven Giray and Paul van den Boogard from Alfa Securities' offices located in the heart of the City of London. The operation is supported by researchers, traders and sales traders, as well as administration and compliance officers. A trading desk with open lines links London directly with Moscow, where all orders are booked.

Alfa Securities set up client relationships with 30 new institutional funds in 2001 and revenue increased more than eight times over 2000.

Network

In a woven fabric each thread supports and reinforces another.



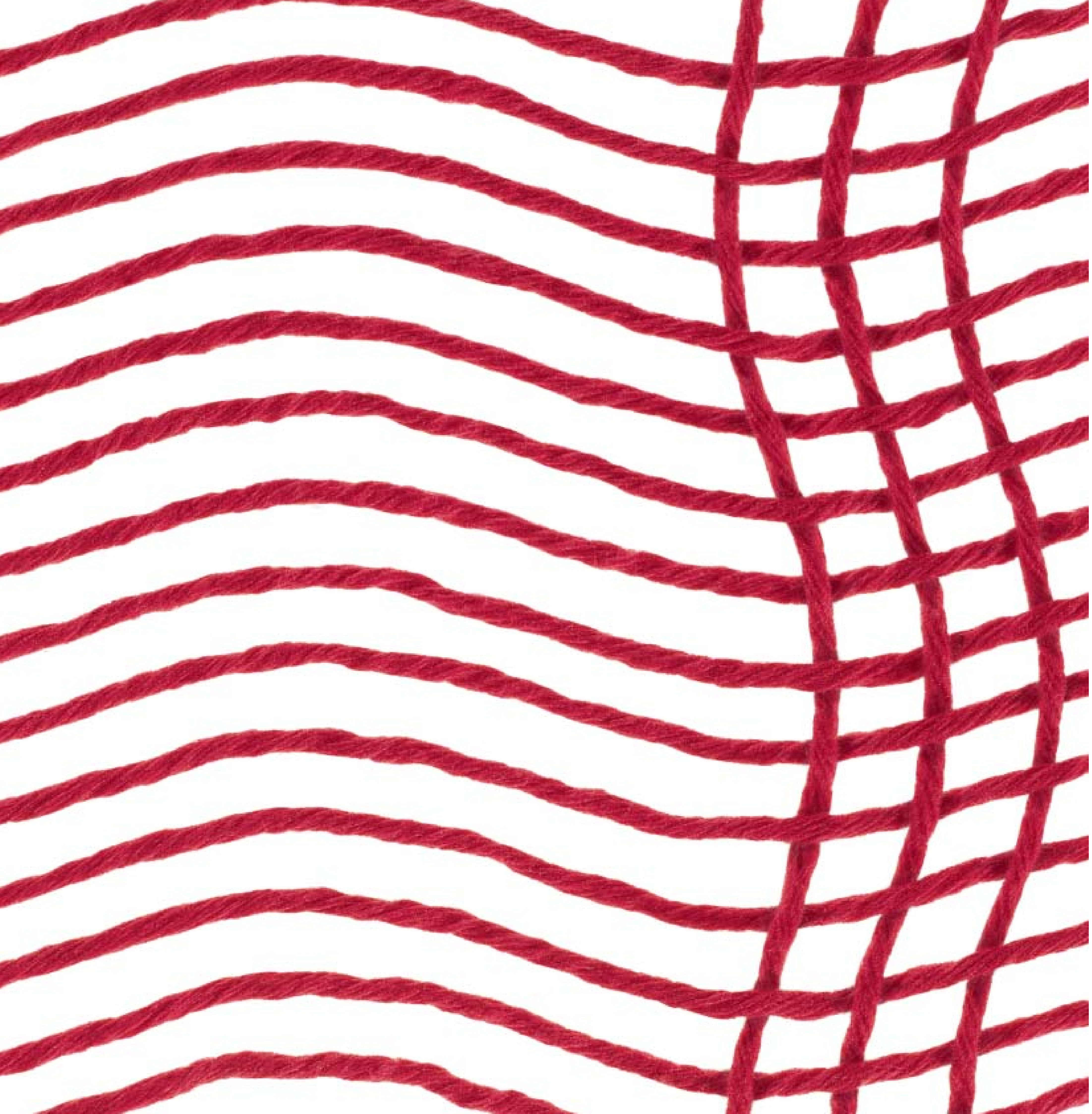
Alfa Bank's extensive regional network is built on the same principle: rapid expansion gives intensive development opportunities to the Bank and to each of its departments.

Alfa Securities Limited

Alfa Securities Limited is the London base of Alfa Bank's rapidly expanding Equities business. The London operation provides brokerage, research and investment banking services. Alfa Securities is incorporated in the United Kingdom and is licensed by the UK's Financial Services Authority (FSA). It was set up in 2000 and in a short time has developed into one of the most active players engaged in attracting foreign investment into Russia's fast growing economy.

Alfa Capital Markets Inc.

Alfa Capital Markets Inc. (ACM) is the New York arm of Alfa Bank's international equities business. ACM was established in July 2001 as part of the Bank's global strategy for equities. Alfa Capital Markets provides brokerage and investment services for institutional U.S. clients investing in Russia. Nicholas Beech, Director Sales Trading and Diana Imperatore, Director Research Sales, manage the office. Both are responsible for clients across the United States. Alfa Capital Markets is an NASD Member Firm.



Working for Success

Information Technology

Alfa Bank's strategy is to be the most technologically advanced and efficient bank in Russia. To achieve this the Bank is implementing the OMEGA programme which will result in a highly automated business – in back, middle and front office, central management and throughout the branch network.

The OMEGA programme is speeding up the time it takes to roll out new financial products and the time it takes to adapt to changes in market conditions. It provides management information in key areas such as risk and profit across all product and Department lines. OMEGA also enables the Bank to increase the number of clients, accounts and transactions without limits, and reduces costs and risk. It will provide the platform on which the Bank plans to launch its new modern retail network.

The OMEGA programme will not only ensure that Alfa Bank remains a leader in Russia but will also maintain the Bank's competitiveness after large Western players enter the market.

The OMEGA programme is based on the introduction of the Equation complex, created by Misys, the world leader in the field of technological development for banks, and also on the introduction of a system developed by the American company Egar Technologies. Fully automated throughput processing is being built using OPICS, TGM and FOCUS modules for all main markets.

During 2001, more than 350 functions were fully automated; the S.W.I.F.T. software-hardware complex was modernised in accordance with international standards; and a sales management system based on SalesLogix was implemented. In addition the Bank's

Oleg Tumanov
Deputy CEO of Alfa Bank

"In nature it is not so much the strongest that survives, but the best at adapting to change. This is also true for business. The creation of a technologically advanced bank, able quickly to adapt to the market, customer needs and new ways of conducting business is the basis of Alfa Bank's strategy."

Marina Malykhina
Head of Alfa Bank's HR Department

"People are very pleased to join us, but few leave because working for us is rewarding and challenging."

existing software-hardware complex was modernised on the Informix platform to provide on-time processing of client payments. A total of 14 new offices (branches and subsidiaries) were successfully linked into the new central system as well as the Bank's subsidiary in New York. Another important project of 2001 was the creation and development of an integrated storage of all data on the Bank's clients, products and transactions. This will be an invaluable source for business analysis.

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

We believe that the current changes in electronic commerce will have a significant impact on the running of business in the near future.

Human Resources

The Bank's senior management team has been strengthened with a number of high level external recruitments – Oleg Tumanov as Deputy CEO, Maciej Lebkowski as Director of Retail Banking Development and Martin Pilecky as IT Director. Alfa Securities in London recruited Guven Giray and Paul van den Boogard, and Nick Beech was hired to head Alfa Capital Markets in New York. Marina Popova, who has worked for the Bank for nine years starting as an economist in the Transactions Department, was appointed Chief Accountant.

A number of senior managers were rotated around the branches and to subsidiaries in order to broaden their knowledge of the business and to provide branches with highly qualified and experienced managers. Regional and branch managers are also regularly seconded to Head Office.

The Bank continued to invest in training and spent in excess of $500 000 on internal and external courses in 2001. More than 3 500 staff undertook training during the year and in 2001 the Bank sent a number of candidates to study for an MBA. Special programmes aimed at enhancing staff motivation were introduced, and for the second year employee appraisals were conducted. Managers also interact with each other formally and informally at regular regional and Head Office meetings.

A survey by *Career* magazine ranked Alfa Bank 14th among the leading corporate employers in the Russian market.

The Alfa-Chance programme, under which the Bank sponsors the education of gifted young people and offers them traineeships at the Bank, was extended from Moscow to higher education establishments in Ekaterinburg, Novosibirsk and St Petersburg. The Bank has been running this programme since 1995. There were nearly 10,000 applications for in 2001, seven times more than in 1995. Currently 8% of the Bank's staff are students.

The total number of employees on 31 December 2001 was 7 071 (including those in branches and subsidiaries) – up from 4 859 in 2000. The average age of employees is 33 and 74% of them hold University degrees. Some 43% of staff are based in Moscow and 57% in the Regional offices. 48% are females and 52% males.

Each new employee at the Bank has to familiarise himself or herself with the Corporate Code of Conduct and strictly comply with it. The Bank has developed its own internal mass media. The intranet portal Alfa Navigator is updated on a daily basis. Alfa Navigator keeps employees abreast with current developments at the Bank and provides ample opportunities for interactive knowledge transfer and on-line communication. It also provides the Bank's executives with feedback from both Moscow and the regions. A regular printed publication with the same title is also distributed. Staff communicate across the regions, branches and countries in which we operate by Lotus Notes and other forms of e-mail.

Annual executive workshops, convened at the Bor resort hotel just outside Moscow and attended by up to 400 people, are an important element in the Bank's strategy. The workshops are used to take stock of the year and reward prizewinners. There are round-table and group discussions at which the participants are free to say whatever they like. Sporting events are also organised.

