ABH Financial Limited

Consolidated Financial Statements

31 December 2002

Contents

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AUDITORS' REPORT

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

1 We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2002, 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 2002 and the consolidated results of its operations and its cash flows for the year ended 31 December 2002 in accordance with International Financial Reporting Standards.

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

Moscow, Russia
21 April 2003

(expressed in thousands of US dollars - Note 3)

	Note	2002	2001
Assets			
Cash and cash equivalents	5	382 234	458 774
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		214 252	142 053
Trading securities	6	409 235	156 673
Due from other banks	7	211 149	124 357
Loans and advances to customers	8	2 399 266	1 417 459
Investments available for sale	9	95 776	137 180
Other assets and receivables	10	270 350	175 855
Premises and equipment	11	135 928	113 283
Total assets		**4 118 190**	**2 725 634**
Liabilities			
Due to other banks	12	669 692	340 277
Customer accounts	13	1 988 360	1 431 575
Promissory notes		631 187	449 792
Other borrowed funds	14	210 125	51 215
Other liabilities and payables	15	173 843	161 961
Deferred tax liability	21	10 312	9 192
Total liabilities		**3 683 519**	**2 444 012**
Minority interest		**3 485**	**3 598**
Shareholders' equity			
Share capital	16	160 800	112 800
Fair value reserve for investments available for sale	9	62 657	45 678
Revaluation reserve for premises and equipment	11	6 267	7 339
Retained earnings		201 462	112 207
Total shareholders' equity		**431 186**	**278 024**
Total liabilities and shareholders' equity		**4 118 190**	**2 725 634**

Approved for issue by the Board of Directors and signed on its behalf on 21 April 2003.

Mr. Alex Knaster
Chief Executive Officer

Mr. Teijo Pankko
Chief Financial Officer

Consolidated Statement of Income for the Year Ended 31 December 2002

(expressed in thousands of US dollars - Note 3)

	Note	2002	2001
Interest income	17	367 125	219 311
Interest expense	17	(177 132)	(108 215)
Net interest income		**189 993**	**111 096**
Provision for loan impairment	7, 8	(38 021)	(25 120)
Net interest income after provision for loan impairment		**151 972**	**85 976**
Fee and commission income	18	91 300	103 183
Fee and commission expense	18	(39 800)	(28 698)
Gains less losses arising from trading securities		19 742	30 764
Gains less losses arising from investments available for sale	9	43 684	5 158
Gains less losses arising from trading in foreign currencies		26 638	36 091
Foreign exchange translation gains less losses		854	(22 785)
Other provisions	9, 10, 24	(3 978)	2 167
Other operating income	19	46 150	52 410
Operating income		**336 562**	**264 266**
Operating expenses	20	(245 945)	(229 912)
Monetary gain		17 582	47 876
Profit before taxation		**108 199**	**82 230**
Income tax (expense)/credit	21	(3 573)	3 818
Profit after taxation		**104 626**	**86 048**
Minority interest		(36)	(631)
Net profit		**104 590**	**85 417**

(expressed in thousands of US dollars - Note 3)

	Note	2002	2001
Cash flows from operating activities			
Interest received		340 437	205 426
Interest paid		(156 590)	(105 978)
Fees and commissions received		88 701	98 783
Fees and commissions paid		(39 800)	(28 698)
Income received from trading in trading securities		15 573	44 118
Income received from trading in foreign currencies		26 091	36 091
Other operating income received		39 465	18 695
Operating expenses paid		(230 236)	(206 431)
Income tax paid		(2 453)	(1 357)
Cash flows from operating activities before changes in operating assets and liabilities		**81 188**	**60 649**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		(84 526)	(57 837)
Net increase in trading securities		(267 041)	(52 075)
Net increase in due from other banks		(93 190)	(107 809)
Net increase in loans and advances to customers		(1 092 620)	(540 084)
Net (increase)/decrease in other assets and receivables		(15 536)	226 217
Net increase in due to other banks		356 639	194 832
Net increase in customer accounts		623 786	576 700
Net increase in promissory notes		202 956	98 176
Net decrease in other liabilities and payables		(18 345)	(157 372)
Net cash (used in)/from operating activities		**(306 689)**	**241 397**
Cash flows from investing activities			
Proceeds from disposal of investments available for sale		48 634	9 148
Acquisition of investments available for sale		(3 469)	(8 957)
Acquisition of premises and equipment, net		(30 714)	(27 318)
Dividend income received		1 862	2 520
Acquisition of subsidiaries		-	14 358
Net cash from/(used in) investing activities		**16 313**	**(10 249)**
Cash flows from financing activities			
Contribution from shareholder		56 400	-
Proceeds from other borrowed funds		200 625	-
Repayment of other borrowed funds		(40 533)	(20 629)
Net cash from/(used in) financing activities		**216 492**	**(20 629)**
Effect of exchange rate changes on cash and cash equivalents		**59 817**	**53 818**
Effect of inflation on cash and cash equivalents		**(62 473)**	**(64 479)**
Net (decrease)/increase in cash and cash equivalents		**(76 540)**	**199 858**
Cash and cash equivalents as at the beginning of the year		458 774	258 916
Cash and cash equivalents as at the end of the year	**5**	**382 234**	**458 774**

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002

(expressed in thousands of US dollars - Note 3)

	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises and equipment	Retained earnings	Total shareholders' equity
Balance as at 1 January 2001	**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 profit for the year	-	-	-	85 417	85 417
Share issue (Note 16)	56 400	-	-	-	56 400
Balance as at 31 December 2001	**112 800**	**45 678**	**7 339**	**112 207**	**278 024**
Net fair value gains arising on investments available for sale (Note 9)	-	34 947	-	-	34 947
Transfer of net fair value gains arising on investments available for sale to net profit	-	(17 968)	-	-	(17 968)
Translation movement	-	-	-	(16 407)	(16 407)
Other movements	-	-	(1 072)	1 072	-
Net profit for the year	-	-	-	104 590	104 590
Share issue (Note 16)	48 000	-	-	-	48 000
Balance as at 31 December 2002	**160 800**	**62 657**	**6 267**	**201 462**	**431 186**

1 Principal Activities of ABH Financial Limited

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

A substantial part 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 23 for a currency analysis of the Group.

