

## IMPORTANT NOTICE

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached Offering Circular accessed electronically either from electronic transmission or from an internet or similar electronic delivery system and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of your representation:** You have been sent (or given access to) the attached Offering Circular on the basis that you have confirmed to Dresdner Bank AG London Branch and Merrill Lynch International (the “*Initial Purchasers*”), being the senders of the attached Offering Circular, that:

- (a) you (and investors that you represent) either: (i) are not a U.S. person (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended (the “*Securities Act*”)), are not investing in a Rule 144A Note and the electronic mail address that you have given to us and to which this electronic transmission has been sent is not located in the United States, or (ii) are a “qualified institutional buyer” (as such term is defined in Rule 144A under the Securities Act) that is also a “qualified purchaser” (within the meaning of Section (2)(a)(51) of the United States Investment Company Act of 1940, as amended),
- (b) you consent to delivery of the attached Offering Circular by electronic transmission,
- (c) you are a prospective purchaser of the notes referred to in the attached Offering Circular (the “*Offered Notes*”) or you are a person authorized by The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or the Initial Purchasers to receive the attached Offering Circular,
- (d) you will not transmit the attached Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Initial Purchasers, and
- (e) if the attached Offering Circular is indicated to be a preliminary offering circular, then you acknowledge that the attached Offering Circular is in draft or preliminary form only, that it is not complete and contains information that may be subject to change and does not constitute an offer of, or an invitation to subscribe for or purchase, any of the Offered Notes.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Initial Purchasers, any person who controls an Initial Purchaser, any of their respective affiliates nor any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver the attached Offering Circular to any other person without the consent of the Initial Purchasers.

**Restrictions:** Nothing in this electronic transmission constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Offered Notes have not been, and will not be, registered under the Securities Act or the securities laws of any State of the United States or of any other jurisdiction and the Offered Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable State or other securities laws.

This Offering Circular may not be communicated in the United Kingdom other than to persons authorized under the Financial Services and Markets Act 2000, as amended, or otherwise having professional experience in matters relating to investments and qualifying as investment professionals under Article 19, or persons qualifying as high net worth persons under Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to any other person to whom this Offering Circular may otherwise lawfully be communicated or cause to be communicated.

## OFFERING CIRCULAR

US\$350,000,000



### Open Joint-Stock Company “ALFA-BANK” Alfa Diversified Payment Rights Finance Company S.A.

US\$350,000,000 Series 2006-A Notes Due 2011

The Series 2006-A Notes Due 2011 (the “*Series 2006-A Notes*” or the “*Offered Notes*”) offered hereby will evidence senior secured indebtedness of Alfa Diversified Payment Rights Finance Company S.A., a *société anonyme* organized under the law of Luxembourg (the “*SPC*”). The Offered Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “*Securities Act*”), or the securities or “blue sky” laws of any state of the United States of America (“*United States*” or “*U.S.*”), Russia (“*Russia*”), Luxembourg (“*Luxembourg*”) or any other jurisdiction, and are being offered: (a) for sale (the “*U.S. Offering*”) in the United States of America to qualified institutional buyers (each, a “*QIB*”) as defined in, and in reliance upon, Rule 144A (“*Rule 144A*”) under the Securities Act, which QIBs are also “qualified purchasers” within the meaning of Section (2)(a)(51) of the United States Investment Company Act of 1940, as amended (the “*Investment Company Act*”), and (b) for sale (the “*International Offering*,” and, with the U.S. Offering, the “*Offering*”) to non-U.S. persons outside the United States in reliance upon Regulation S (“*Regulation S*”) under the Securities Act. The Offered Notes (or beneficial interests therein) may not be offered or sold in Russia, Luxembourg or any other jurisdiction except pursuant to the securities laws thereof. The information in this offering circular is not complete and may be changed. This preliminary offering circular is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

The Offered Notes will be secured by substantially all of the assets of the SPC, consisting primarily of the SPC’s rights under loans made by it to Open Joint-Stock Company “Alfa-Bank”, a Russian banking institution organized as an open joint-stock company (with its successors, “*Alfa-Bank*”). Alfa-Bank’s obligations to the SPC under such loans, which obligations will be secured by all of Alfa-Bank’s Diversified Payment Rights (as defined herein), will be guaranteed by its parent holding company, ABH Financial Limited (“*ABH*” or the “*Guarantor*”).