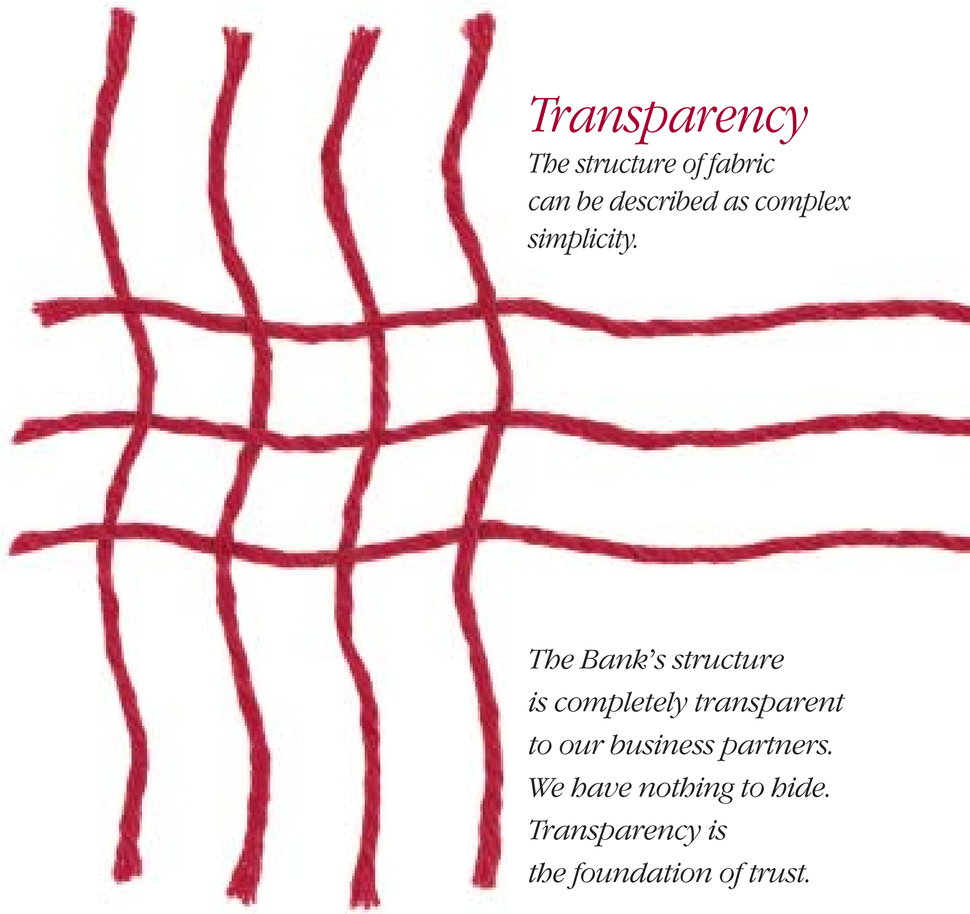
A democratic administration style is one of the corporate values of the Bank. Employees are well aware that business goals come first and that all their efforts will be adequately rewarded. Internal competition for vacancies is an important instrument for stimulating better work and providing employees with opportunities for career growth.

A combination of Western experience with an in-depth knowledge of Russian financial market specifics is a key element of the Bank's corporate policy. This fusion of the best traditions is clearly demonstrated by the fact that the Bank has an international team of top and middle managers.

Alfa Bank's Brand

Alfa Bank is one of the few post-Communist Russian banks to have successfully developed its own distinct brand. Alfa Bank prides itself on its brand and has achieved high recognition for it. The brand is synonymous with reliability and stability – two factors which are supremely important to most Russians since the 1998 banking crisis – and with leadership.

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



Transparency
The structure of fabric can be described as complex simplicity.

The Bank's structure is completely transparent to our business partners. We have nothing to hide. Transparency is the foundation of trust.

Alexander Gafin
Head of the Public Relations
and Advertising Department

"We have been involved in dozens of large-scale sponsorship projects over the last nine years. Indeed, when Russians speak of cultural sponsorship, Alfa Bank is usually the first name which comes to mind."

use of the corporate colours of red and blue in the Bank's logo and promotions has also contributed to the image; these are colours used by large and successful corporates in all the world's markets.

An independent survey conducted in 2001 found that Alfa Bank was known to 98% of the heads of Moscow companies. Similar high levels of brand recognition were found in middle to higher income groups. A survey of brand recognition of banks carried out by *Izvestia* newspaper put Alfa Bank in top place and far ahead of second placed Sberbank, the giant state-owned bank.

Charity and Support of Culture

Alfa Bank has a long history of supporting charities, promoting Russian culture and assisting young talent both at home and abroad.

Each new branch opening is traditionally accompanied by a memorable cultural event. In 2001 and early 2002, Alfa Bank financed gala performances of the Bolshoi Ballet in Tomsk, Khabarovsk, Barnaul and Izhevsk and concerts by Oleg Lundstrem's Orchestra in Chelyabinsk, Kaliningrad and Krasnoyarsk. The proceeds from these concerts are always passed on to local cultural or charitable organisations.

In 2001, as in previous years, Alfa Bank supported the Golden Mask Festival, which features some of the best of Russian theatre. Other cultural events supported by the Bank last year included the Seventh International Festival of Ballet in Bashkortostan, and the Grushinski Song Festival in Samara and Moscow.

Alfa Bank does not only support music and theatre. The State Russian Museum of St Petersburg put on an exhibition of Arkadi Shaihet's photographs with the help of the Bank and the Bank also provided financial support to the Samara Art Museum for its exhibition "Non-Conformists 1955–1985: Chronicles, Photographs, Painting" and for an exhibition in Moscow of the work of Grigori Bruskin. The Bank has been a long-term supporter of Moscow's Pushkin Art Museum in Moscow.

In 2001 the Bank also supported two major youth competitions – the Fifth All-Russian Young Violinist and Cellist Competition (named after A.B. Korsakov) and the Second International Organists' Competition, held in Kaliningrad.

Equally, Alfa Bank sponsors events which help familiarise the rest of the world with Russian art and culture, and others which introduce international artists and performers to Russia. In November 2001 the Bank sponsored a performance by the Baskortostan Ballet in London's Queen Elizabeth Hall. Concerts by world-famous musicians organised by the Bank in Russia have also become a tradition. Such stars as Sting and Elton John have visited the country once again, and the concert by Eric Clapton in the Kremlin was a sensation. One of the big events in Moscow's crowded cultural calendar in 2001 was the Alfa Bank sponsored performance of Ireland's "Lord of the Dance".

Alfa Bank formalised its support for Russian culture by signing a co-operation agreement with the Ministry of Foreign Affairs in 2001, in which the Bank made a specific undertaking to promote Russian cultural activity abroad.

The Bank also targets Russia's most needy citizens. The Bank aims to get help directly to under-privileged people in the Russian regions and to the organisations which help them.

Alfa Bank's charity initiatives concentrate on three areas.

Firstly, the Bank supports vulnerable people – orphans, handicapped children, problem teenagers, and pensioners and war veterans who cannot support themselves. In April 2001 we helped the Fund For Children with Serious Blood Diseases to purchase essential medical equipment. The Bank gives regular assistance to Moscow Children's Home No. 6 and to the Detstvo public charity. Assistance is also given to the families of officers of the Ministry of Internal Affairs who have died while performing their duties, and to the orphans of policemen. In 2001, with the support of Alfa Bank, AlfaInsurance Group launched a programme to support the children of the seamen who died during the Kursk nuclear submarine disaster.

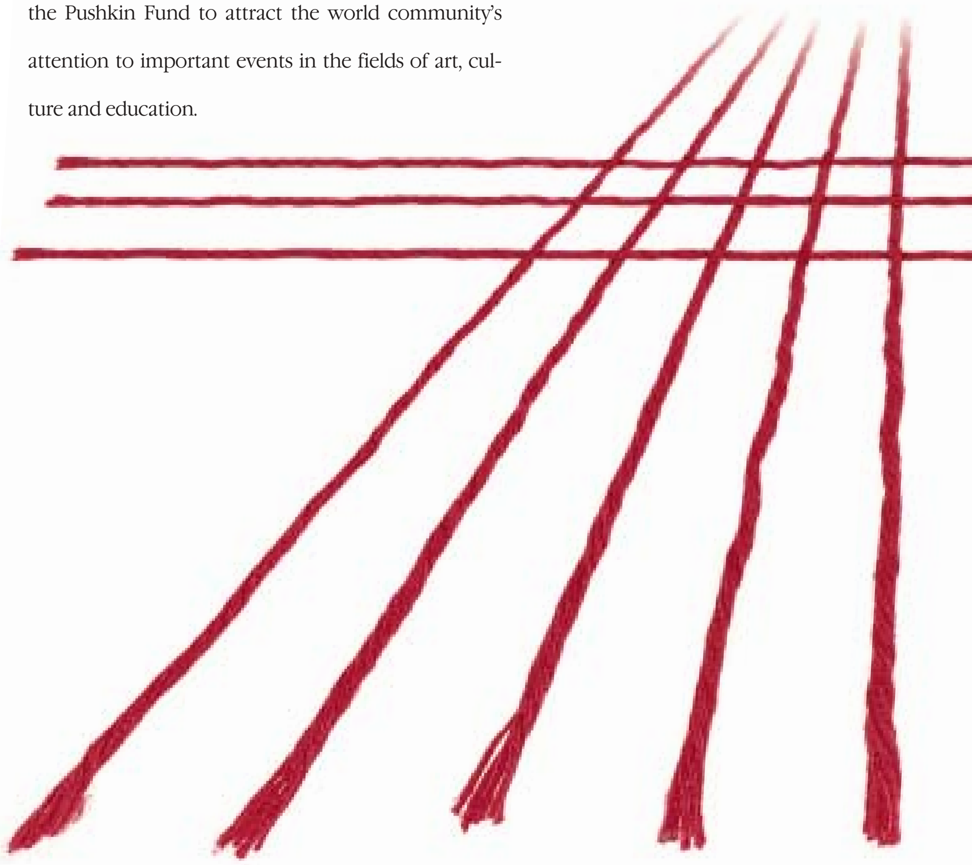
The second focus of charitable activity is to give permanent help to cultural, religious and educational centres, to finance restoration and construction work, and to preserve art treasures and monuments of historical importance. The Bank recently helped the St Petersburg State University to rebuild its management faculty building. In 2001 the Bank made charitable contributions to the Church and Culture Fund to help it to celebrate the main religious holidays in the Synod Hall of the Saviour Church for pupils of Orthodox Sunday Schools. The Bank also helped the Krasnoyarskoe Zemlyachestvo Company to build a Memorial to Siberian solders who defended Moscow during World War II. This opened in December 2001 on the 60th anniversary of the Battle for Moscow.