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

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a comprehensive listing of principal subsidiaries. The number of employees of the Group as at 31 December 2002 is 6 358 (2001: 7 071).

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

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

The Bank had 31 branches within the Russian Federation as at 31 December 2002.

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

At 31 December 2002 the Bank has nine Russian companies as shareholders, all of which are wholly owned by ABH Financial Limited. The Bank's major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Ltd and Alfa Capital Markets.

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

2 Operating Environment of the Group

The majority of the Group's operations are tied to the Russian market and accordingly the operating environment present in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group's assets and liabilities as at 31 December 2002 are denominated and settled in US Dollars.

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation.

2 Operating Environment of the Group (Continued)

In addition, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. However, the ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

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

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

3 Basis of Presentation

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

The Bank maintains its accounting records in accordance with Russian banking regulations in the national currency of the Russian Federation, the Russian Rouble (“RR”). Certain other members of the Group (Alfa Trust and Alfa Capital Asset Management) maintain their accounting records in compliance with Russian Accounting Regulations and Alfa Capital Ukraine, Alfa Bank Ukraine and Ostra Kiev Insurance Company maintain their accounting records in accordance with Ukrainian Accounting Regulations. Other companies maintain their accounting records in compliance with the applicable companies’ law in their respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities within the Group and adjusted as necessary in order to comply with IFRS.

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 and of these consolidated financial statements 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.

The US Dollar has been selected as the measurement currency for the consolidated financial statements of ABH Financial Limited as a significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars (“USD”). Moreover, the Group’s (and the Bank’s) assets and liabilities are largely denominated and settled in United States Dollars and other freely convertible currencies (refer to Note 23). The US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Group and the Group’s cash flows are primarily denominated in US Dollars. Also, the US Dollar is the currency in which Management of the Group manages business risks and exposures, and measures the performance of its business.

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

The Group adopted IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) in 2001. The financial effects of adopting IAS 39 were reported in the previous year’s consolidated financial statements.

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

3 Basis of Presentation (Continued)

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

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

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

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

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

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

At 31 December 2002 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 31.7844 (2001: USD 1 = RR 30.14) and the average exchange rate for the year ended 31 December 2002 was USD 1 = RR 31.3470 (2001: USD 1 = RR 29.17). During the year ended 31 December 2002 the devaluation of the RR against the USD was 5.5% (2001: 7.0%). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

(expressed in thousands of US dollars - Note 3)

3 Basis of Presentation (Continued)

Accounting for the effects of hyperinflation. A significant proportion of the Group's activities are carried out in the Russian Federation which 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 IFRS 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. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

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

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Federation Statistics Agency, and from indices obtained from other sources for years prior to 1992. The CPI used to restate the consolidated financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors are the following:

	Index	**Conversion Factor**
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

The Bank's and certain other Group companies' financial records have been maintained with the principal objective of preparing historical cost financial information. This information has been updated to reflect the effects of hyperinflation as required by IAS 29 applying the following assumptions and methodology, and thereafter included in the consolidated balance sheet and consolidated statement of income using the exchange rate in effect at the balance sheet date 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 2002. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2002) are restated by applying the relevant conversion factors. The effect of inflation on the Group's net monetary position is included in the consolidated statement of income as a monetary gain or loss.

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

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

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

3 Basis of Presentation (Continued)

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

- 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 receivables;
  - provision for impairment of investments available for sale; and
  - provision for losses on credit related commitments.

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

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29.

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 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 hyperinflation 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, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

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

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

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

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

4 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

Investments available for sale are initially 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 results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Unrealised gains and losses arising from changes in the fair value of investments available for sale are recognised in the consolidated statement of changes in shareholders' equity. When the investments available for sale are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses arising from investments available for sale. Impairment and reversal of impairment of investments available for sale is recorded through the consolidated statement of income. Dividends received are included in dividend income within the consolidated statement of income.

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

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

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

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

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

Premises and Equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, 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 realizable value or its value in use.

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

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

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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

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

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

4 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Promissory notes. 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 (fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the security issue using the effective yield method.

If the Group purchases its own promissory notes, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

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

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

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

4 Significant Accounting Policies (Continued)

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

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

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are 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 of the Group.

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

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

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

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or using the spot rate 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 derivatives are included in gains less losses arising from trading in foreign currency, gains less losses arising from trading securities and gains less losses from trading in precious metals within other operating income, depending on the related contracts.

The Group does not enter into derivative instruments for hedging purposes.

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

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

(expressed in thousands of US dollars - Note 3)

4 Significant Accounting Policies (Continued)

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

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

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

5 Cash and Cash Equivalents

	2002	2001
Cash on hand	105 819	74 070
Cash balances with the CBRF (other than mandatory cash balances)	72 460	208 620
Correspondent accounts with other banks		
- Russian Federation	13 399	12 385
- Other countries	89 793	50 702
Overnight placements with other banks		
- Russian Federation	48 090	23 781
- Other countries	52 673	89 216
Total cash and cash equivalents	**382 234**	**458 774**

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

6 Trading Securities

	2002	2001
Russian Federation Eurobonds	153 463	28 620
Corporate Eurobonds	100 873	44 198
Corporate bonds	61 116	29 401
Corporate shares	29 589	19 767
Eurobonds of other states	19 799	2 643
Promissory notes	17 604	22 339
ADRs and GDRs	10 582	878
Russian Federation bonds (OFZ)	9 765	108
Other securities	6 444	8 719
Total trading securities	**409 235**	**156 673**

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from July 2018 to March 2030, coupon rates of approximately 5.0%-12.7% in 2002 and yields to maturity from 8.6% to 9.4% as at 31 December 2002, depending on the type of bond issue.

(expressed in thousands of US dollars - Note 3)

6 Trading Securities (Continued)

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian and Ukrainian companies, and are freely tradable internationally. These bonds have maturity dates ranging from November 2004 to January 2009, coupon rates of approximately 9.1%-12.8% in 2002 and yields to maturity from 8.9% to 13.3% as at 31 December 2002, depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. These bonds have maturity dates ranging from April 2003 to November 2006, coupon rates of approximately 5.0%-19.6% in 2002 and yields to maturity from 7.8% to 19.1% as at 31 December 2002, depending on the type of bond issue.

