ALFA BANK HOLDINGS LIMITED

Consolidated Financial Statements
and Auditors' Report

31 December 2001

Contents

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AUDITORS' REPORT

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

1 We have audited the accompanying consolidated balance sheet of Alfa Bank Holdings Limited (the "Group" as defined in Note 1 to the consolidated financial statements) as at 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

(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.

Mr. Alex Knaster
Chief Executive Officer

Mr. Ildar Karimov
Deputy Chairman of the Board

(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**

(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**

(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 that 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 of 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 USD 40 thousand. 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 7 071 (2000: 4 859).

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

1 Principal Activities of Alfa Bank Holdings Limited (Continued)

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

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

The Bank's registered office is located at 7b1 Novatorov Str., Moscow 117425. The Bank's principal place of business is 9 Mashi Poryvaevoy Str., 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 Ltd 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 of 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 present in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group's assets and liabilities at 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 of 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. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The political stabilisation beginning in 2000 and continuing into 2002 has been a positive contributing factor for the further development of the political and legal environment.

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

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values 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, 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 companies' law in their respective jurisdictions. As indicated earlier, a majority of the Group's transactions by value are undertaken and settled in US Dollars and its assets and liabilities are primarily denominated in US Dollars. The accounting records of the Group are maintained such that original US Dollar and other currency amounts can be determined. The measurement currency of the Group is the US Dollar. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the "Foreign Currency Translation" section of this note. These consolidated financial statements, expressed in US Dollars, have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with International Accounting Standards issued by the International Accounting Standards Committee.

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

3 Basis of Presentation (Continued)

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

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 (e.g. 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 USD 1 = RR 30.14 (2000: USD 1 = RR 28.16) and the average exchange rate for the year ended 31 December 2001 was USD 1 = RR 29.17 (2000: USD 1 = RR 28.58). During year ended 31 December 2001 the devaluation of the RR against the USD 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 of the Russian Federation.

Accounting for the effects of hyperinflation. A significant proportion of the Group's activities are carried out in the Russian Federation 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.

(expressed in thousands of US dollars - Note 3)

3 Basis of Presentation (Continued)

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 the following:

	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 USD.

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 USD 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 following assumptions:

- In general, inflation occurred evenly over the year; and
- Income and expenditures have accrued evenly over the year except for charges against profit for aggregate movements in:
  - provision for loan impairment;
  - provision for impairment of investments available for sale;
  - provision for impairment of receivables; and
  - 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 United States Dollar.

4 Significant Accounting Policies

The following accounting policies have been used by the Group in preparing financial statements of the individual entities forming part of the Group. Alfa Bank, the largest subsidiary of the Group, has also used these policies in preparing its financial information, which has been adjusted for the effects of inflation in accordance with IAS 29 (refer to Note 3) and thereafter incorporated in the accompanying consolidated financial statements.

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

Mandatory balances with the Central Bank of the Russian Federation and other local central banks. Mandatory balances with the Central Bank of the Russian Federation and other local central banks represent mandatory reserve deposits which are not available to finance the 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, i.e. within a one to three month period.

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

Changes in fair values are recorded within gains less losses arising from trading securities in the consolidated statement of income in the 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, the credit ratings assigned to the borrowers and reflecting the current economic environment in which the borrowers operate.

4 Significant Accounting Policies (Continued)

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary 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, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of investments at the time of purchase.

Investments available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of current negotiations for disposal of these investments to the third parties, results of recent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recognised in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale 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 into trading securities or investments available for sale as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as term placements with other banks and loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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.

4 Significant Accounting Policies (Continued)

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; and
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.

4 Significant Accounting Policies (Continued)

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 recognized in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the 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.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

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 to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

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

(expressed in thousands of US dollars - Note 3)

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 USD, 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 2 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 USD 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**

(expressed in thousands of US dollars - Note 3)

7 Due from Other Banks (Continued)

Movements in provision for loan impairment are as follows:

	2001	2000
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 USD 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:

	2001	2000
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		2000	
	Amount	**%**	**Amount**	**%**
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**

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers (Continued)

As an illustration of risk concentration, at 31 December 2001, the Group had 10 borrowers with aggregated loan amounts above USD 30 000 thousand. The aggregate amount of these loans was USD 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 USD 259 801 thousand which were fully collaterised by matching deposits of USD 100 000 thousand and promissory notes of USD 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 Program. As at 31 December 2001, the amount of agricultural loans outstanding was USD 24 912 thousand (2000: USD 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 USD 25 460 thousand (2000: USD 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 USD 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 USD 55 000 thousand was paid on 11 May 2001 and a further USD 55 000 thousand was paid on 30 May 2001. The acquisition was financed by a loan in the amount of USD 110 000 thousand issued by the Group to Alfa Telecom. 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 USD 115 000 thousand (2000: USD 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 USD 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 USD 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.