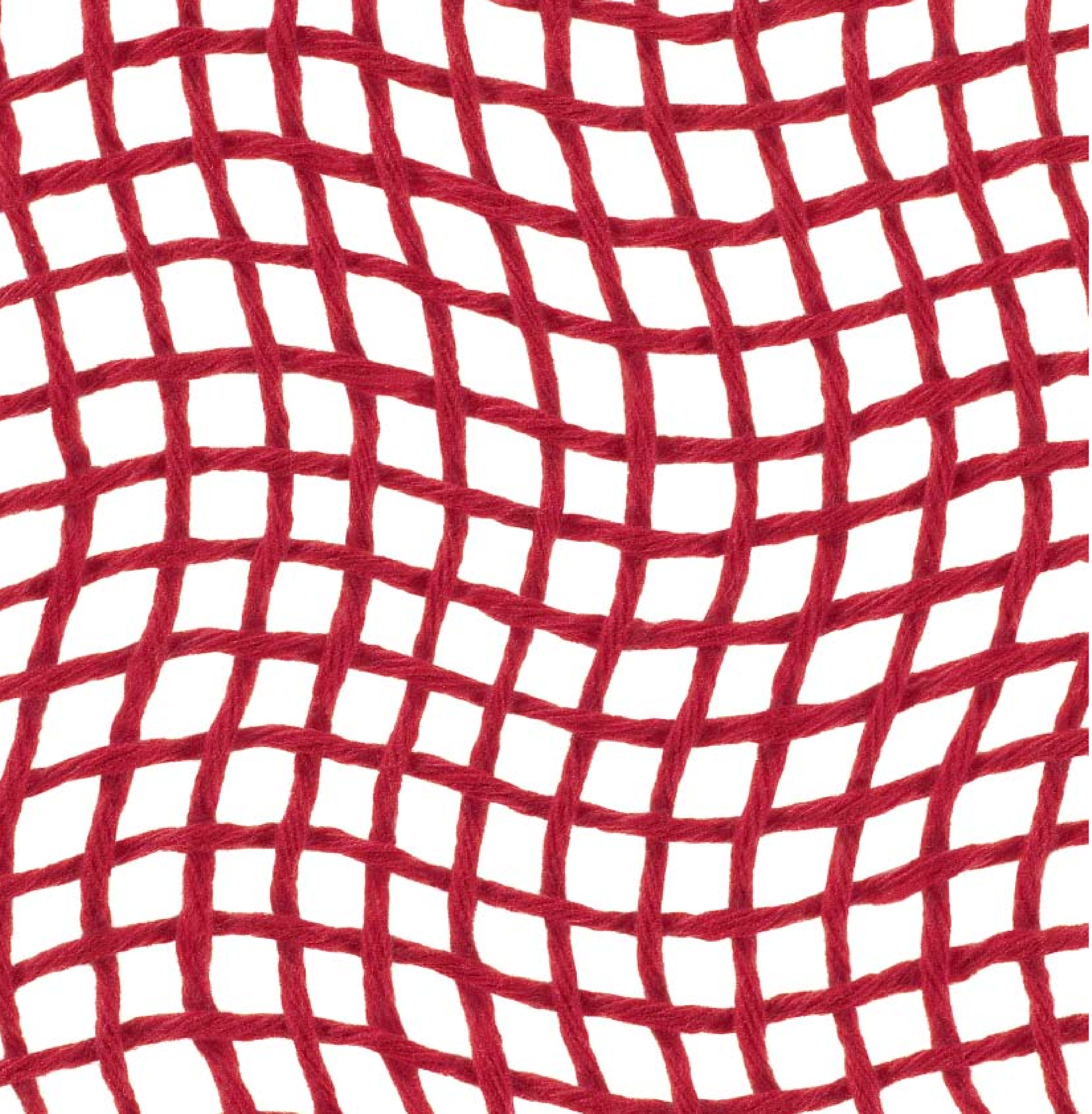
The third area of the Bank's charitable work is support for talented young people. In 2001 the first phase of the Alfa Chance programme for educating young people at the best higher education establishments was completed, and in the autumn the second phase of this programme was set in motion. The ank provided support to the Izhevsk Fund for Mathematical Education (named after E.N. Anisimova) to allow it to hold an international mathematics competition for senior pupils, the prize-winner to receive the A.N. Kolmogorova Cup. The Bank continued to pay for literary scholarships for students in Moscow. In 2001 the Bank also gave support to the city's Youth Theatre and provided a grant for the International Kondratiev Fund.

The Bank considers its cultural and charitable activities above all as a contribution to the future of the country, and this approach has received public recognition. In 2001 Vice-Presidents of Alfa Bank Aleksei Leonov and Alexander Gafin became members of the American Pushkin Academy of Arts, established in 1997 by the Pushkin Fund to attract the world community's attention to important events in the fields of art, culture and education.

Perspective

Seeing things in perspective is part of the Bank's strategy. We don't only react to market changes but we also forecast and control them.





Alfa Bank Holdings Limited

Consolidated Financial Statements
and Auditors' Report
31 December 2001

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Auditors' Report

Auditors' Report

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

1 We have audited the accompanying consolidated balance sheet of Alfa Bank Holdings Limited (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2001, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2001 and the consolidated results of its operations and its cash flows for the year ended 31 December 2001 in accordance with International Accounting Standards.

4 Without qualifying our opinion, we draw attention to Notes 8, 13, 18, 26 and 28 to the consolidated financial statements. A large portion of the Group's assets are due from related parties, a significant component of the Group's earnings are derived from activities with related parties and, in addition, the Group has significant credit commitments with related parties. Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Moscow, Russia

11 April 2002

Alfa Bank Holdings Limited

Consolidated Balance Sheet as at 31 December 2001

(expressed in thousands of US dollars – Note 3)

	Note	2001	2000
Assets			
Cash and cash equivalents	5	458 774	258 916
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		142 053	89 190
Trading securities	6	156 673	120 787
Due from other banks	7	124 357	19 060
Loans and advances to customers	8	1 417 459	882 624
Investments available for sale	9	137 180	88 202
Other assets and receivables	10	175 855	333 903
Premises and equipment	11	113 283	89 050
Total assets		**2 725 634**	**1 881 732**
Liabilities			
Due to other banks	12	340 277	160 913
Customer accounts	13	1 431 575	848 276
Promissory notes		449 792	353 612
Other borrowed funds	14	51 215	70 977
Other liabilities and payables	15	161 961	305 328
Deferred tax liability	21	9 192	14 367
Total liabilities		**2 444 012**	**1 753 473**
Minority interest		**3 598**	**3 268**
Shareholders' equity			
Share capital	16	112 800	56 400
Fair value reserve for investments available for sale	9	45 678	–
Revaluation reserve for premises and equipment	11	7 339	8 153
Retained earnings and other reserves		112 207	60 438
Total shareholders' equity		**278 024**	**124 991**
Total liabilities and shareholders' equity		**2 725 634**	**1 881 732**

Signed on behalf of the Board of Directors on 11 April 2002.

Alfa Bank Holdings Limited

Consolidated Statement of Income for the Year Ended 31 December 2001

(expressed in thousands of US dollars – Note 3)

	Note	2001	2000
Interest income	17	219 311	99 784
Interest expense	17	(108 215)	(72 401)
Net interest income		**111 096**	**27 383**
Provision for loan impairment	7, 8	(25 120)	(24 536)
Net interest income after provision for loan impairment		**85 976**	**2 847**
Gains less losses arising from trading securities		30 764	46 987
Gains less losses arising from investments available for sale transactions	9	5 158	18 670
Gains less losses arising from dealing in foreign currency		36 091	6 519
Foreign exchange translation gains less losses		(22 785)	14 379
Fee and commission income, net	18	74 485	49 735
Impairment of investments available for sale	9	(1 667)	(12 093)
(Provision for)/recovery of impairment of receivables	10	(1 174)	5 755
Other operating income	19	57 418	31 579
Net revenues		**264 266**	**164 378**
Operating expenses	20	(229 912)	(160 440)
Gains arising from retirement of debt	14	–	13 945
Monetary gain		47 876	61 652
Profit before taxation		**82 230**	**79 535**
Taxation	21	3 818	(1 665)
Profit after taxation		**86 048**	**77 870**
Minority interest		(631)	(635)
Net profit		**85 417**	**77 235**

Alfa Bank Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2001

(expressed in thousands of US dollars – Note 3)

	Note	2001	2000
Cash flows from operating activities			
Interest received		205 426	91 979
Interest paid		(105 978)	(79 195)
Income received from dealing in trading securities		44 118	55 536
Income received from dealing in foreign currency		36 091	6 105
Commissions received		98 783	62 554
Commissions paid		(28 698)	(16 880)
Other income received		18 695	26 536
Operating expenses paid		(206 431)	(141 319)
Income tax paid		(1 357)	(1 112)
Operating gains before changes in operating assets and liabilities		**60 649**	**4 204**
Net cash (increase)/decrease from operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		(57 837)	(48 172)
Net increase in trading securities		(52 075)	(46 780)
Net (increase)/decrease in due from other banks		(107 809)	7 273
Net increase in loans and advances to customers		(540 084)	(575 225)
Net decrease/(increase) in other assets and receivables		226 217	(25 804)
Net increase in due to other banks		194 832	87 366
Net increase in customer accounts		576 700	321 314
Net increase in promissory notes		98 176	186 814
Net (decrease)/increase in other liabilities and payables		(157 372)	66 490
Net cash from/(used in) operating activities		**241 397**	**(22 520)**
Cash flows from investing activities			
Purchase of premises and equipment, net		(27 318)	(44 118)
Acquisition of subsidiaries		14 358	4 521
Proceeds from sales of investments available for sale, net		191	261 417
Dividend income received		2 520	1 320
Net cash (used in)/from investing activities		**(10 249)**	**223 140**
Cash flows from financing activities			
Repayment of other borrowed funds		(20 629)	(52 003)
Net cash used in financing activities		**(20 629)**	**(52 003)**
Effect of foreign exchange rate changes on cash and cash equivalents		**8 958**	**12 809**
Effect of inflation on cash and cash equivalents		**(19 619)**	**(13 041)**
Net increase in cash and cash equivalents		**199 858**	**148 385**
Cash and cash equivalents at beginning of the year		258 916	110 531
Cash and cash equivalents at the end of the year	**5**	**458 774**	**258 916**

Alfa Bank Holdings Limited

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2001

(expressed in thousands of US dollars – Note 3)

	Share capital	Share premium	Revaluation reserve for investments	Fair value reserve for investments available for sale	Revaluation reserve for premises and equipment	Retained earnings and other reserves	Total share-holders' equity
Balance at 1 January 2000	**1**	**9 495**	**245 812**	**–**	**3 348**	**(25 171)**	**233 485**
Transfer to retained earnings from revaluation reserve for investments due to disposal of investment (Note 9)	–	–	(245 812)	–	–	245 812	–
Revaluation of premises and equipment, net of taxation (Note 11)	–	–	–	–	4 805	–	4 805
Translation movement	–	–	–	–	–	(61 698)	(61 698)
Net gains and losses not recognised in the consolidated statement of income	**–**	**–**	**(245 812)**	**–**	**4 805**	**184 114**	**(56 893)**
Profit for the year	–	–	–	–	–	77 235	77 235
Dividends declared (Note 22)	–	–	–	–	–	(129 340)	(129 340)
Sale of treasury stock	–	504	–	–	–	–	504
Restructuring of share capital	56 399	(9 999)	–	–	–	(46 400)	–
Balance at 31 December 2000 (as previously reported)	**56 400**	**–**	**–**	**–**	**8 153**	**60 438**	**124 991**
Effect of adopting IAS 39 (Note 9)	–	–	–	11 398	–	–	11 398
Balance at 1 January 2001 (restated)	**56 400**	**–**	**–**	**11 398**	**8 153**	**60 438**	**136 389**
Net fair value gains arising on investments available for sale (Note 9)	–	–	–	38 284	–	–	38 284
Transfer of net fair value gains arising on investments available for sale to net profit	–	–	–	(4 004)	–	–	(4 004)
Revaluation of premises and equipment, net of taxation (Note 11)	–	–	–	–	189	–	189
Translation movement	–	–	–	–	–	(34 651)	(34 651)
Other movements	–	–	–	–	(1 003)	1 003	–
Net gains and losses not recognised in the consolidated statement of income	**–**	**–**	**–**	**34 280**	**(814)**	**(33 648)**	**(182)**
Profit for the year	–	–	–	–	–	85 417	85 417
Contribution to share capital	56 400	–	–	–	–	–	56 400
Balance at 31 December 2001	**112 800**	**–**	**–**	**45 678**	**7 339**	**112 207**	**278 024**

1 Principal Activities of Alfa Bank Holdings Limited

Alfa Bank Holdings Limited and its subsidiaries (the "Group" or "Alfa Bank Group") are part of the Alfa Group Consortium (the "Consortium") and comprise two main business segments, commercial banking and investment banking. The commercial banking activities of the Group are carried out principally by Alfa Bank and its subsidiaries and the investment banking activities of the Group are carried out principally by Alfa Capital Investments Limited and certain other subsidiaries. Refer to Note 23 for further information on the two primary business segments of the Group.