Corporate shares are shares of Russian and Ukrainian companies.

Eurobonds of other states are interest bearing securities denominated in USD, issued by governmental bodies of other states, and are freely tradable internationally. These bonds have maturity dates ranging from March 2007 to January 2020, coupon rates of approximately 8.0%-14.5% in 2002 and yields to maturity from 15.5% to 19.9% as at 31 December 2002, depending on the type of bond issue.

Promissory notes are securities denominated in Russian Roubles, issued at a discount by large Russian companies, and freely tradable in the Russian Federation. These notes have maturity dates ranging from January 2003 to December 2003 and yields to maturity from 14.8% to 16.9% as at 31 December 2002, depending on the type of note issue.

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

Russian Federation bonds (OFZ) are interest bearing securities denominated in Russian Roubles, issued by the Ministry of Finance of the Russian Federation. These bonds have maturity dates ranging from January 2003 to September 2008, coupon rates of approximately 10.0%-14.0% in 2002 and yields to maturity from 11.9% to 13.8%.

Trading securities with a fair value of USD 136 772 thousand (2001: USD 14 841 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

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

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

7 Due from Other Banks

	2002	**2001**
Term placements with other banks	110 718	94 857
Reverse sale and repurchase agreements with other banks	100 481	30 130
Less: Provision for loan impairment	(50)	(630)
Total due from other banks	**211 149**	**124 357**

Movements in the provision for loan impairment are as follows:

	2002	**2001**
Provision for loan impairment as at 1 January	**630**	**1 524**
Recovery of provision for loan impairment during the year	(580)	(894)
Provision for loan impairment as at 31 December	**50**	**630**

(expressed in thousands of US dollars - Note 3)

7 Due from Other Banks (Continued)

As at 31 December 2002 fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 120 750 thousand (2001: USD 38 683 thousand).

As at 31 December 2002 balances due from other banks amounting to USD 1 825 thousand were of a restricted nature (2001: USD 4 245 thousand).

As at 31 December 2002 the estimated fair value of due from other banks was USD 211 149 thousand (2001: USD 124 357 thousand). Refer to Note 25.

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

8 Loans and Advances to Customers

	2002	**2001**
Current loans	2 518 725	1 503 625
Overdue loans	15 462	10 154
Less: Provision for loan impairment	(134 921)	(96 320)
Total loans and advances to customers	**2 399 266**	**1 417 459**

Movements in the provision for loan impairment are as follows:

	2002	**2001**
Provision for loan impairment as at 1 January	**96 320**	**69 549**
Provision for loan impairment during the year	38 601	26 014
Loans and advances written off during the year as uncollectable	-	(568)
Acquisition of subsidiaries	-	1 325
Provision for loan impairment as at 31 December	**134 921**	**96 320**

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

	2002		**2001**	
	Amount	**%**	**Amount**	**%**
Energy and oil and gas	962 012	38	557 947	37
Manufacturing and construction	769 871	31	369 736	25
Trade and commerce	404 290	16	335 081	22
Telecommunications	212 729	8	199 798	13
Finance and investment companies	56 291	2	12 656	1
Agriculture	29 187	1	28 153	2
Individuals	17 895	1	3 880	-
Other	81 912	3	6 528	-
Total loans and advances to customers (aggregate amount)	**2 534 187**	**100**	**1 513 779**	**100**

At 31 December 2002 the Group has 13 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of these loans is USD 1 442 877 thousand or 56.9% of the gross loan portfolio.

(expressed in thousands of US dollars - Note 3)

8 Loans and Advances to Customers (Continued)

As at 31 December 2002 the estimated fair value of loans and advances to customers was USD 2 397 452 thousand (2001: USD 1 417 459 thousand). Refer to Note 25.

Loans totalling USD 50 000 thousand (2001: USD 115 000 thousand) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The Group has several balances outstanding from related parties. The relevant information on related party balances is disclosed in Note 26.

9 Investments Available for Sale

	2002	2001
As at 1 January	**137 180**	**99 600**
Movement in fair value reserve for investments available for sale	34 947	38 284
Acquisition of investments available for sale	3 469	8 957
Disposal of investments available for sale	(104 876)	(9 148)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in shareholders' equity	25 716	1 154
Impairment of investments available for sale	(660)	(1 667)
Total investments available for sale as at 31 December	**95 776**	**137 180**

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

			Fair value	
Name	**Nature of business**	**Country of registration**	**2002**	**2001**
STS TV	Television	Russia	42 110	13 438
Akrikhin	Pharmaceutical	Russia	30 540	32 885
Borskoe steklo	Manufacturing	Russia	9 000	1 921
Svet	Manufacturing	Russia	5 500	5 510
TV Service	Television	Russia	-	25 000
UIF Alfa Capital	Investment	Russia	-	21 082
Siracuse	Construction	Russia	-	17 279
New Channel	Television	Ukraine	-	9 698
Other			8 626	10 367
Total			**95 776**	**137 180**

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

Investments available for sale with a fair value of USD 5 227 thousand (2001: USD 5 704 thousand) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

(expressed in thousands of US dollars - Note 3)

10 Other Assets and Receivables

	2002	2001
Receivables from related parties	94 919	64 990
Receivables on operations with securities	62 966	24 872
Accrued interest income	48 296	17 510
Plastic card debtors and other settlements with clients	13 882	10 618
Net investment in lease	12 243	10 189
Trade debtors and prepayments	10 065	14 471
Prepaid taxes	7 713	2 669
Conversion operations and derivative financial instruments	5 971	11 855
Precious metals	121	11 752
Other	16 049	11 011
Subtotal	**272 225**	**179 937**
Less: Provision for impairment of receivables	(1 875)	(4 082)
Total other assets and receivables	**270 350**	**175 855**

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

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

As at 31 December 2002 accrued interest income includes USD 33 078 thousand (2001: USD 11 720 thousand) of interest income accrued on a loan to Alfa Telecom Limited in the amount of USD 110 000 thousand issued in May 2001 and repayable by May 2004 and carrying nominal interest rate of 20% p.a., payable at maturity. In addition, included in accrued interest income is an amount of USD 651 thousand (2001: USD 520 thousand) outstanding from other related parties.