Interest generally will accrue on the Offered Notes from their date of issuance at the rate of 1.60% *per annum* above Three-Month LIBOR (as defined herein). Interest on the Offered Notes will be paid on the 15th day of each March, June, September and December commencing on June 15, 2006 (or, if any such date is not a New York Business Day (as defined herein), on the next New York Business Day) (each a “*Payment Date*”). Principal of the Offered Notes will be distributed in quarterly installments on each Payment Date commencing with the June 2006 Payment Date, but may be paid earlier or later under certain circumstances as described herein. The scheduled maturity date for the Offered Notes is the March 2011 Payment Date (the “*Series 2006-A Maturity Date*”). The Offered Notes initially will be sold to investors at a price equal to 100% of the principal amount thereof.

It is a condition to the issuance of the Offered Notes that they be rated at least “Baa3” by Moody’s Investors Service, Inc. (“*Moody’s*”) (with each rating agency rating any other Series (as defined herein), a “*Rating Agency*”). A rating is not a recommendation to buy, sell or hold an Offered Note (or beneficial interests therein) and is subject to revision or withdrawal in the future by the applicable Rating Agency. An application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Offered Notes to be admitted to its “Official List” and permit trading on its regulated market; *however*, no assurance can be given that such application will be accepted.

**Prospective investors should consider the factors set forth under “Risk Factors” beginning on page 96 of this Offering Circular (this “Offering Circular”).**

The Offered Notes are being offered under Rule 144A and Regulation S by Dresdner Bank AG London Branch and Merrill Lynch International (each an “*Initial Purchaser*” and, together, the “*Initial Purchasers*”), subject to their acceptance and right to reject orders in whole or in part. It is expected that delivery of the Offered Notes will be made in book-entry form only through the facilities of The Depository Trust Company (“*DTC*”) in New York, New York, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“*Euroclear*”), and/or Clearstream International S.A. (“*Clearstream*”), against payment therefor in immediately available funds.

**DRESDNER KLEINWORT WASSERSTEIN**

**MERRILL LYNCH & CO.**

**The date of this Offering Circular is March 27, 2006.**



## GENERAL INFORMATION

The Offered Notes have not been and will not be registered under the Securities Act or under the securities or “blue sky” laws of any state of the United States or any other U.S., Russian, Luxembourg or other jurisdiction. Each Investor, by purchasing an Offered Note (or a beneficial interest therein), agrees that the Offered Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions therefrom described below under “Notice to U.S. Investors” or “Notice to Investors in the International Offering,” as applicable. Each Investor also will be deemed to have made certain representations and agreements as described therein. Any resale or other transfer, or attempted resale or other attempted transfer, that is not made in accordance with the transfer restrictions may subject the transferor and transferee to certain liabilities under applicable securities laws.

It is expected that delivery of the Offered Notes will be made against payment therefor on or about the third business day following the date of pricing of the Offered Notes (such delivery date being referred to herein as the “*Series 2006-A Borrowing Date*” and such settlement cycle being herein referred to as “*T+3*”). Investors should note that trading of the Offered Notes (or beneficial interests therein) on the date of pricing and the next business days may be affected by the T+3 settlement.

Russian securities laws permit the placement and public offering of the Offered Notes in Russia only on the basis of the applicable international treaty of the Russian Federation or an agreement made between the competent state authorities of the Russian Federation and the competent authority (organization) of the jurisdiction of an issuer. No international treaties or agreements currently are in place which would permit the placement and/or public offering of the Offered Notes in the Russian Federation.