Alfa Group Consortium comprises the parent entity, CTF Holdings Limited, and its subsidiaries (together the "CTFH Group"), together with entities in which the parent entity along with the members of the parent entity have a majority interest and/or the ability to control. The Consortium operates in the following business segments: international commodities, domestic commodities, retail trade, food processing, oil and gas and telecommunications, in addition to its financial services activities which are reflected in these consolidated financial statements.

A substantial part of the Consortium's and of the Group's activities are carried out in Russia. However, a majority of the Group's operations, assets and liabilities are denominated in US Dollars which is regarded by Management as the Group's functional and measurement currency. Refer to Note 24 for a currency analysis of the Group.

Reorganisation of the Group

During the past several years the Group has undergone a multi-stage reorganisation in order to accomplish the following objectives:

- Arrange all the companies in the Group into a transparent, legal structure with one parent company and in line with the way in which Management manages the business; and
- To create a separate industrial holding for non-banking assets.

As at 31 December 2000, the Group had finalised this restructuring. Set out below are the chronological steps performed to accomplish this.

In December 1999, AB Holdings Limited was registered as part of the Group restructuring to formally bring all the Group companies under one holding company. This was effected via a transfer of assets among entities under common control, and, as such, was accounted for under the uniting of interests method.

Alfa Finance Holdings S.A., a Luxembourg holding company, was originally incorporated in May 1999 with capital of $40 000. During March 2000, Alfa Finance Holdings S.A. was capitalised via the transfer of all the assets and liabilities of AB Holdings Limited, the prior parent of the Group. As a result, Alfa Finance Holdings S.A. became the direct holding company of the Group. AB Holdings Limited has since been liquidated.

In September 2000, Alfa Finance Holdings S.A. sold its 100% interest in Alfa Bank to another of its wholly owned subsidiaries, Alfa Bank Holdings Limited (formerly Alfa Capital Holdings (BVI) Limited). Thus, Alfa Bank Holdings Limited became the parent company of the financial subholding (the constituent entities of these consolidated financial statements).

Though the parent of the Group has changed, the collection of assets and liabilities being reported on within these consolidated financial statements has remained consistent, with the exception of the investment in Tyumen Oil Company which, due to the reorganisation of the Group, has been moved to the industrial subholding. Refer to Note 9.

A summary of the constituent entities within Alfa Bank Holdings Limited is set out below. Refer to Note 29 for a comprehensive listing of subsidiaries. The number of employees of the Group at 31 December 2001 is 7071 (2000: 4859).

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

Commercial Banking

Alfa Bank (the "Bank") is an open joint stock commercial bank. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank operates in all sectors of the Russian financial markets, including inter-bank and retail deposits, foreign exchange operations and debt and bond trading. In addition, a complete range of banking services is provided in Russian Roubles and foreign currencies to its clients.

The Bank had 35 branches within the Russian Federation at 31 December 2001.

The Bank's registered office is located at 7b1 Novatorov St., Moscow 117425. The Bank's principal place of business is 9 Mashi Poryvaevoy St., Moscow 107078.

At 31 December 2001 the Bank has nine Russian companies as shareholders, all of which are wholly owned by Alfa Bank Holdings Limited. The Bank's major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Limited and Alfa Capital Markets.

Alfa Russia Finance B.V. is a wholly owned special purpose vehicle through which Alfa Bank issued Euro Medium Term Notes and US Commercial Paper Notes, both denominated and settled in US Dollars. See Note 14 for further details.

Investment banking

Alfa Bank Holdings Limited is also the parent company of Alfa Capital Investments Limited and certain other subsidiaries which are primarily involved in the investment banking segment of the Group. Most of these companies are located outside Russia. Refer to Note 23 for further information on the geographical segments of the Group. The activities of these companies include proprietary trading and brokerage activities, investment and merchant banking and asset management, with a primary emphasis on securities within the Russian Federation and Ukraine.

2 Operating Environment of the Group

The majority of the Group's operations are tied to the Russian market (approximately 82% of total assets of the Group are represented by entities located in the Russian Federation) and accordingly the operating environment in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group's assets and liabilities at 31 December 2001 are denominated and settled in US Dollars.

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

Additionally, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. In addition, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The political stabilisation beginning in 2000 and continuing into 2002 has helped the political and legal environment develop in positive directions.

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 these 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 securities 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 Presentation

Basis of preparation

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

The Bank maintains its accounting records in accordance with Russian banking regulations in the national currency of the Russian Federation, the Russian Rouble ("RR"). Certain other members of the Group (Alfa Trust and Alfa Capital Asset Management) maintain their accounting records in compliance with Russian Accounting Regulations, and Alfa Capital Ukraine, Alfa Bank Ukraine (formerly Kiev Invest Bank) 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 company law in their respective jurisdictions. As indicated earlier, a majority of the Group's transactions by value are undertaken and settled in US Dollars and its assets and liabilities are primarily denominated in US Dollars. The accounting records of the Group are maintained in such a way that original US Dollar and other currency amounts can be determined. The measurement currency of the Group is the US Dollar. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the "Foreign Currency Translation" section of this note. These consolidated financial statements, expressed in US Dollars, have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with International Accounting Standards issued by the International Accounting Standards Committee.

The US Dollar has been selected as the measurement currency for the consolidated financial statements of Alfa Bank Holdings Limited because a significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars ("US$"). Moreover, the Group's (and the Bank's) assets and liabilities are largely denominated and settled in US Dollars and other freely convertible currencies (refer to Note 24). The US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Group. 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.

As at 1 January 2001, the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The financial effects of adopting IAS 39 are reported in the consolidated statement of changes in shareholders' equity. IAS 39 has been applied prospectively in accordance with the requirements of the Standard and therefore corresponding financial information has not been restated. Further information relating to the effect of the adoption of IAS 39 is presented in the relevant accounting policies for trading securities, investments available for sale, derivative financial instruments, loans and provision for loan impairment and related disclosures.

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

Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date when effective control is transferred to the Group and are removed from consolidation from the date of disposal. All intercompany accounts, transactions and profits have been eliminated upon consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Minority interests are separately disclosed.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, 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 subsidiary. Minority interest related to operational results of the current year is recorded in the consolidated statement of income.

Foreign currency translation

Monetary assets and liabilities originally denominated in US$ are stated at their original US$ amounts. Monetary assets and liabilities in other currencies have been translated to US$ using the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities (excluding currencies of countries with hyperinflationary economies) which are denominated in currencies other than US$ 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$ using a basis that approximates the rate of exchange in effect at the date of transaction. Gains and losses arising from translation of assets and liabilities are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

As the Bank and certain other members of the Group operate independently of the Group, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", these entities are considered to be foreign entities (operations not integral to those of the parent) with respect to the Group. Thus, the accounts of the Bank and certain other members of the Group have been adjusted for hyperinflation and then translated into US$ at the applicable year end exchange rate as required by IAS 21. Refer to "Accounting for the Effects of Hyperinflation" below for an explanation of the conversion of the Bank's and other Russian companies' Russian Rouble accounting records to US$.

The conversion method described above leads to a translation of non-monetary assets and liabilities, existing as at

31 December 2001, at two different rates (31 December 2000 and 31 December 2001). 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 should be recognised as income or expense. This exchange difference is reflected within the translation movement in the consolidated statement of changes in shareholders' equity.

At 31 December 2001 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 30.14 (2000: US$ 1 = RR 28.16) and the average exchange rate for the year ended 31 December 2001 was US$ 1 = RR 29.17 (2000: US$ 1 = RR 28.58). During year ended 31 December 2001 the devaluation of the RR against the US$ was 7.0% (2000: 4.3%). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency outside the Russian Federation.

Accounting for the effects of hyperinflation

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

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

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

The restated financial information of the Bank and other Russian companies has been prepared using conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements are based on 1988 prices using 100 as the base index. The inflation indices for the five years ended prior to 31 December 2001 and the respective conversion factors are as follows:

	Index	Conversion Factor
1997	659 403	3.6
1998	1 216 400	2.0
1999	1 661 481	1.4
2000	1 995 937	1.2
2001	2 371 572	1.0

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

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2001. Non-monetary assets and liabilities are restated by applying the relevant conversion factor. The effect of inflation on the Bank's net monetary position is included in the consolidated statement of income as a monetary gain or loss.

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

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

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

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

In general, inflation occurred evenly over the year Income and expenditures accrued evenly over the year except for charges against profit for aggregate movements in:

- provision for loan impairment
- provision for impairment of investments available for sale
- provision for impairment of receivables
- provision for impairment of premises and equipment.

All such movements have been treated, for the purposes of this calculation, as occurring at the year 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 financial statements for the individual entities forming part of the Group. Alfa Bank, the largest subsidiary of the Group, has also used these policies in preparing its financial information, which has been adjusted for the effects of inflation in accordance with IAS 29 (refer to Note 3) and thereafter incorporated in the accompanying consolidated financial statements.

Cash and cash equivalents

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

Mandatory balances with the Central Bank of the Russian Federation and other local central banks

Mandatory balances with the Central Bank of the Russian Federation and other local central banks represent mandatory reserve deposits which are not available to finance the Bank'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

At 1 January 2001 the Group adopted IAS 39 and classified all its securities portfolio as "trading" securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, ie within a one to three month period.

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

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

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

Prior to adoption of IAS 39, all securities were treated by the Group as part of its trading portfolio. Government securities and corporate shares were carried at market value. The carrying values for other securities were derived either from market quotations or from the Management's assessment of the future realisability of these securities. Changes in market values were recorded within gains less losses arising from securities in the consolidated statement of income in the year in which the change occurred. Coupon and interest earned on trading securities were reflected in the consolidated statement of income as interest income. Dividends received were included in dividend income.

Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Group and are carried at amortised cost less provision for loan impairment. All loans and advances are recognised when cash is advanced to borrowers.

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income and included in other operating income.

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

Prior to the adoption of IAS 39, loans and advances were stated at the principal amounts outstanding, net of provisions for losses on loans and advances.

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 raised against other credit related commitments when losses are considered probable.

Investments available for sale

At 1 January 2001 the Group adopted IAS 39 and classified all its investments as "investments available for sale". This classification includes investments which Management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of investments at the time of purchase.

Investments available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of current negotiations for disposal of these investments to the third parties, results of recent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recognised in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale transactions. Dividends received are included in dividend income.

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

Prior to adoption of IAS 39, all investments available for sale were carried at cost less provision for diminution in value, created in cases where the value of an investment has declined and Management believes that the decline is not temporary in nature. Income derived from investments available for sale was accounted for on a cash basis. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount was charged or credited to income.