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

	2002	2001
Provision for impairment of receivables as at 1 January	**4 082**	**11 024**
(Recovery of)/provision for impairment of receivables during the year	(2 207)	1 174
Receivables written off during the year as uncollectable	-	(8 116)
Provision for impairment of receivables as at 31 December	**1 875**	**4 082**

Currency and maturity analyses of other assets and receivables are disclosed in Note 23. The Group has several balances outstanding from related parties. The relevant information on related party balances is disclosed in Note 26.

(expressed in thousands of US dollars - Note 3)

11 Premises and Equipment

	Premises	Leasehold improvements	Office and computer equipment	Intangible assets	Construction in progress	Total
Net book amount as at 31 December 2001	**42 869**	**7 204**	**41 971**	**16 863**	**4 376**	**113 283**
Cost or valuation						
Opening balance	47 866	7 798	70 889	21 913	4 376	152 842
Additions and transfers	5 935	831	15 653	9 402	3 579	35 400
Disposals	(686)	(2)	(7 315)	(277)	(2 757)	(11 037)
Translation movement	4 073	715	5 554	687	149	11 178
Closing balance	**57 188**	**9 342**	**84 781**	**31 725**	**5 347**	**188 383**
Accumulated depreciation						
Opening balance	4 997	594	28 918	5 050	-	39 559
Depreciation charge	1 419	679	9 462	2 847	-	14 407
Disposals	(4)	-	(4 446)	(97)	-	(4 547)
Translation movement	440	45	2 307	244	-	3 036
Closing balance	**6 852**	**1 318**	**36 241**	**8 044**	**-**	**52 455**
Net book amount as at 31 December 2002	**50 336**	**8 024**	**48 540**	**23 681**	**5 347**	**135 928**

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

Premises and equipment totalling USD 3 571 thousand (2001: 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

	2002	2001
Correspondent accounts of other banks		
- Russian Federation	157 833	181 226
- Other countries	68 219	57 524
Term placements of other banks	279 800	65 444
Sale and repurchase agreements with other banks	163 840	36 083
Total due to other banks	**669 692**	**340 277**

Trading securities with a fair value of USD 136 772 thousand (2001: USD 14 841 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

In addition, as at 31 December 2002 securities purchased by the Group under reverse sale and repurchase agreements with a fair value of USD 61 811 thousand (2001: USD 32 932 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

(expressed in thousands of US dollars - Note 3)

12 Due to Other Banks (Continued)

As at 31 December 2002 the estimated fair value of due to other banks was USD 669 692 thousand (2001: USD 340 277 thousand). Refer to Note 25.

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

13 Customer Accounts

	2002	2001
Other legal entities		
- Current/settlement accounts	847 255	829 416
- Term deposits	265 450	50 417
Individuals		
- Current/demand accounts	232 470	179 186
- Term deposits	555 562	305 373
State and public organisations		
- Current/settlement accounts	53 342	61 520
- Term deposits	34 281	5 663
Total customer accounts	**1 988 360**	**1 431 575**

Economic sector concentrations within customer accounts are as follows:

	2002		2001	
	Amount	**%**	**Amount**	**%**
Individuals	788 032	40	484 559	34
Energy and oil and gas	434 600	22	274 837	19
Finance and investment companies	228 392	11	248 103	17
Manufacturing and construction	155 810	8	183 576	13
Trade and commerce	145 598	7	48 467	3
State and public organisations	87 623	4	67 183	5
Mass media and telecommunications	80 628	4	93 032	6
Agriculture and food processing	18 695	1	23 867	2
Other	48 982	3	7 951	1
Total customer accounts	**1 988 360**	**100**	**1 431 575**	**100**

As at 31 December 2002 customer accounts included a balance of Alfa Finance Holdings S.A. in an amount of USD 55 760 thousand (2001: USD 97 880 thousand). As at 31 December 2002 a balance of USD 48 000 thousand (2001: USD 56 400 thousand) was blocked with respect to a contribution to share capital of the Group. Refer to Notes 10 and 16.

Included in customer accounts are deposits of USD 10 463 thousand (2001: USD 7 897 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 31 December 2002 the estimated fair value of customer accounts was USD 1 988 360 thousand (2001: USD 1 431 575 thousand). Refer to Note 25.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The Group has several balances outstanding to related parties. The relevant information on related party balances is disclosed in Note 26.

(expressed in thousands of US dollars - Note 3)

14 Other Borrowed Funds

	2002	2001
Eurobonds	171 143	-
Russian Rouble denominated bonds	22 468	-
Loan from the Agency for Restructuring of Credit Organisations	15 930	30 571
US Commercial Paper Notes	-	20 644
Other	584	-
Total other borrowed funds	**210 125**	**51 215**

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

On 14 June 2002 the Group issued Russian Rouble denominated bonds maturing in June 2007 at a nominal value of RR 908 758 thousand. The bonds have a floating interest rate and the coupon is payable semi-annually. As at 31 December 2002 coupon was to be paid at an interest rate of 18% per annum. The Bank has issued an irrevocable offer to redeem the bonds at nominal value along with accrued interest on 13 June 2003.

In 1999 the Group obtained financing from the Agency for Restructuring of Credit Organisations in the Russian Federation ("ARCO"). The total nominal principal amount outstanding as at 31 December 2002 was RR 508 800 thousand (2001: RR 950 800 thousand). The loan bears a nominal annual interest rate of 50% of the refinancing rate set by the CBRF. Initially, the loan was due to mature during the second half of 2001. During 2001, the loan was rescheduled on the same terms and currently is to be repaid by 30 September 2003. With respect to the loan, as at 31 December 2002, the Group pledged customer loans with a total nominal amount of USD 50 000 thousand (2001: USD 115 000 thousand), investments available for sale with fair value of USD 5 227 thousand (2001: USD 5 704 thousand) and premises and equipment with a carrying value of USD 3 571 thousand (2001: USD 2 972 thousand) as collateral. Also, as at 31 December 2002 and 31 December 2001 25% of the Bank's shares were pledged as collateral which gave ARCO voting rights, but not an economic interest in Alfa Bank.