(expressed in thousands of US dollars - Note 3)

9 Investments Available for Sale (Continued)

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 USD 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 USD 405 614 thousand as at 31 December 1999. A provision for deferred tax of USD 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 USD 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 USD 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:

(expressed in thousands of US dollars - Note 3)

9 Investments Available for Sale (Continued)

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 USD 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 USD 5 704 thousand (2000: carrying value of USD 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 USD 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.

(expressed in thousands of US dollars - Note 3)

10 Other Assets and Receivables (Continued)

As at 31 December 2001, receivable from related parties includes USD 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 USD 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 USD 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 USD 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**

(expressed in thousands of US dollars - Note 3)

11 Premises and Equipment (Continued)

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

The branch network was revalued as at 31 December 1998 and has been restated in accordance with IAS 29 since that date. Other significant premises of the Group have been independently valued as at 31 December 2000. These valuations were carried out by an independent firm of valuers, American Appraisers. The basis used for the appraisal was market value. Included in the above net book amount of premises is USD 12 545 thousand representing revaluation surplus relating to the external valuation. A cumulative deferred tax of USD 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 USD 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 concentrations within customer accounts are as follows:

	2001		2000	
	Amount	**%**	**Amount**	**%**
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 USD 97 880 thousand. Of this amount, USD 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 USD 100 000 thousand at 31 December 2000 held as collateral for issued loans.

(expressed in thousands of US dollars - Note 3)

13 Customer Accounts (Continued)

As at 31 December 2001 customer accounts included deposits of USD 7 897 thousand (2000: USD 11 177 thousand) held as collateral for irrevocable commitments under import letters of credit and deposits of USD 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 USD 115 000 thousand, investments available for sale with fair value of USD 5 704 thousand and premises and equipment with a carrying value of USD 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 USD 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 USD 7 700 thousand from its own funds and paid USD 2 000 thousand from the proceeds of subordinated loans received from a related company of the Alfa Group Consortium.

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

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

During 2000, the Group purchased USD 22 930 thousand of its US Commercial Paper Notes for a consideration of USD 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 USD 13 847 thousand during 2000. These gains were reflected in gains arising from retirement of debt.

(expressed in thousands of US dollars - Note 3)

14 Other Borrowed Funds (Continued)

In 1998, under a sale and repurchase agreement, the Group obtained a loan in the amount of USD 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 USD 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 USD 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 USD 129 340 thousand of dividends to Alfa Finance Holdings S.A. Refer to Note 13.

16 Share Capital

	2001		2000	
	Number of shares	**Nominal amount**	**Number of share**	**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 USD 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.

(expressed in thousands of US dollars - Note 3)

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**

(expressed in thousands of US dollars - Note 3)

18 Fee and Commission Income and Expense (Continued)

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, that 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**

(expressed in thousands of US dollars - Note 3)

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 USD 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 that is taxed at 15%.

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

	2000	Movement	2001
Tax effect of deductible temporary differences			
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 USD 9 192 thousand (2000: USD 14 367 thousand) has been recorded in the consolidated balance sheet, of which USD 3 011 thousand (2000: USD 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 USD 129 340 thousand, to be paid within one year, which resulted in an amount of dividends per share of approximately USD 2. This amount was paid in full to Alfa Finance Holdings S.A during 2001. Refer to Note 15.

(expressed in thousands of US dollars - Note 3)

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**

(expressed in thousands of US dollars - Note 3)

23 Analysis by Segment (Continued)

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 2000.

	Commercial Banking	Investment Banking	Eliminations	Consolidated Group
Net interest income after provision for loan impairment	**(9 129)**	**11 976**	**-**	**2 847**
Other revenues	101 986	78 463	(18 918)	161 531
Net revenues	**92 857**	**90 439**	**(18 918)**	**164 378**
Profit before taxation	**30 712**	**69 118**	**(20 295)**	**79 535**
Taxation	(1 453)	(212)	-	(1 665)
Profit after taxation	**29 259**	**68 906**	**(20 295)**	**77 870**
Minority interest	-	(635)	-	(635)
Net profit for the period	**29 259**	**68 271**	**(20 295)**	**77 235**
Total assets	**2 234 829**	**1 519 813**	**(1 872 910)**	**1 881 732**
Total liabilities	**2 550 298**	**1 048 453**	**(1 845 278)**	**1 753 473**
Other segment items				
Capital expenditure	34 996	8 690	-	43 686
Depreciation charge	4 878	1 914	-	6 792
Other non-cash (income)/expenses including provisions	(42 059)	10 301	-	(31 758)

Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2000. 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	**6 048**	**(2 652)**	**-**	**(549)**	**-**	**2 847**
Other revenues	243 867	46 784	5 419	7 606	(142 145)	161 531
Net revenues	**249 915**	**44 132**	**5 419**	**7 057**	**(142 145)**	**164 378**
Total assets	**2 561 605**	**1 008 815**	**2 043 929**	**128 900**	**(3 861 517)**	**1 881 732**
Capital expenditure	**36 684**	**7 002**	**-**	**-**	**-**	**43 686**

(expressed in thousands of US dollars - Note 3)

24 Geographical Analysis and Currency Risk

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

	2001		2000	
	Loans	**Deposits**	**Loans**	**Deposits**
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:

	USD	**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**

(expressed in thousands of US dollars - Note 3)

24 Geographical Analysis and Currency Risk (Continued)

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

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

(expressed in thousands of US dollars - Note 3)

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

31 December 2000

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

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 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.

(expressed in thousands of US dollars - Note 3)

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

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.

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

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

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

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

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

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

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.

(expressed in thousands of US dollars - Note 3)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

***Capital commitments*.** As at 31 December 2001 the Group had capital commitments in respect of new computer systems totalling USD 8 600 thousand (2000: USD 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 USD 3 937 thousand was necessary as at 31 December 2001 (2000: USD 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 USD 510 000 thousand in respect of TNK's acquisition of 40% of Sidanko. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. At 31 December 2001 25% of the Bank's statutory capital amounted to approximately USD 184 780 thousand. This amount is included within total guarantees issued at 31 December 2001. Payments guaranteed were completed by TNK by the end of February 2002. No payments were made by the Group with respect to this guarantee.

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

In August 2001, with respect to an additional acquisition of 44% of Sidanko by TNK, the Group partially guaranteed TNK's payment of USD 726 000 thousand. This performance guarantee is jointly and severally with other related parties and the maximum liability of the Group is limited to 25% of the Bank's statutory capital. At 31 December 2001 25% of the Bank's statutory capital was approximately USD 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 USD 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 USD 163 300 thousand for purchase of foreign currency with total gains of USD 30 991 thousand and USD 158 000 thousand for sale of foreign currency with total losses of USD 35 592 thousand. The Group's net loss after fully providing for receivables as at 31 December 2001 with respect of contracts entered into during 1998 is equal to USD 30 942 thousand.

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

Management of the Bank has therefore not recorded any liabilities in respect of these contracts in the financial statements of the Bank for the year ended 31 December 2001. Previously recorded liabilities under these contracts, amounting to USD 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.

(expressed in thousands of US dollars - Note 3)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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.

	Domestic		Foreign	
	Principal or agreed amount	**Unrealised gains/(losses)**	**Principal or agreed amount**	**Unrealised gains/(losses)**
Deals entered into in 2001:				
Deliverable forwards				
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 USD 6 thousand which is included within gains less losses arising from dealing in foreign currency and a net gain of USD 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:

	2001 Nominal value	**2000 Nominal value**
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 USD 138 517 thousand pledged (2000: USD 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 than their recorded values. These balance sheet instruments include cash and cash equivalents, mandatory cash balances with central banks, balances due from other banks, loans and advances to customers, balances due to other banks, customer accounts, promissory notes, other borrowed funds and other assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, 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 were determined by Management on the basis of current negotiations for disposal of these investments to the third parties, results of resent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees and application of other valuation methodologies.

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

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.

(expressed in thousands of US dollars - Note 3)

28 Related Party Transactions (Continued)

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 USD 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 USD 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
Alfa Bank
Alfa Bank Kazakhstan
Alfa Capital Asset Management
Alfa Capital Ukraine
Alfa Trust
Alfa Bank Ukraine
Ostra Kiev Insurance Company (Ukraine)
Alfa Leasing

British Virgin Islands
Alfa Asset Management Limited
Alfa Capital Investments Limited
Atrium Consolidated Limited
Croftgate Investments Limited
Merrow Ventures Limited

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

Isle of Man
Banstead Enterprises Limited
Beechville Trading Limited
Braunton Resources Limited
Fairfax Services Limited
Laburnum Resources Limited
Manwood Limited
Tormead Marketing Limited
Waltham Enterprises Limited

Rest of the World
Amsterdam Trade Bank (Netherlands)
Alfa Employment Corporation (Bahamas)
Alfa-Russia Finance B.V. (Netherlands)
Alfa Securities Limited (UK)
Westlaw Incorporated (Nevis, West Indies)
Alfa Capital Markets (USA)

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

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

30 Subsequent Events

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