Sale and repurchase agreements

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

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

Originated receivables from customers

Originated receivables from customers represent receivables for the sale of trading securities and investments available for sale, advances made for purchases of trading securities and investments available for sale, and other receivables and advances. Receivables are carried at amortised cost less provision for impairment. Provisions made during the year are included in the consolidated statement of income.

Prior to adoption of IAS 39, all receivables from customers were carried at their nominal amount less provision for losses.

Premises and equipment

Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimate recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use. The Group's premises have been revalued to market value. The valuation was performed on the basis of an appraisal performed by a professional, internationally recognised real estate appraisal company located in Russia. Any revaluation surplus is credited to the revaluation reserve for premises and equipment.

Construction in progress is carried at cost less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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

Depreciation

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

Premises	2.5% per annum
Office equipment	16% per annum
Computer equipment	25% per annum
Motor vehicles	14–18% per annum
Intangible assets	10–20% per annum

Promissory notes

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

Prior to adoption of IAS 39, promissory notes issued by the Group were recorded at nominal value, with the corresponding discount recorded within other assets and amortised to the consolidated statement of income over the period of maturity of the security.

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

Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings 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 included in gains arising from retirement of debt.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Treasury shares

Shares of the Group owned by the Group, and held at the balance sheet date, are designated as treasury shares. The cost of such shares is shown as a reduction in shareholders' equity. Gains and losses arising on disposal of such shares are shown as adjustments to share premium.

Dividends

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

Income taxes

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

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

Deferred taxation relating to the fair value re-measurement of investment securities available for sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated statement of income when the gain or loss on the securities is realised.

Income and expense recognition

Interest income and expense are recognised in the consolidated statement of income on an accruals basis using the effective yield method. Interest income is not recognised when it is overdue and/or in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities and accrued discount. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Derivative financial instruments

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

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of foreign currency derivatives are included in gains less losses arising from dealing in foreign currencies. When the Group had contracts to both buy and sell foreign currencies with the same counterparty, the gains and losses have been offset.

The August 1998 economic crisis and the subsequent legal uncertainty over derivative contracts have necessitated the Group to modify its accounting policy with regard to domestic index forwards as described below.

Gains and losses on domestic index forwards have been calculated applying the exchange rate on the contractual maturity date. Where settlements have been negotiated with counterparties, the gain or loss has been recognised based on the settlement amounts. For contracts which have not been settled, Management has recognised the gain or loss at the amount at which they believe the contract could be settled. When the Group had contracts to both buy and sell foreign currencies with the same counterparty, the gains and losses have been offset.

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

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

Offsetting

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

Pension costs

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

Operating leases

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to customers, and whose revenue, result or assets are 10% more of all the segments are reported separately.

5 Cash and Cash Equivalents

	2001	2000
Cash on hand	74 070	38 140
Cash balances with the CBRF (other than mandatory reserve deposits)	208 620	96 681
Correspondent accounts with other banks		
Russian Federation	12 385	7 534
Other countries	50 702	25 711
Overnight placements with other banks		
Russian Federation	23 781	–
Other countries	89 216	90 850
Total cash and cash equivalents	**458 774**	**258 916**

6 Trading Securities

	2001	2000
Corporate Eurobonds	44 198	45 235
Corporate bonds	29 401	–
Russian Federation Eurobonds	28 620	12 594
Promissory notes of Russian banks and enterprises	22 339	11 742
Corporate shares	20 645	16 056
VneshEconomBank 3% coupon bonds (VEB)	3 790	–
Federal loan bonds (OFZ)	108	23 657
Local government bonds	–	4 553
Other securities	7 572	6 950
Total trading securities	**156 673**	**120 787**

Corporate Eurobonds are interest bearing securities denominated in US$, issued by large Russian companies, and are freely tradable internationally. The annual coupon rates on these bonds range from 1% to 13%. The bonds have maturity dates from October 2002 to November 2006 and yield to maturity from 10% to 13%.

Corporate bonds are interest-bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in Russian Federation. The bonds have maturity dates from March 2002 to November 2006 and yield to maturity from 18% to 25%. The annual coupon rates on these bonds range from 15% to 23%.

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Bank's portfolio of Russian Federation Eurobonds consists of two tranches with maturity dates ranging from July 2002 to March 2030 and yield to maturity from 8% to 12%. The annual coupon rates on these bonds range from 5% to 9%, and interest is payable semi-annually.

Promissory notes are interest-bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in Russian Federation. The notes have maturity dates from January 2002 to April 2003 and yield to maturity from 23% to 26%. The annual coupon rates on these notes range from 0% to 22%. Corporate shares are shares of Russian and Ukrainian companies. Corporate Eurobonds with fair value of US$ 14 841 thousand (2000: nil) have been pledged to third parties as collateral with respect to term placements of other banks. The Bank is licensed by the CBRF as a primary dealer at MICEX for dealing and trading in government securities.

7 Due from Other Banks

	2001	2000
Term placements with other banks	124 987	20 584
Less: Provision for loan impairment	(630)	(1 524)
Total due from other banks	**124 357**	**19 060**

Movements in provision for loan impairment are as follows:

Provision for loan impairment at 1 January	**1 524**	**542**
(Recovery of)/provision for loan impairment during the year	(894)	982
Provision for loan impairment at 31 December	**630**	**1 524**

As at 31 December 2001 balances due from other banks amounting to US$ 4 245 thousand were of a restricted nature (2000: nil). Geographical and currency analysis of due from other banks is disclosed in Note 24. The weighted average interest rates and maturity structure of due from other banks is detailed in Note 25.

8 Loans and Advances to Customers

	2001	2000
Current loans and advances	1 364 727	861 389
Rescheduled (current) loans and advances	113 986	65 385
Overdue loans and advances	35 066	25 399
Less: Provision for loan impairment	(96 320)	(69 549)
Total loans and advances to customers	**1 417 459**	**882 624**

Movements in provision for loan impairment are as follows:

Provision for loan impairment at 1 January	**69 549**	**56 811**
Provision for loan impairment during the year	26 014	23 554
Loans and advances written off during the year as uncollectable	(568)	(10 868)
Acquisition of subsidiaries	1 325	52
Provision for loan impairment at 31 December	**96 320**	**69 549**

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

	2001 Amount	2001 %	2000 Amount	2000 %
Energy and oil related enterprises	557 947	37	522 785	55
Manufacturing and construction	369 736	25	154 856	16
Trade and commerce	335 081	22	144 884	15
Telecommunications	199 798	13	–	–
Agriculture	28 153	2	54 258	6
Individuals	3 880	–	10 789	1
Other	19 184	1	64 601	7
Total loans and advances to customers (aggregate amount)	**1 513 779**	**100**	**952 173**	**100**

As an illustration of risk concentration, at 31 December 2001, the Group had 10 borrowers with aggregated loan amounts above US$ 30 000 thousand. The aggregate amount of these loans was US$ 751 358 thousand or 50% of the gross loan portfolio.

Included in the loan portfolio at 31 December 2000 were loans to customers in the amount of US$ 259 801 thousand which were fully collaterised by matching deposits of US$ 100 000 thousand and promissory notes of US$ 159 801 thousand. The Group did not have a legally enforceable right to offset these amounts. These loans were repaid shortly after the year end, and thus no provision against these loans was recorded.

Alfa Bank is an authorised bank of the Russian Government for the purposes of lending to agricultural entities under the Ministry of Agriculture and Ministry of Finance Programme. As at 31 December 2001, the amount of agricultural loans outstanding was US$ 24 912 thousand (2000: US$ 36 176 thousand). These loans matured on 1 November 1999; however there has been a Presidential Decree extending the maturity date, though the terms have not been finalised. Alfa Bank acts as an agent as the loans are granted by the Bank to approved borrowers in the agricultural sector out of the funding received under the federal special purpose fund of the Russian Government. Included within customer accounts is a deposit of US$ 25 460 thousand (2000: US$ 39 362 thousand) from the Ministry of Agriculture.

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

The geographical and currency analysis of loans and advances to customers is disclosed in Note 24. The weighted average interest rates and maturity structure of the loan portfolio is detailed in Note 25. The Group has several loans to related parties. The relevant information on related party loans is disclosed in Note 28.

Loans totalling US$ 115 000 thousand (2000: US$ 25 000) have been pledged to third parties as collateral. Refer to Note 14.

9 Investments Available for Sale

	2001	2000
Investments measured at fair value	137 180	–
Investments measured at cost	–	139 888
Less: Provision for diminution in value of investments	–	(51 686)
Total investments available for sale	**137 180**	**88 202**

As described in Note 3, the Group adopted IAS 39 as at 1 January 2001. Prior to adoption of IAS 39, investments were carried at cost less provision for diminution in value. The diminution in value provision of US$ 51 686 thousand at 31 December 2000 now constitutes a part of the carrying value of the investments available for sale.

Upon adoption of IAS 39, the Group recognised an adjustment of US$ 11 398 thousand to its opening carrying value of investments available for sale. This amount related to investments in which the fair value at 1 January 2001 exceeded the carrying value of such investments as of that date.

The movement in investments available for sale is as follows:

	2001
Carrying value at 1 January 2001	**88 202**
Movement in fair value reserve for investments available for sale during the year	45 678
Proceeds from sales of investments available for sale, net	(191)
Gains less losses arising from investments available for sale transactions	5 158
Impairment of investments available for sale	(1 667)
Total investments available for sale	**137 180**

Investments in Tyumen Oil Company

One of the most significant investments of the Group was in Tyumen Oil Company ("TNK"), one of the Russian Federation's largest oil companies. The Group purchased 25.05% of TNK and 11% of Nizhnivartovskneftegaz ("NNG"), a majority owned subsidiary of TNK and its main production facility. In 1997 the Group obtained a 20% interest in TNK and the additional interests were acquired during 1998. The investments were made via both cash and promissory notes. The investments were made with an equal joint venture partner through a mutually owned holding company structure, Novy Petroleum, and Novy Holding, a wholly owned subsidiary of Novy Petroleum. Novy Petroleum is 50% owned by Redhill Properties Limited. The historical purchase price of the Group's investments is US$ 249 186 thousand.

TNK, including all its subsidiaries, was revalued by an independent appraiser as at 31 December 1998. This appraisal, based on crude oil reserve reports, was done on a discounted cash flow basis. The Group used this appraisal in order to determine the carrying value of its investment in TNK, amounting to US$ 405 614 thousand as at 31 December 1999. A provision for deferred tax of US$ 31 786 thousand had been estimated with respect to the carrying value of this investment.

In August 2000, Alfa Bank Holdings Limited finalised a transaction whereby it sold a wholly owned subsidiary, Redhill Properties Limited, and therefore the Group's interest in TNK, to Medpoint Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., for US$ 375 000 thousand. This transaction, between companies under common control, was settled in full during 2000 and 2001.

As the above transaction was a sale to a company whose shareholders are the same as that of the Group, it was a transaction between entities under common control and no gain or loss was recognised by the Group on this transaction. In accordance with IAS 25, the revaluation reserve of US$ 245 812 thousand related to TNK was transferred to retained earnings and other reserves in the consolidated statement of changes in shareholders' equity as of 31 December 2000.