The US Commercial Paper Notes matured and were repaid along with interest prior to 31 December 2002.

As at 31 December 2002 the estimated fair value of other borrowed funds was USD 212 779 thousand (USD 52 491 thousand). Refer to Note 25.

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

(expressed in thousands of US dollars - Note 3)

15 Other Liabilities and Payables

	Note	2002	2001
Accrued compensation expenses		43 160	41 058
Payable on operations with securities		41 414	38 002
Accrued interest expense		27 832	7 290
Plastic card creditors		13 079	7 934
Trade creditors		12 479	4 699
Provision for losses on credit related commitments	24	9 462	3 937
Payable to related parties		7 298	4 874
Conversion operations and derivative financial instruments		2 708	8 782
Settlements with clients		518	34 833
Taxation payable		407	955
Other		15 486	9 597
Total other liabilities and payables		**173 843**	**161 961**

Currency and maturity analyses of other liabilities are disclosed in Note 23. The Group has several balances outstanding to related parties. The relevant information on related party balances is disclosed in Note 26.

16 Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

	2002		2001	
	Number of shares	**Nominal amount**	**Number of shares**	**Nominal amount**
Ordinary shares	160 800 000	160 800	112 800 000	112 800
Total share capital	**160 800 000**	**160 800**	**112 800 000**	**112 800**

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

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

The increase in share capital of USD 56 400 thousand during 2001 was authorised by the shareholders of ABH Financial Limited on 30 December 2001. As at 31 December 2001 this amount was blocked on the account of Alfa Finance Holdings S.A. with the Group in respect to the contribution (refer to Notes 10 and 13). This amount was fully paid in March 2002.

(expressed in thousands of US dollars - Note 3)

17 Interest Income and Expense

	2002	2001
Interest income		
Loans and advances to customers	311 824	188 773
Due from other banks	31 099	15 732
Trading securities	24 202	14 806
Total interest income	**367 125**	**219 311**
Interest expense		
Promissory notes	55 653	35 418
Term placements of other banks	44 322	7 854
Term deposits of individuals	41 174	16 886
Current/settlement accounts	23 412	25 146
Other borrowed funds	8 253	7 626
Term deposits of legal entities	4 318	15 285
Total interest expense	**177 132**	**108 215**
Net interest income	**189 993**	**111 096**

18 Fee and Commission Income and Expense

	2002	2001
Fee and commission income		
Commission on settlement transactions	40 058	40 897
Commission on cash transactions	15 719	14 628
Commission on guarantees issued	13 846	9 603
Commission on transactions with securities	5 803	2 997
Commission for consulting services	3 175	4 409
Commission income from Golden Telecom	3 297	-
Commission income from the Alfa Eco Group	-	12 547
Commission income from the TNK Group	-	11 069
Commission income from Alfa Telecom Limited	-	4 400
Other	9 402	2 633
Total fee and commission income	**91 300**	**103 183**
Fee and commission expense		
Commission for consulting services	27 013	15 844
Commission on settlement transactions	8 518	8 193
Commission on transactions with securities	933	1 312
Commission on cash transactions	908	1 261
Other	2 428	2 088
Total fee and commission expense	**39 800**	**28 698**
Net fee and commission income	**51 500**	**74 485**

Commission income in 2001 from Alfa Eco Group, TNK Group and Alfa Telecom Limited relates mainly to advisory and other services provided by the Group to these related parties in assisting them with their acquisition of significant subsidiaries and associates. In 2002 commission income from these related parties was earned in the normal course of business and is reflected in the respective captions. Refer also to Note 26.

(expressed in thousands of US dollars - Note 3)

19 Other Operating Income

	2002	2001
Late charges on loans and other penalties	17 640	4 389
Structured debt operations	6 938	27 118
Leasing and other income on premises and equipment	5 719	1 647
Income from insurance operations	4 468	5 249
Dividend income	1 862	2 520
Gains less losses from trading in precious metals	(2 285)	648
Negative goodwill amortisation	-	2 934
Other	11 808	7 905
Total other operating income	**46 150**	**52 410**

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

20 Operating Expenses

	2002	2001
Staff costs	122 172	107 854
Taxes	22 620	7 510
Computer and telecommunications expenses	20 292	23 777
Consulting and professional services	19 551	13 057
Depreciation and other expenses related to premises and equipment	17 850	23 911
Rent, heat and utilities	13 025	11 059
Advertising and marketing	11 602	9 597
Maintenance	8 508	11 404
Travel expenses	4 217	2 721
Other	6 108	19 022
Total operating expenses	**245 945**	**229 912**

21 Income Taxes

Income tax expense comprises the following:

	2002	2001
Current tax charge	2 453	1 357
Deferred taxation movement due to:		
- Origination and reversal of temporary differences	1 120	(12 452)
- Effect of reduction in tax rate	-	7 277
Income tax expense/(credit) for the year	**3 573**	**(3 818)**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

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

	2002	2001
IFRS profit before taxation	**108 199**	**82 230**
Theoretical tax charge at the applicable statutory rate (2002: 24%; 2001: 43%)	25 968	35 359
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Recalculation of provisions in accordance with IFRS	(42 673)	(49 089)
- Non deductible expenses	13 091	22 491
- Income which is exempt from taxation	(62 141)	(34 660)
- Loss earned in tax free jurisdictions	21 481	18 095
- Negative taxable base which has no future income tax benefit	10 494	6 865
- Income on government securities taxed at different rates	20	152
- Effect of change in statutory taxation legislation	41 304	-
- Other IFRS adjustments of a non-temporary nature	(4 542)	2 449
Tax effect of loss carry forward	571	1 797
Effect of the change in tax rate	-	(7 277)
Income tax expense/(credit) for the year	**3 573**	**(3 818)**

Differences between IFRS and Russian and other countries' statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement of these temporary differences is recorded mainly at the rate of 24% (2001: 43%), except for income on state securities that is taxed at 15% (2001: 15%).