The Offering of the Offered Notes has not been and will not be registered with the Federal Service for Financial Markets (the “*FSFM*”), and there are certain other restrictions based upon, in particular, Russian currency and securities legislation for the sale of the Offered Notes (or beneficial interests therein) within Russia. Therefore, the ability for the Offered Notes (or beneficial interests therein) to be sold within Russia and/or to and/or by Russian residents under current Russian legislation is limited.

Offered Notes offered and sold in the United States to QIBs in reliance upon Rule 144A will be represented by beneficial interests in a single, permanent global note in fully registered form without interest coupons (the “*Rule 144A Note*”). Offered Notes offered and sold outside the United States to non-U.S. persons pursuant to Regulation S will be represented by beneficial interests in a single, permanent global note in fully registered form without interest coupons (the “*Regulation S Note*” and, with the Rule 144A Note, the “*Global Notes*”) upon certification by the Investor as described under “Notice to Investors in the International Offering.”

The Global Notes will be deposited on or about the Series 2006-A Borrowing Date with the Indenture Trustee as custodian for, and registered in the name of, Cede & Co. as nominee of DTC. Except as described in this Offering Circular, beneficial interests in the Global Notes will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC, Euroclear and Clearstream. Investors may elect to hold interests in the Regulation S Note through Euroclear or Clearstream in Europe, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Except as described in this Offering Circular, owners of beneficial interests in the Global Notes will not be entitled to have the Offered Notes registered in their names, will not receive or be entitled to receive physical delivery of the Offered Notes in definitive form and will not be considered holders of the Offered Notes under the Offered Notes, the Indenture or the applicable Indenture Supplement.

This Offering Circular has been prepared by the SPC and Alfa-Bank, including based upon information obtained from published sources. The Initial Purchasers make no representation or warranty as to the accuracy or completeness of the information contained in this Offering Circular and nothing herein shall be deemed to constitute such a representation or warranty by the Initial Purchasers or a promise or representation as to the future performance of the Offered Notes, Alfa-Bank, the Guarantor, the SPC or the Diversified Payment Rights.

Alfa-Bank has taken all reasonable care to ensure that the information contained in this Offering Circular in relation to Alfa-Bank, the Guarantor, the SPC, the Offered Notes, the other Transaction Documents and the

Diversified Payment Rights is true and complete in all material respects and that there are no material facts the omission of which would make any statement herein misleading. Alfa-Bank accepts responsibility accordingly. In addition, the SPC (the issuer of the Offered Notes) takes responsibility for this Offering Circular, and to the best of its knowledge, the information contained in this Offering Circular is in accordance with the facts, and the Offering Circular makes no omission likely to affect its import.

This Offering Circular contains descriptions of certain provisions of the Transaction Documents and various other related documents. This Offering Circular does not purport to contain complete summaries of the terms of such documents, and all information herein about such documents is qualified in its entirety by reference to such documents.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized by Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers or any affiliate or representative of any such person. The delivery of this Offering Circular at any time does not imply that information herein is correct as of any time after the date hereof. No Offered Notes (or beneficial interests therein) may be sold without delivery of this Offering Circular.

There is currently no market for the Offered Notes (or beneficial interests therein) being offered hereby and there can be no assurance that one will develop or, if one develops, that it will continue. An application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Offered Notes to be admitted to its "Official List" and permit trading on its regulated market; *however*, no assurance can be given that such application will be accepted. The total expenses related to the admission to trading are expected to be approximately €6,533.

In connection with the issuance of the Offered Notes, the Initial Purchasers (or any person acting on their behalf) may over-allot the Offered Notes (in certain circumstances, provided that the aggregate principal amount of the Offered Notes allotted does not exceed 105% of the aggregate principal amount of the Offered Notes) or effect transactions with a view to supporting the market price of the Offered Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Initial Purchasers (or any person acting on their behalf) will undertake stabilization action. In certain circumstances, any stabilization action may begin only on or after the date on which adequate disclosure of the terms of the offer of the Offered Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issuance date of the Offered Notes and 60 days after the date of the allotment of the Offered Notes.