Investments measured at fair value

These investments cover industries, which are not part of the long-term strategy of the Group or the Consortium. Management of the Group is focused on an eventual exit strategy for each of these companies. The principal investments available for sale at 31 December 2001 are:

Name	Nature of business	Country of registration	Fair value
Akrikhin	Pharmaceutical	Russia	32 885
TV Service	Television	Russia	25 000
UIF Alfa Capital	Investment	Russia	21 082
Siracuse	Construction	Russia	17 279
STS TV	Television	Russia	13 438
New Channel (NCU TV)	Television	Ukraine	9 698
Svet	Manufacturing	Russia	5 510
Other			12 288
Total			**137 180**

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

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

In 1998 the Group entered into a sale and repurchase agreement with a Western credit institution, in which the collateral was the Group's investment in Akrikhin. The amount due, in respect of this transaction, was US$ 6 500 thousand as at 31 December 2000. The balance was repaid during the year ended 31 December 2001 and the investment was released from the pledge. Refer to Note 14.

Investments available for sale with a fair value of US$ 5 704 thousand (2000: carrying value of US$ 4 398 thousand) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

10 Other Assets and Receivables

	2001	2000
Receivable from related parties	64 990	271 952
Receivables on operations with securities	35 061	30 230
Accrued interest income	22 125	8 299
Trade debtors and prepayments	14 471	15 534
Settlements on foreign exchange transactions	11 855	280
Precious metals	11 752	1 006
ATM debtors	5 344	5 105
Debtors on plastic card operations	5 274	5 467
Settlements on equipment acquisition	4 335	1 037
Other	4 730	6 017
Subtotal	**179 937**	**344 927**
Less: provision for impairment of receivables	(4 082)	(11 024)
Total other assets and receivables	**175 855**	**333 903**

At 31 December 2001 receivable from related parties includes US$ 56 400 thousand receivable from Alfa Finance Holdings S.A. with respect to a share capital contribution. Refer to Notes 13, 16, 28 and 30.

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

As at 31 December 2000, receivable from related parties included US$ 256 050 thousand due from Medpoint Limited related to the sale of TNK (refer to Note 9). The balance was repaid during 2001.

As at 31 December 2001 accrued interest income includes US$ 11 720 thousand of interest income accrued on the loan to Alfa Telecom (refer to Note 8). In addition, included in accrued interest income is an amount of US$ 520 thousand outstanding from other related parties.

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

	2001	2000
Provision for impairment of receivables at 1 January	11 024	18 285
Provision for/(recovery of) impairment of receivables during the year	1 174	(5 755)
Receivables written off during the year as uncollectable	(8 116)	(1 506)
Provision for impairment of receivables at 31 December	**4 082**	**11 024**

11 Premises and Equipment

	Premises	Leasehold Improve-ments	Office and computer equipment	Intangible assets	Construction in progress	Total
Net book amount at 31 December 2000	**31 908**	**7 746**	**30 228**	**9 036**	**10 132**	**89 050**
Cost or valuation						
Opening balance	35 012	8 042	53 240	11 778	10 132	118 204
Additions and transfers	12 095	2 942	16 280	9 820	(6 568)	34 569
Disposals	(1 700)	(4 072)	(3 179)	(101)	–	(9 052)
Translation movement	3 435	886	4 548	416	812	10 097
Revaluation	200	–	–	–	–	200
Impairment (Note 20)	(1 176)	–	–	–	–	(1 176)
Closing balance	**47 866**	**7 798**	**70 889**	**21 913**	**4 376**	**152 842**
Accumulated depreciation						
Opening balance	3 104	296	23 012	2 742	–	29 154
Depreciation charge	1 685	272	5 936	2 165	–	10 058
Disposals	(122)	–	(2 059)	(52)	–	(2 233)
Translation movement	330	26	2 029	195	–	2 580
Closing balance	**4 997**	**594**	**28 918**	**5 050**	**–**	**39 559**
Net book amount at 31 December 2001	**42 869**	**7 204**	**41 971**	**16 863**	**4 376**	**113 283**

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

The branch network was revalued as at 31 December 1998 and has been restated in accordance with IAS 29 since that date. Other significant premises of the Group have been independently valued as at 31 December 2000. These valuations were carried out by an independent firm of valuers, American Appraisers. The basis used for the appraisal was market value. Included in the above net book amount of premises is US$ 12 545 thousand representing revaluation surplus relating to the external valuation. A cumulative deferred tax of US$ 3 011 thousand was calculated with respect to this fair value adjustment and has been recorded directly to equity in accordance with the applicable accounting standards. Refer to Note 21.

Fixed assets with carrying value of US$ 2 972 thousand have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

12 Due to Other Banks

	2001	2000
Correspondent accounts of other banks		
Russian Federation	181 226	30 795
Other countries	57 524	11 428
Term placements of other banks		
Russian Federation	17 253	62 610
Other countries	84 274	56 080
Total due to other banks	**340 277**	**160 913**

The geographical and currency analysis of due to other banks are disclosed in Note 24. The weighted average interest rates and maturity structure of due to other banks is detailed in Note 25.

13 Customer Accounts

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

	2001 Amount	2001 %	2000 Amount	2000 %
Individuals	484 559	34	180 161	21
Energy and oil	274 837	19	192 220	23
Finance and investment companies	248 103	17	118 933	14
Manufacturing and construction	183 576	13	142 380	17
Mass media and telecommunications	93 032	6	–	–
Government bodies and municipals	67 183	5	41 134	5
Trade and commerce	48 467	3	132 361	16
Agriculture	23 867	2	6 266	1
Other	7 951	1	34 821	3
Total customer accounts	**1 431 575**	**100**	**848 276**	**100**

As at 31 December 2001 customer accounts included a current account of Alfa Finance Holdings S.A. in an amount of US$ 97 880 thousand. Of this amount, US$ 56 400 thousand is blocked with respect to a contribution to share capital of the Group. Refer to Notes 10, 16, 28 and 30.

Included in customer accounts are deposits of US$ 100 000 thousand at 31 December 2000 held as collateral for issued loans.

As at 31 December 2001 customer accounts included deposits of US$ 7 897 thousand (2000: US$ 11 177 thousand) held as collateral for irrevocable commitments under import letters of credit and deposits of US$ 447 thousand (2000: nil) held as collateral for irrevocable commitments under export letters of credit. Refer to Note 26.

The geographical and currency analysis of customer accounts is disclosed in Note 24. The weighted average interest rates and maturity structure of customer accounts is detailed in Note 25. The Group has several deposits from related parties. The relevant information on related party deposits is disclosed in Note 28.

14 Other Borrowed Funds

	2001	2000
Loan from the Agency for Restructuring of Credit Organisations	30 571	35 511
US Commercial Paper Notes	20 644	28 966
Sale and repurchase agreement	–	6 500
Total other borrowed funds	**51 215**	**70 977**

In 1999 the Group obtained financing from the Agency for Restructuring of Credit Organisations in the Russian Federation ("ARKO"). The total nominal principal amount outstanding at 31 December 2001 was RR 950 800 thousand (2000: RR 1 000 000 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 31 December 2001, the Group pledged customer loans with a total nominal amount of US$ 115 000 thousand, investments available for sale with fair value of US$ 5 704 thousand and premises and equipment with a carrying value of US$ 2 972 thousand as collateral. Also, 25% of the Bank's shares were pledged as collateral, which gave ARKO voting rights – but not an economic interest – in Alfa Bank.

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

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

In addition, from the date of the Reimbursement Agreement until 31 December 1999, the Group capitalised additional accrued interest. From 1 January 2000 interest is to be paid on a quarterly basis at a rate of LIBOR plus 3.7%. As at 31 December 2001 the outstanding principal balance of US Commercial Paper Notes was US$ 19 302 thousand (2000: US$ 27 073 thousand) and capitalised interest amounted to US$ 1 342 thousand (2000: US$ 1 893 thousand).

During 2000, the Group purchased US$ 22 930 thousand of its US Commercial Paper Notes for a consideration of US$ 9 083 thousand. As the Group has the intention to retire this portion of the US Commercial Paper Notes, the Group has recognised a gain of US$ 13 847 thousand during 2000. These gains were reflected in gains arising from retirement of debt.

In 1998, under a sale and repurchase agreement, the Group obtained a loan in the amount of US$ 60 000 thousand with an interest rate of 13% per annum. Refer to Note 9. On 29 November 1999 the Group restructured the agreement in which it was to make monthly payments until the expiration of the agreement on 29 May 2001. The balance was repaid, along with interest, prior to 29 May 2001.

During 1997 the Group had obtained a borrowing of US$ 175 000 thousand in the form of Euro Medium Term Notes ("Euro Notes"). The contracted maturity of the borrowing was 28 July 2000 and interest was charged at the rate of 10.375%. The Euro Notes matured on 28 July 2000 and were repaid along with interest.

Prior to maturity, the Group purchased certain of its Euro Medium Term Notes which was accounted for as a retirement of debt, as the Group had the intention to retire these Euro Notes upon repurchase. A gain of US$ 98 thousand has been recorded in gains arising from retirement of debt for the year ended 31 December 2000.

15 Other Liabilities and Payables

	Note	2001	2000
Accrued compensation expenses		41 058	28 811
Payable on operations with securities		38 002	35 042
Client funds in transit		34 833	63 452
Settlements on foreign exchange transactions		8 782	6 324
Plastic card creditors		7 934	4 078
Accrued interest expense		7 290	5 484
Payables to related parties		4 874	530
Provision for credit related commitments 26		3 937	8 945
Provision for derivative financial instruments	26	–	2 000
Taxation payable	955	2 870	
Dividends payable 22	–	129 340	
Other	14 296	18 452	
Total other liabilities and payables		**161 961**	**305 328**

During 2001 the Group paid US$ 129 340 thousand of dividends to Alfa Finance Holdings S.A. Refer to Note 13.

16 Share Capital

	2001 Number of shares	2001 Nominal amount	2000 Number of share	2001 Nominal amount
Ordinary shares	112 800 000	112 800	56 400 000	56 400
Total share capital	**112 800 000**	**112 800**	**56 400 000**	**56 400**

The increase in share capital of US$ 56 400 thousand during 2001 was authorised by the shareholders of Alfa Bank Holdings Limited on 30 December 2001. This amount was on the current account of Alfa Bank at 31 December 2001 and was a blocked deposit related to this contribution. Refer to Notes 10 and 13. This amount was fully paid in 2002. Refer to Note 30.