	2001	Movement	2002
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	6 080	1 697	7 777
Tax loss carry forward	3 009	(726)	2 283
Accruals	4 262	(3 386)	876
Other	1 775	(2 032)	(257)
Gross deferred tax asset	**15 126**	**(4 447)**	**10 679**
Tax effect of taxable temporary differences			
Valuation of premises and equipment	(12 826)	(3 184)	(16 010)
Provision for loan impairment	(9 453)	4 596	(4 857)
Accruals	(2 039)	1 915	(124)
Gross deferred tax liability	**(24 318)**	**3 327**	**(20 991)**
Total net deferred tax liability	**(9 192)**	**(1 120)**	**(10 312)**

(expressed in thousands of US dollars - Note 3)

21 Income Taxes (Continued)

	2000	Movement	2001
Tax effect of deductible temporary differences			
Accumulated depreciation of premises and equipment	6 008	72	6 080
Accruals	6 335	(2 073)	4 262
Tax loss carry forward	7 188	(4 179)	3 009
Other	1 586	189	1 775
Gross deferred tax asset	**21 117**	**(5 991)**	**15 126**
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)
Gross deferred tax liability	**(35 484)**	**11 166**	**(24 318)**
Total net deferred tax liability	**(14 367)**	**5 175**	**(9 192)**

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

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

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

22 Analysis by Segment

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

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

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

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

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

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2002 and 31 December 2001 is set out below:

2002	**Corporate banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**474 327**	**120 312**	**-**	**594 639**
Segment results	227 295	109 267	-	336 562
Unallocated costs	-	-	-	(245 945)
Monetary gain	-	-	-	17 582
Profit before tax	**-**	**-**	**-**	**108 199**
Income tax expense	-	-	-	(3 573)
Profit after tax	**-**	**-**	**-**	**104 626**
Minority interest				(36)
Net profit	**-**	**-**	**-**	**104 590**
Total assets	**3 375 167**	**865 397**	**(122 374)**	**4 118 190**
Total liabilities	**3 555 751**	**250 142**	**(122 374)**	**3 683 519**
Other segment items				
Capital expenditure	(31 860)	(3 540)	-	(35 400)
Depreciation expense	(12 966)	(1 441)	-	(14 407)
Other non-cash income/(expenses)	(42 105)	106	-	(41 999)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	34 947	-	34 947

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

2001	**Commercial banking**	**Investment banking**	**Eliminations**	**Total**
Total revenues	**359 450**	**87 467**	**-**	**446 917**
Segment results	186 104	78 162	-	264 266
Unallocated costs	-	-	-	(229 912)
Monetary gain	-	-	-	47 876
Profit before tax	**-**	**-**	**-**	**82 230**
Income tax credit	-	-	-	3 818
Profit after tax	**-**	**-**	**-**	**86 048**
Minority interest	-	-	-	(631)
Net profit	**-**	**-**	**-**	**85 417**
Total assets	**2 286 756**	**549 033**	**(110 155)**	**2 725 634**
Total liabilities	**2 473 789**	**80 378**	**(110 155)**	**2 444 012**
Other segment items				
Capital expenditure	(31 112)	(3 457)	-	(34 569)
Depreciation expense	(9 052)	(1 006)	-	(10 058)
Other non-cash income/(expenses)	(17 328)	(16 180)	-	(33 508)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	38 284	-	38 284

(expressed in thousands of US dollars - Note 3)

22 Analysis by Segment (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2002 and 31 December 2001.

2002	**Russia**	**Europe**	**CIS**	**USA**	**Other**	**Total**
Assets						
Cash and cash equivalents	229 193	87 018	5 847	59 719	457	382 234
Mandatory cash balances with the CBRF and other local central banks	213 524	226	502	-	-	214 252
Trading securities	363 481	4 254	25 945	-	15 555	409 235
Due from other banks	171 255	31 487	5 969	2 438	-	211 149
Loans and advances to customers	2 284 281	5 704	95 271	735	13 275	2 399 266
Investments available for sale	94 776	-	1 000	-	-	95 776
Other assets and receivables	207 780	32 820	29 700	-	50	270 350
Premises and equipment	126 206	670	9 052	-	-	135 928
Total assets	**3 690 496**	**162 179**	**173 286**	**62 892**	**29 337**	**4 118 190**
Liabilities						
Due to other banks	317 313	199 580	102 969	12 252	37 578	669 692
Customer accounts	1 801 388	54 964	58 481	31 554	41 973	1 988 360
Promissory notes	624 839	-	6 348	-	-	631 187
Other borrowed funds	38 982	171 143	-	-	-	210 125
Other liabilities and payables	106 163	59 308	7 476	147	749	173 843
Deferred tax liability	10 312	-	-	-	-	10 312
Total liabilities	**2 898 997**	**484 995**	**175 274**	**43 953**	**80 300**	**3 683 519**
Net balance sheet position	**791 499**	**(322 816)**	**(1 988)**	**18 939**	**(50 963)**	**434 671**

2001	**Russia**	**Europe**	**CIS**	**USA**	**Other**	**Total**
Assets						
Cash and cash equivalents	304 109	38 090	28 855	86 696	1 024	458 774
Mandatory cash balances with the CBRF and other local central banks	140 288	226	1 539	-	-	142 053
Trading securities	148 853	-	4 591	-	3 229	156 673
Due from other banks	38 425	84 550	1 382	-	-	124 357
Loans and advances to customers	1 288 552	1 359	63 567	15 000	48 981	1 417 459
Investments available for sale	126 319	-	10 861	-	-	137 180
Other assets and receivables	130 989	21 013	2 658	19 551	1 644	175 855
Premises and equipment	105 574	557	7 152	-	-	113 283
Total assets	**2 283 109**	**145 795**	**120 605**	**121 247**	**54 878**	**2 725 634**
Liabilities						
Due to other banks	198 281	93 737	47 972	287	-	340 277
Customer accounts	1 321 099	57 604	27 949	805	24 118	1 431 575
Promissory notes	384 535	60 673	4 584	-	-	449 792
Other borrowed funds	30 571	20 644	-	-	-	51 215
Other liabilities and payables	100 063	60 082	1 816	-	-	161 961
Deferred tax liability	9 192	-	-	-	-	9 192
Total liabilities	**2 043 741**	**292 740**	**82 321**	**1 092**	**24 118**	**2 444 012**
Net balance sheet position	**239 368**	**(146 945)**	**38 284**	**120 155**	**30 760**	**281 622**

22 Analysis by Segment (Continued)

The majority of credit related commitments are issued in favour of Russian counterparties and their off-shore companies at both 31 December 2002 and 31 December 2001.