This Offering Circular is personal to each prospective Investor and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Offered Notes (or beneficial interests therein). Prior to any listing of the Offered Notes on the Irish Stock Exchange, distribution of this Offering Circular to any person other than the prospective Investors and those persons, if any, retained to advise such prospective Investors with respect hereto is unauthorized, and any disclosure of any of the contents hereof without the prior written consent of Alfa-Bank, the Guarantor, the SPC and the Initial Purchasers is prohibited. This Offering Circular may be used only for the purposes for which it has been published.

Prospective Investors are not to construe the contents of this Offering Circular or any previous or subsequent communications from Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers or any of their respective officers, employees, representatives, counsel or agents as investment, legal, accounting, regulatory or tax advice. Before investing in any Offered Notes (or beneficial interests therein), a prospective Investor should consult with its own business, legal, accounting, regulatory and tax advisers to determine the appropriateness and consequences of an investment in the Offered Notes in such prospective Investor's specific circumstances and arrive at an independent evaluation of the investment based upon, among other things, its own views as to the risks associated with the Offered Notes, Alfa-Bank, the Guarantor, the SPC and the Diversified Payment Rights. Investors whose investment authority is subject to legal restrictions should consult their legal advisors to determine whether and to what extent the Offered Notes constitute legal investments for them.

As noted above, it is expected that prospective Investors interested in investing in the Offered Notes will conduct their own independent investigation of the risks posed thereby. Officers of Alfa-Bank and the SPC will be available to answer any questions concerning Alfa-Bank, the Guarantor, the SPC, the Transaction Documents and the Diversified Payment Rights and will make available such other information as such prospective Investors may reasonably request.

The Offered Notes represent limited-recourse obligations of the SPC, the repayment of which is secured by substantially all of the SPC's assets, including the SPC's rights against Alfa-Bank under the Loan Agreement (as described herein), which rights are secured by Alfa-Bank's grant to the SPC of a security interest in (*inter alia*) the Diversified Payment Rights and Collection Accounts and the payment obligations of Alfa-Bank with respect to which rights are guaranteed by the Guarantor. The Offered Notes do not represent obligations of any other person, including Alfa-Bank, the Guarantor, the Initial Purchasers, the Indenture Trustee and any of their respective affiliates. Neither the Offered Notes nor the Diversified Payment Rights are insured or guaranteed by any governmental agency in the United States, Russia, Luxembourg or elsewhere.

The Offered Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "*SEC*"), any state securities commission or any other U.S., Russian, Luxembourg or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary may be a criminal offense.

The distribution of this Offering Circular and the offering of the Offered Notes (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons that come into possession of this Offering Circular are required by Alfa-Bank, the SPC and the Initial Purchasers to inform themselves about and to observe any such restrictions. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Offered Notes (or any beneficial interest therein) in any jurisdiction in which such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Offered Notes (and beneficial interests therein) in the United States, Russia, Luxembourg and the United Kingdom.