17 Interest Income and Expense

	2001	2000
Interest income		
Loans and advances to customers	188 773	75 241
Due from other banks	15 732	12 567
Trading securities	14 806	11 976
Total interest income	**219 311**	**99 784**
Interest expense		
Promissory notes	35 418	19 857
Customer accounts	25 146	13 338
Term deposits of individuals	16 886	12 734
Term deposits of legal entities	15 285	8 734
Term placements of banks	7 854	10 877
Other borrowed funds	7 626	6 861
Total interest expense	**108 215**	**72 401**
Net interest income	**111 096**	**27 383**

18 Fee and Commission Income and Expense

	2001	2000
Commission on settlement transactions	40 897	15 999
Commission on cash transactions	14 628	8 992
Commission income from the Alfa Eco Group	12 547	–
Commission income from the TNK Group	11 069	–
Commission on guarantees issued	9 603	12 819
Commission for consulting services	4 409	8 638
Commission income from Alfa Telecom (Note 10)	4 400	–
Commission on transactions with securities	2 997	10 333
Commission for payroll services	–	5 279
Other	2 633	4 603
Total fee and commission income	**103 183**	**66 663**
Commission for consulting services	15 844	10 811
Commission on settlement transactions	8 193	3 442
Commission on transactions with securities	1 312	822
Commission on cash transactions	1 261	328
Other	2 088	1 525
Total fee and commission expense	**28 698**	**16 928**
Total fee and commission income, net	**74 485**	**49 735**

Commission income from the Alfa Eco Group, a member of Alfa Group Consortium, relates mainly to advisory and other services provided by the Group to Alfa Eco Group in assisting them with their acquisition of a significant associate.

Commission income from the TNK Group, a party related to the Group, relates mainly to advisory and other services provided by the Group to TNK Group in assisting them with their acquisition of a significant subsidiary.

19 Other Operating Income

	2001	2000
Debt repossession operations	27 118	4 085
Income from insurance operations	5 249	4 295
Recovery of provision for credit related commitments (Note 26)	5 008	873
Late charges on loans and other penalties	4 389	7 529
Negative goodwill amortisation	2 934	–
Dividend income 2 520	1 324	
Leasing and other income on premises and equipment	1 647	795
Gains less losses from dealing in precious metals	648	7 540
Recoveries of amounts previously charged off	–	2 186
Other	7 905	2 952
Total other operating income	**57 418**	**31 579**

Debt repossession operations represent debts of companies which were acquired at a discount and then settled at a higher value, resulting in a gain for the Group.

20 Operating Expenses

	Note	2001	2000
Staff costs		107 854	78 002
Computer and telecommunications expenses		23 777	11 422
Premises and equipment related expenses		23 911	8 182
Consulting and professional services		13 057	8 822
Maintenance		11 404	5 539
Rent, heat and utilities		11 059	19 101
Advertising and marketing		9 597	6 154
Taxes		7 510	12 588
Travel expenses		2 721	2 252
Impairment of premises and equipment	11	1 176	1 420
Other		17 846	6 958
Total operating expenses		**229 912**	**160 440**

21 Income Taxes

Income tax expense is comprised of the following:

	2001	2000
Current tax expense	1 357	1 112
Deferred taxation movement due to:		
Origination and reversal of temporary differences	(12 452)	(28 917)
Effect of reduction/(increase) in tax rate	7 277	(1 671)
Release of deferred tax recorded directly to equity	–	31 141
Total income tax (credit)/expense for the year	**(3 818)**	**1 665**

The income tax rate applicable to the majority of Alfa Bank's income is 43% (2000: 38%). Effective 1 January 2001, the statutory tax rate was increased from 38% to 43%. A 24% statutory income tax rate was enacted in August

2001 which becomes effective starting from 1 January 2002. As this tax rate was enacted by 31 December 2001, the effect of the change on closing deferred tax liabilities amounting to US$ 7 277 thousand has been recorded in these consolidated financial statements. The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 5% (2000: from 0% to 5%). A reconciliation between the expected and the actual taxation charge is provided below.

	2001	2000
IAS profit before taxation	**82 230**	**79 535**
Theoretical tax charge at the applicable statutory rate	35 359	30 223
Tax effect of items which are not deductible or assessable for taxation purposes:		
Recalculation of provisions in accordance with IAS	(49 089)	(21 620)
Non deductible expenses	22 491	69 502
Income which is exempt from taxation	(34 660)	(74 572)
Loss/(income) earned in tax free jurisdictions	18 095	(30 893)
Negative taxable base which has no future income tax benefit	6 865	7 240
Income on government securities taxed at different rates	152	176
Other IAS adjustments that have non-temporary nature	2 449	18 141
Tax loss carry forward	1 797	1 797
Effect of the change in tax rate	(7 277)	1 671
Income tax (credit)/expense for the year	**(3 818)**	**1 665**

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

Tax effect of deductible temporary differences	2000	Movement	2001
Accumulated depreciation	6 008	72	6 080
Accruals	6 335	(2 073)	4 262
Tax loss carry forward	7 188	(4 179)	3 009
Other	2 288	(89)	2 199
Gross deferred tax asset	**21 819**	**(6 269)**	**15 550**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(13 501)	675	(12 826)
Provision for loan impairment	(19 928)	10 475	(9 453)
Accruals	(2 055)	16	(2 039)
Other	(702)	278	(424)
Gross deferred tax liability	**(36 186)**	**11 444**	**(24 742)**
Total net deferred tax liability	**(14 367)**	**5 175**	**(9 192)**

At 31 December 2001, a deferred tax liability of US$ 9 192 thousand (2000: US$ 14 367 thousand) has been recorded in the consolidated balance sheet, of which US$ 3 011 thousand (2000: US$ 4 829 thousand) relates to the Group's premises. Refer to Note 11. Investments available for sale are held and disposed primarily by consolidated subsidiaries of the Group operating in tax-free jurisdictions. Therefore, the net fair value gains arising on investments available for sale recorded directly in the consolidated statement of changes in shareholders' equity had no impact on the deferred tax position of the Group.

22 Dividends

On 29 December 2000 the Directors of Alfa Bank Holdings Limited, the parent company of the Group, declared a dividend of US$ 129 340 thousand, to be paid within one year, which resulted in an amount of dividends per share of approximately US$ 2. This amount was paid in full to Alfa Finance Holdings S.A during 2001. Refer to Note 15.

23 Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is business segments and the secondary format is geographical segments. Segment information for the two main reportable business segments of the Group, commercial banking and investment banking, is set out below for the year ended 31 December 2001.

	Commercial Banking	Investment Banking	Eliminations	Consolidated Group
Net interest income after provision for loan impairment	**71 036**	**14 940**	**–**	**85 976**
Other revenues	119 420	84 148	(25 278)	178 290
Net revenues	**190 456**	**99 088**	**(25 278)**	**264 266**
Profit before taxation	**18 990**	**64 840**	**(1 600)**	**82 230**
Taxation	3 818	–	–	3 818
Profit after taxation	**22 808**	**64 840**	**(1 600)**	**86 048**
Minority interest	(631)	–	–	(631)
Net profit for the year	**22 177**	**64 840**	**(1 600)**	**85 417**
Total assets	**2 695 934**	**382 843**	**(353 143)**	**2 725 634**
Total liabilities	**2 362 510**	**434 645**	**(353 143)**	**2 444 012**
Other segment items				
Capital expenditure	31 112	3 457	–	34 569
Depreciation charge	9 052	1 006	–	10 058
Other non-cash (income)/ expenses including provisions	17 328	16 180	–	33 508

Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2001. The total carrying amount of segment assets by geographical location of assets has been presented based on the domicile of the respective Group companies (refer to Note 29), and not necessarily the ultimate domicile of the counterparty.

	Russia	British Virgin Islands	Isle of Man	Other	Eliminations	Consolidated Group
Net interest income after provision for loan impairment	**74 401**	**10 137**	**(1 201)**	**2 639**	**–**	**85 976**
Other revenues	127 282	45 307	40 817	10 790	(45 906)	178 290
Net revenues	**201 683**	**55 444**	**39 616**	**13 429**	**(45 906)**	**264 266**
Total assets	**2 891 549**	**346 312**	**98 374**	**234 212**	**(844 813)**	**2 725 634**
Capital expenditure	**33 518**	**–**	**–**	**1 051**	**–**	**34 569**

24 Geographical Analysis and Currency Risk

Geographical analysis

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

	Loans 2001	Deposits 2001	Loans 2000	Deposits 2000
Russia	1 255 967	1 420 845	867 328	833 498
Europe	246 232	249 877	3 951	56 714
CIS	71 201	75 921	6 313	31 733
United States	15 000	1 092	85 345	51 149
Other	50 366	24 117	9 820	36 095
Total	**1 638 766**	**1 771 852**	**972 757**	**1 009 189**

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

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

	US$	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	148 108	252 203	38 768	19 695	458 774
Mandatory cash balances with the CBRF and other local central banks	–	140 288	226	1 539	142 053
Trading securities	103 173	51 523	–	1 977	156 673
Due from other banks	98 653	11 685	12 527	1 492	124 357
Loans and advances to customers	984 087	395 994	27 674	9 704	1 417 459
Investments available for sale	137 180	–	–	–	137 180
Other assets and receivables	116 479	31 911	7 329	20 136	175 855
Premises and equipment	15 507	91 728	–	6 048	113 283
Total assets	**1 603 187**	**975 332**	**86 524**	**60 591**	**2 725 634**
Liabilities					
Due to other banks	182 452	141 958	13 418	2 449	340 277
Customer accounts	776 063	614 551	24 378	16 583	1 431 575
Promissory notes	302 492	135 923	6 838	4 539	449 792
Other borrowed funds	20 644	30 571	–	–	51 215
Other liabilities and payables	114 529	20 162	23 264	4 006	161 961
Deferred tax liability	–	9 192	–	–	9 192
Total liabilities	**1 396 180**	**952 357**	**67 898**	**27 577**	**2 444 012**
Net balance sheet position	**207 007**	**22 975**	**18 626**	**33 014**	**281 622**
Off-balance sheet net notional position	**20 485**	**(82 690)**	**3 120**	**63 706**	**4 621**
Credit related commitments	**759 457**	**4 213**	**24 599**	**2 156**	**790 425**

At 31 December 2000, the Group had the following positions in currencies:

Net balance sheet position	**73 973**	**41 210**	**1 111**	**11 965**	**128 259**
Off-balance sheet net notional position	**(2 380)**	**(8 851)**	**5 595**	**5 922**	**286**
Credit related commitments	**298 401**	**5 529**	**10 390**	**574**	**314 894**

The off-balance sheet net notional position represents forward and spot exchange positions on foreign currency and other derivative contracts entered into during 2000 and 2001. The Group has extended loans and advances denominated in currencies other than operating currencies of the borrowers. Depending on the revenue stream of the borrower, the appreciation of the foreign currencies against the operating currencies may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

25 Interest Rate and Liquidity, Market and Credit Risk

Interest rate risk

The Group is exposed to interest rate price risk, principally as a result of lending and advances to customers and other banks at fixed interest rates in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

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

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

31 December 2001

	US$	RR	Euro	Other currencies
Assets				
Overnight placements with other banks	5.5%	23.0%	7.0%	6.8%
Interest bearing trading securities	10.8%	22.7%	–	–
Due from other banks	2.0%	13.0%	8.0%	6.8%
Loans and advances to customers	15.2%	21.1%	12.5%	14.0%
Liabilities				
Term placements of other banks	6.0%	9.6%	5.2%	7.3%
Customer accounts	9.5%	13.2%	–	10.0%
Promissory notes	10.5%	11.6%	5.8%	–
Other borrowed funds	6.3%	17.0%	–	–