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

23 Financial Risk Management

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

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

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

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

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

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

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

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

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2002. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values. As at 31 December 2002, the Group has the following positions in currencies:

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

	USD	RR	EURO	Other currencies	Total
Assets					
Cash and cash equivalents	163 988	171 843	19 370	27 033	382 234
Mandatory cash balances with the CBRF and other local central banks	-	213 524	226	502	214 252
Trading securities	314 069	88 419	2 798	3 949	409 235
Due from other banks	116 330	60 840	30 502	3 477	211 149
Loans and advances to customers	1 627 182	746 405	4 630	21 049	2 399 266
Investments available for sale	95 776	-	-	-	95 776
Other assets and receivables	217 247	31 762	10 384	10 957	270 350
Premises and equipment	-	126 206	670	9 052	135 928
Total assets	**2 534 592**	**1 438 999**	**68 580**	**76 019**	**4 118 190**
Liabilities					
Due to other banks	389 282	203 526	19 548	57 336	669 692
Customer accounts	1 096 178	813 146	52 764	26 272	1 988 360
Promissory notes	283 499	331 807	9 533	6 348	631 187
Other borrowed funds	171 143	38 398	-	584	210 125
Other liabilities and payables	129 809	27 387	8 757	7 890	173 843
Deferred tax liability	-	10 312	-	-	10 312
Total liabilities	**2 069 911**	**1 424 576**	**90 602**	**98 430**	**3 683 519**
Net balance sheet position	**464 681**	**14 423**	**(22 022)**	**(22 411)**	**434 671**
Off-balance sheet net notional position (Note 24)	**(13 814)**	**6 254**	**(484)**	**9 366**	**1 322**
Credit related commitments (Note 24)	**713 032**	**14 095**	**23 072**	**1 342**	**751 541**

As at 31 December 2001, the Group had the following currency positions:

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

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

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

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

The table below shows assets and liabilities as at 31 December 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Group as at 31 December 2002 is set out below.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity/ overdue**	**Total**
Assets						
Cash and cash equivalents	382 234	-	-	-	-	382 234
Mandatory cash balances with the CBRF and other local central banks	214 252	-	-	-	-	214 252
Trading securities	409 235	-	-	-	-	409 235
Due from other banks	198 132	11 122	-	70	1 825	211 149
Loans and advances to customers	252 631	638 833	777 099	703 676	27 027	2 399 266
Investments available for sale	-	-	-	-	95 776	95 776
Other assets and receivables	99 760	113 587	7 770	49 112	121	270 350
Premises and equipment	-	-	-	-	135 928	135 928
Total assets	**1 556 244**	**763 542**	**784 869**	**752 858**	**260 677**	**4 118 190**
Liabilities						
Due to other banks	550 298	97 342	4 410	17 642	-	669 692
Customer accounts	1 394 811	386 185	197 772	9 592	-	1 988 360
Promissory notes	215 119	264 711	74 673	76 684	-	631 187
Other borrowed funds	584	9 877	6 053	193 611	-	210 125
Other liabilities and payables	78 645	81 826	6 505	6 867	-	173 843
Deferred tax liability	-	-	-	-	10 312	10 312
Total liabilities	**2 239 457**	**839 941**	**289 413**	**304 396**	**10 312**	**3 683 519**
Net liquidity gap	**(683 213)**	**(76 399)**	**495 456**	**448 462**	**250 365**	**434 671**
Cumulative liquidity gap as at 31 December 2002	**(683 213)**	**(759 612)**	**(264 156)**	**184 306**	**434 671**	
Cumulative liquidity gap as at 31 December 2001	**(647 286)**	**(506 492)**	**(135 828)**	**4 291**	**281 622**	

23 Financial Risk Management (Continued)

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

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

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

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

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

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

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

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and cash equivalents	382 234	-	-	-		382 234
Mandatory cash balances with the CBRF and other local central banks	214 252	-	-	-	-	214 252
Trading securities	369 064	-	-	-	40 171	409 235
Due from other banks	198 132	11 122	-	70	1 825	211 149
Loans and advances to customers	252 631	638 833	777 099	703 676	27 027	2 399 266
Investments available for sale	-	-	-	-	95 776	95 776
Other assets and receivables	99 760	113 587	7 770	49 112	121	270 350
Premises and equipment	-	-	-	-	135 928	135 928
Total assets	**1 516 073**	**763 542**	**784 869**	**752 858**	**300 848**	**4 118 190**
Liabilities						
Due to other banks	550 298	97 342	4 410	17 642	-	669 692
Customer accounts	1 394 811	386 185	197 772	9 592	-	1 988 360
Promissory notes	215 119	264 711	74 673	76 684	-	631 187
Other borrowed funds	23 052	15 930	-	171 143	-	210 125
Other liabilities and payables	76 505	76 898	5 687	5 291	9 462	173 843
Deferred tax liability	-	-	-	-	10 312	10 312
Total liabilities	**2 259 785**	**841 066**	**282 542**	**280 352**	**19 774**	**3 683 519**
Net gap	**(743 712)**	**(77 524)**	**502 327**	**472 506**	**281 074**	**434 671**
Cumulative gap as at 31 December 2002	**(743 712)**	**(821 236)**	**(318 909)**	**153 597**	**434 671**	

As at 31 December 2001 the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities did not differ significantly from the maturity analysis.