#### **NOTICE TO RESIDENTS OF RUSSIA**

**THE INTERNATIONAL OFFERING OF THE OFFERED NOTES WILL NOT BE REGISTERED WITH THE FSFM UNDER THE PROVISIONS OF FEDERAL LAW "ON SECURITIES MARKET" AND FEDERAL LAW "ON PROTECTION OF RIGHTS AND LAWFUL INTERESTS OF INVESTORS ON SECURITIES MARKET" OF THE RUSSIAN FEDERATION RELATING TO CAPITAL MARKETS (THE "CAPITAL MARKETS LAW") AND IT WILL NOT OTHERWISE BE ADMITTED FOR THE PLACEMENT OR PUBLIC CIRCULATION IN THE RUSSIAN FEDERATION. UNDER THIS LAW, IT IS PROHIBITED TO ADVERTISE OR OTHERWISE OFFER SECURITIES TO AN UNLIMITED CIRCLE OF PERSONS UNLESS THE ISSUANCE OF SUCH SECURITIES IS DULY REGISTERED WITH THE FSFM AND AN ISSUANCE PROSPECTUS HAS BEEN REGISTERED IN CONNECTION THEREWITH. DISSEMINATION OF INFORMATION TARGETED AT AN UNLIMITED CIRCLE OF PERSONS AND INTENDED TO CREATE OR MAINTAIN AN INTEREST OF THE TARGET AUDIENCE MAY AMOUNT TO ADVERTISING. THEREFORE, NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIAL RELATED TO THE OFFERING MAY BE UTILIZED IN CONNECTION WITH ANY GENERAL OFFERING TO THE PUBLIC WITHIN THE RUSSIAN FEDERATION FOR THE PURPOSE OF PLACEMENT OR THE PUBLIC SALE (CIRCULATION) OF THE OFFERED NOTES.**

#### **NOTICE TO RESIDENTS OF LUXEMBOURG**

The Offered Notes are not offered to the public in Luxembourg, and each of the Initial Purchasers has represented and agreed that it will not offer the Offered Notes or cause the offering of the Offered Notes to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer has not been made and may not be announced to the public, and the offering material will not be available to the public.

## NOTICE TO RESIDENTS OF THE UNITED KINGDOM

This Offering Circular may not be communicated in the United Kingdom other than to persons authorized to carry on a regulated activity under the Financial Services and Markets Act 2000, as amended (the “FSMA”), or otherwise having professional experience in matters relating to investments and qualifying as investment professionals under Article 19, or persons qualifying as high net worth persons under Article 49, of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to any other person to whom this document may otherwise lawfully be communicated or caused to be communicated. Neither the Offered Notes nor this document is available to other categories of persons in the United Kingdom and no one falling outside such categories is entitled to rely on, and must not act on, any information in this document. The transmission of this document to any person in the United Kingdom other than the categories stated above, or any person to whom it is otherwise lawful to communicate this document, is unauthorized and may contravene the FSMA.

## NOTICE TO RESIDENTS OF ITALY

The offering of the Offered Notes has not been registered with the Commissione Nazionale per la Società e la Borsa (“CONSOB”), the Italian securities and exchange commission, pursuant to the Italian securities legislation. Accordingly, the Offered Notes (and beneficial interests therein) cannot be offered, sold or distributed nor can any copies of the Offering Circular or any other document relating to the Offered Notes be distributed in the Republic of Italy (“Italy”) in a public solicitation (*sollecitazione all’investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of February 24, 1998, except to: (a) professional investors (*operatori qualificati*), as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of July 1, 1998 (the “Professional Investors”), as amended, or (b) in other circumstances that are exempted from the rules on public solicitations pursuant to Article 100 of Legislative Decree No 58 of February 24, 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No 11971 of May 14, 1999; provided that, in any case, the Offered Notes (and beneficial interests therein) shall not be offered, sold and/or delivered, either in the primary or in the secondary market, to individuals in Italy. Moreover, and subject to the foregoing, the Offered Notes (and beneficial interests therein) may not be offered, sold or delivered and neither this Offering Circular nor any other material relating to the Offered Notes may be distributed or made available in Italy unless such offer, sale or delivery of the Offered Notes (and beneficial interests therein) or distribution or availability of copies of this Offering Circular or any other material relating to the Offered Notes in Italy is made: (i) by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act and Legislative Decree No 385 of September 1, 1993 (the “Italian Banking Act”), (ii) in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities (*e.g.*, notes) in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending inter alia on the amount of the issue and the characteristics of the securities, applies, and (iii) in compliance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation that may be imposed from time to time by CONSOB or the Bank of Italy. Insofar as the requirements above are based upon laws that are superseded at any time pursuant to Directive 2003/71/CE, such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing laws.