31 December 2000

	US$	RR	Euro	Other currencies
Assets				
Overnight placements with other banks	2%	4%	2%	2%
Interest bearing trading securities	12%	20%	–	–
Due from other banks	5%	15%	–	–
Loans and advances to customers	13%	24%	16%	25%
Liabilities				
Term placements of other banks	8%	17%	6%	–
Customer accounts	4%	12%	–	15%
Promissory notes	9%	15%	–	–
Other borrowed funds	10%	13%	–	–

The presence of a dash [–] in the tables above means either that the interest rate on these type of assets or liabilities is 0% or that the Group does not have the respective assets or liabilities in corresponding currencies.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 31 December 2001 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The liquidity position of the Group as at 31 December 2001 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	458 774	–	–	–	–	458 774
Mandatory cash balances with the CBRF and other local central banks	142 053	–	–	–	–	142 053
Trading securities	156 673	–	–	–	–	156 673
Due from other banks	117 538	2 295	–	279	4 245	124 357
Loans and advances to customers	146 717	528 082	524 331	186 514	31 815	1 417 459
Investments available for sale	–	–	–	–	137 180	137 180
Other assets and receivables	43 969	109 598	5 074	17 214	–	175 855
Premises and equipment	–	–	–	–	113 283	113 283
Total assets	**1 065 724**	**639 975**	**529 405**	**204 007**	**286 523**	**2 725 634**
Liabilities						
Due to other banks	293 119	6 185	31 392	9 581	–	340 277
Customer accounts	1 178 398	196 270	53 056	3 851	–	1 431 575
Promissory notes	180 783	194 732	57 644	16 633	–	449 792
Other borrowed funds	–	5 632	14 643	30 940	–	51 215
Other liabilities and payables	60 710	96 362	2 006	2 883	–	161 961
Deferred tax liability	–	–	–	–	9 192	9 192
Total liabilities	**1 713 010**	**499 181**	**158 741**	**63 888**	**9 192**	**2 444 012**
Net liquidity gap	**(647 286)**	**140 794**	**370 664**	**140 119**	**277 331**	**281 622**
Cumulative liquidity gap at 31 December 2001	**(647 286)**	**(506 492)**	**(135 828)**	**4 291**	**281 622**	**–**
Cumulative liquidity gap at 31 December 2000	**(508 902)**	**(446 458)**	**(341 421)**	**(40 020)**	**128 259**	**–**

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

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

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but also may reduce or create losses in the event that unexpected movements arise. The Group's interest rate sensitivity analysis based on the re-pricing of the Group's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above.

Market risk

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

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

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

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

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

26 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

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

Tax legislation

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group's business activities may not coincide with the interpretation of the same activities by tax authorities. If a particular treatment was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. Tax years in Russia remain open to review by the tax authorities for three years. Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there are opportunities for banks to structure transactions to take advantage of opportunities in the Russian tax legislation to restructure income and expenses in order to reduce the overall effective tax rate. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group's profit before taxation or the tax charge recorded in these consolidated financial statements.

The Group's Management is confident that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Accordingly, no provision for a potential tax liability, with regard to these transactions, has been recorded in these consolidated financial statements.

In addition, transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. However, there is no formal guidance as to how these rules should be applied in practice.

Capital commitments

As at 31 December 2001 the Group had capital commitments in respect of new computer systems totalling US$ 8 600 thousand (2000: US$ 8 407 thousand). Management has already allocated the necessary resources in respect of this commitment. Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments

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

	2001
Not later than 1 year	8 568
Later than 1 year and not later than 5 years	–
Later than 5 years	–
Total operating lease commitments	**8 568**

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

	2001	2000
Guarantees issued	620 298	154 179
Export letters of credit (Note 13)	149 283	161 058
Import letters of credit (Note 13)	24 781	8 602
Less: Provision for losses on credit related commitments	(3 937)	(8 945)
Total credit related commitments	**790 425**	**314 894**

Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of US$ 3 937 thousand was necessary as at 31 December 2001 (2000: US$ 8 945 thousand). This provision is disclosed within other liabilities and payables in Note 15. The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these may expire or terminate without being funded.

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

In August 2001, with respect to an additional acquisition of 44% of Sidanko by TNK, the Group partially guaranteed TNK's payment of US$ 726 000 thousand. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. At 31 December 2001 25% of the Bank's statutory capital was approximately US$ 184 780 thousand. This amount is included within total guarantees issued at 31 December 2001.

In May 2001 the Group entered into a transaction whereby it guaranteed a payment of US$ 53 000 thousand by Eco Telecom, a related party, to Vimpel-Communications as part of the acquisition of this company by Eco Telecom. The guarantee expired on 31 December 2001. No payments were made by the Group with respect to this guarantee.

Derivatives financial instruments

At 31 December 2001 the Group, primarily through the Bank's operations, had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell Russian Roubles in exchange for another currency at an exchange rate agreed to at the date of the contract. Some of these contracts were entered into prior to 17 August 1998 and matured during 1998 but have not yet been settled. The Group has been able to settle outstanding contracts with a few counterparties and any resultant gains or losses have been recorded in the consolidated statement of income.

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

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

Management of the Bank has therefore not recorded any liabilities in respect of these contracts in the financial statements of the Bank for the year ended 31 December 2001. Previously recorded liabilities under these contracts, amounting to US$ 2 000 thousand as at 31 December 2000, have been derecognised.

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

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

The table below includes contracts with a maturity date subsequent to 31 December 2001. These contracts were entered into in 2001 and are short term in nature.

Deals entered into in 2001

Deliverable forwards	Domestic Principal or agreed amount	Domestic Unrealised gains/(losses)	Foreign Principal or agreed amount	Foreign Unrealised gains/(losses)
Foreign currency				
sale of foreign currency	(18 862)	130	(153 552)	(124)
purchase of foreign currency	50 541	–	153 427	–
Precious metals				
sale of precious metals	(8 400)	(868)	(21 653)	1 403
purchase of precious metals	94 294	4 100	–	–
Securities				
sale of securities	(492)	–	–	–
purchase of securities	–	–	–	–
Spot				
Foreign currency				
sale of foreign currency	(15 000)	189	(218)	–
purchase of foreign currency	520	–	15 000	(189)
Precious metals				
purchase of precious metals	–	–	199	(20)
Securities				
sale of securities	(4 050)	–	–	–
Total		**3 551**		**1 070**

For these deals the Group has recorded a net gain of US$ 6 thousand which is included within gains less losses arising from dealing in foreign currency and a net gain of US$ 4 615 thousand which is included within gains less losses arising from dealing in precious metals within other operating income.

Fiduciary assets

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

Nominal value	2001	2000
Shares in companies held in custody	98 768	120 426
OVGVZ held on account with Vneshtorgbank	50 988	30 659
Client OFZ securities held on an account with NDC	28 091	30 379
Eurobonds in Euroclear	14 700	5 275
Other	400	–

Assets pledged

At 31 December 2001, the Group has assets in the total amount of US$ 138 517 thousand pledged (2000: US$ 37 868). Refer to Notes 6, 8, 9 and 11. Also refer to Note 14 with respect to pledge of the Bank's shares.

27 Fair Value of Financial Instruments

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

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

Management has estimated that the fair value of certain balance sheet instruments is not materially different from their recorded values. These balance sheet instruments include cash and cash equivalents, mandatory cash balances with central banks, balances due from other banks, loans and advances to customers, balances due to other banks, customer accounts, promissory notes, other borrowed funds and other assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Refer to Note 25. The fair value of off-balance sheet derivative contracts is shown in Note 26.

Trading securities and investments available for sale are carried at fair value in these consolidated financial statements. As set out in Note 9, external independent market quotations were not available for certain investments available for sale. The fair values of these assets was determined by Management on the basis of current negotiations for disposal of these investments to the third parties, results of resent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees, and application of other valuation methodologies.

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

28 Related Party Transactions

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

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

During year ended 31 December 2001, a number of transactions were entered into with related parties in the normal course of business. These included settlements, loans, deposit taking, trade finance, corporate finance and foreign currency transactions. Some of these transactions were priced at preferential rates. The outstanding balances at the year end and interest expense and income as well as other transactions for the year with related parties are as follows:

	2001	2000
Loan to customers		
Loans outstanding at year end	376 157	24 598
Interest income	29 215	2 881
Receivables	**77 230**	**271 952**
Customer accounts		
Outstanding balance as at year end	169 464	56 983
Interest expense	6 522	5 356
Promissory notes	**22 918**	**62 750**
Dividends payable	**–**	**129 340**
Payables	**4 874**	**530**
Guarantees issued by the Group	**433 263**	**4 630**
Letters of credit	**4 674**	**4 187**
Commission income	**30 632**	**13 200**
Commission expense	**2 372**	**–**
Other operating income	**5 185**	**–**
Expense on other operations	**121**	**9 581**

In 2001 the total remuneration of the directors and key management personnel, including pension contributions and discretionary compensation, amounts to US$ 1 700 thousand.

In September 2000, a company of the Group, acting in the capacity of an agent, assisted companies controlled by TNK Group in acquiring an 85% beneficial interest in Onako, a vertically integrated oil and gas company operating in the Orenburg region of the Russian Federation. With respect to this investment, companies controlled by TNK Group paid US$ 1 080 000 thousand to the State Property Committee of the Russian Federation. Onako is now consolidated within the TNK ownership structure.

29 Principal Subsidiaries

Russian Federation and CIS	Isle of Man
Alfa Bank	Banstead Enterprises Limited
Alfa Bank Kazakhstan	Beechville Trading Limited
Alfa Capital Asset Management	Braunton Resources Limited
Alfa Capital Ukraine	Fairfax Services Limited
Alfa Trust	Laburnum Resources Limited
Alfa Bank Ukraine	Manwood Limited
Ostra Kiev Insurance Company (Ukraine)	Tormead Marketing Limited
Alfa Leasing	Waltham Enterprises Limited

British Virgin Islands	Rest of the World
Alfa Asset Management Limited	Amsterdam Trade Bank (Netherlands)
Alfa Capital Investments Limited	Alfa Employment Corporation (Bahamas)
Atrium Consolidated Limited	Alfa-Russia Finance B.V. (Netherlands)
Croftgate Investments Limited	Alfa Securities Limited (UK)
Merrow Ventures Limited	Westlaw Incorporated (Nevis, West Indies)
	Alfa Capital Markets (USA)

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

In March 2001 the Group purchased a 100% stake in Amsterdam Trade Bank N.V. The acquisition cost, including new capital injection, was US$ 10 100 thousand. This transaction was accounted for by the purchase method.

During the first half of 2000, the Group acquired effective control of Kiev Invest Bank (88%), subsequently renamed Alfa Bank Ukraine, and Ostra Kiev Insurance Company (60%) as an exchange for the forgiveness of an outstanding loan in the net amount of US$ 5 087 thousand. This transaction was accounted for by the purchase method.

30 Subsequent Events

In March 2002 additional share capital of US$ 56 400 thousand was paid in.

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