(expressed in thousands of US dollars - Note 3)

23 Financial Risk Management (Continued)

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

	2002				2001			
	USD	**RR**	**Euro**	**Other currencies**	**USD**	**RR**	**Euro**	**Other currencies**
Assets								
Cash and cash equivalents	5.9%	16.2%	0.0%	0.0%	5.5%	23.0%	7.0%	6.8%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	8.8%	14.1%	-	-	10.8%	22.7%	-	-
Due from other banks	4.3%	14.5%	3.1%	14.5%	2.0%	13.0%	8.0%	6.8%
Loans and advances to customers	13.2%	20.1%	11.4%	14.0%	15.2%	21.1%	12.5%	14.0%
Liabilities								
Due to other banks	3.3%	12.3%	5.4%	5.0%	6.0%	9.6%	5.2%	7.3%
Customer accounts								
- current and settlement accounts	2.1%	2.3%	2.1%	2.3%	2.1%	2.4%	2.1%	-
- term deposits	6.1%	10.2%	6.1%	10.2%	9.5%	13.2%	6.2%	10.0%
Promissory notes	6.1%	15.6%	3.0%	15.6%	10.5%	11.6%	5.8%	-
Other borrowed funds	12.0%	17.6%	-	17.0%	6.3%	17.0%	-	-

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

24 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice Management is of the opinion that no material 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.

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

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

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

If a particular treatment was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest, which can be significant. Tax years in Russia remain open to review by the tax authorities for three years.

***Capital commitments*.** As at 31 December 2002 the Group had capital commitments in respect of new computer systems totalling USD 13 287 thousand (2001: USD 8 600 thousand). In addition, other capital commitments amounted to USD 4 434 thousand (2001: nil). The Group's Management has already allocated the necessary resources in respect of these commitments. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

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

	2002	**2001**
Not later than 1 year	10 876	8 568
Later than 1 year and not later than 5 years	15 965	-
Later than 5 years	5 210	-
Total operating lease commitments	**32 051**	**8 568**

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

Outstanding credit related commitments are as follows:

	Note	**2002**	**2001**
Guarantees issued		538 946	620 298
Export letters of credit		191 712	149 283
Import letters of credit	13	30 345	24 781
Less: provision for losses on credit related commitments	15	(9 462)	(3 937)
Total credit related commitments		**751 541**	**790 425**

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

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

In 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. As at 31 December 2001 25% of the Bank's statutory capital amounted to approximately USD 184 780 thousand. This amount was included within total guarantees issued as at 31 December 2001. Payments, that were guaranteed by the Group, were completed by TNK by the end of February 2002. No payments were made by the Group with respect to this guarantee.

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. As at 31 December 2002 25% of the Bank's statutory capital was approximately USD 173 936 thousand (2001: USD 184 780 thousand). Respective amounts were included within total guarantees issued as at 31 December 2002 and 31 December 2001.

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

	2002	**2001**
Provision for losses on credit related commitments as at 1 January	**3 937**	**8 945**
Provision/(recovery of provision) for losses on credit related commitments during the year	5 525	(5 008)
Provision for losses on credit related commitments as at 31 December	**9 462**	**3 937**

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2002. These contracts were entered mainly into in December 2002 and are short term in nature.

(expressed in thousands of US dollars - Note 3)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

	Domestic			Foreign		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Foreign currency						
- sale of foreign currency	263 512	-	392	506 746	-	551
- purchase of foreign currency	273 753	(60)	-	505 623	(398)	-
Securities						
- sale of securities	172 729	(2 174)	2 940	-	-	-
- purchase of securities	6 331	(38)	76	-	-	-
Precious metals						
- sale of precious metals	-	-	-	1 846	-	34
- purchase of precious metals	-	-	-	3 306	(63)	-
Spot						
Foreign currency						
- sale of foreign currency	189 547	-	84	232 869	(22)	-
- purchase of foreign currency	189 631	-		232 847		-
Total		**(2 272)**	**3 492**		**(483)**	**585**

For these deals the Group has recorded a net gain of USD 547 thousand which is included within gains less losses arising from trading in foreign currency, a net gain of USD 804 thousand which is included within gains less losses arising from trading securities and a net loss of USD 29 thousand which is included within gains less losses arising from trading in precious metals within other operating income.

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

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

	2002 Nominal value	**2001 Nominal value**
Promissory notes of companies held in custody	275 294	-
Shares in companies held in custody	212 879	98 768
Eurobonds in Euroclear	135 450	14 700
Corporate bonds held in custody	64 574	-
OVGVZ held on account with Vneshtorgbank	40 343	50 988
Client OFZ securities held on an account with NDC	18 521	28 091
Other	2 842	400

Assets pledged. As at 31 December 2002 the Group has the following assets pledges as collateral:

	Notes	**2002**	**2001**
Trading securities	6, 12	136 772	14 841
Loans and advances to customers	8, 14	50 000	115 000
Investments available for sale	9, 14	5 227	5 704
Premises and equipment	11, 14	3 571	2 972
Total		**195 570**	**138 517**

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

In addition, as at 31 December 2002 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 61 811 thousand (2001: USD 32 932 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 214 252 thousand (2001: USD 142 053 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

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

25 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by Management using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the 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.

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

Due from other banks. The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. Refer to Note 7 for the estimated fair value of due from other banks as at 31 December 2002.

Loans and advance to customers. Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 8 for the estimated fair value of loans and advances to customers as at 31 December 2002.

Borrowings. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Refer to Notes 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 31 December 2002.

Promissory notes. The fair value of promissory notes is based on quoted market prices. For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. As at 31 December 2002 the estimated fair value of promissory notes was USD 629 673 thousand (2001: USD 449 792 thousand).

The fair value of derivatives is disclosed in Note 24.

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions

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

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

The outstanding balances as at the year end and income and expense items as well as other transactions for the year with related parties are as follows:

	2002	**2001**
Trading securities	62 193	-
Loan to customers		
Loans outstanding as at the year end	431 082	376 157
Interest income	51 994	29 215
Receivables	128 648	77 230
Customer accounts		
Balance outstanding as at the year end	181 516	169 464
Interest expense	10 461	6 522
Promissory notes	87 884	22 918
Payables	8 750	4 874
Guarantees issued by the Group as at the year end	218 723	433 263
Import letters of credit as at the year end	-	4 674
Export letters of credit as at the year end	2 321	-
Fee and commission income for the year	22 843	30 632
Fee and commission expense for the year	4 748	2 372
Other income	218	5 185
Other expenses	719	121

(expressed in thousands of US dollars - Note 3)

26 Related Party Transactions (Continued)

In 2002 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 5 504 thousand (2001: USD 5 746 thousand).

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

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

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

27 Principal Consolidated Subsidiaries

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

28 Subsequent Events

In April 2003 additional share capital of USD 48 000 thousand was paid in.