## NOTICE TO RESIDENTS OF THE NETHERLANDS

Each of the Initial Purchasers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any Offered Notes (or beneficial interests therein) other than to natural persons and/or legal entities that trade or invest in securities in the course of their profession or business in accordance with Article 2 of the Exemption Regulation to the Act on the Supervision of Securities Trade 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*) (which includes banks, stockbrokers, insurance companies, investment undertakings, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).



## **NOTICE TO RESIDENTS OF HONG KONG**

Each of the Initial Purchasers has represented and agreed that:

1. it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Offered Notes (or beneficial interests therein) other than: (a) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent) or (b) in circumstances that do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and

2. it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Offered Notes, whether in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offered Notes that are, or are intended to be, disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

## **NOTICE TO RESIDENTS OF JAPAN**

The Offered Notes have not been and will not be registered under the Securities and Exchange Law of Japan and each of the Initial Purchasers has agreed that it will not, directly or indirectly, offer or sell any Offered Notes (or beneficial interests therein) in Japan or to, or for the account or benefit of, any resident of Japan for re-offering or re-sale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other applicable laws, regulations and governmental guidelines in Japan.

## **NOTICE TO RESIDENTS OF SINGAPORE**

Each of the Initial Purchasers has acknowledged and agreed that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Initial Purchasers has represented and agreed that it has not offered or sold and will not offer or sell any Offered Notes (or beneficial interests therein) nor has it circulated or distributed nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Offered Notes, directly or indirectly: (a) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Offered Notes (or beneficial interests therein) to the public in Singapore or (b) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under subdivision (4) of Division 1 of Part XIII of the Securities and Futures Act, Chapter 289 of Singapore and to persons to whom the Offered Notes (or beneficial interests therein) may be offered or sold under such exemption.

## **NOTICE TO RESIDENTS OF NEW HAMPSHIRE**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE NEW HAMPSHIRE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## THE INVESTMENT COMPANY ACT

An issuer that is organized outside of the United States (such as the SPC) is not permitted to register under the Investment Company Act without first obtaining an order from the SEC permitting it to register as an investment company under the Investment Company Act. The SPC does not intend to seek such an order in reliance upon an exclusion from the definition of investment company for issuers not making, or proposing to make, a public offering of their securities and whose securities are owned exclusively, at the time of acquisition, by “qualified purchasers” within the meaning of Section 2(a)(51) of the Investment Company Act (a “*Qualified Purchaser*”) or non-U.S. persons. Counsel will opine, in connection with the initial distribution of the Offered Notes, that the SPC is not on the Series 2006-A Borrowing Date required to be registered as an “investment company” under the Investment Company Act (assuming, for the purposes of such opinion, that the Offered Notes (or beneficial interest therein) are sold in accordance with the terms of the Purchase Agreement (the “*Purchase Agreement*”), including only to QIBs that are also Qualified Purchasers and to non-U.S. persons under Regulation S). No opinion or no-action position has been requested of the SEC with respect to the status of the SPC as an investment company under the Investment Company Act.

If the SEC or a court of competent jurisdiction were to find that the SPC is required, but in violation of the Investment Company Act had failed, to obtain an order permitting it to register as an investment company, possible consequences include (without limitation) the following: (a) the SEC could seek an injunctive or administrative proceeding for disgorgement and/or monetary penalties and an order prohibiting the SPC from committing or causing future violations of the federal securities laws, (b) investors in the SPC could sue the SPC and recover damages caused by the violation and (c) any contract to which the SPC is a party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the SPC be subjected to any or all of the foregoing, the SPC might be materially and adversely affected.

If the SPC determines that an Investor in the Offered Notes that is a U.S. person (including any transferee of the Offered Notes (or beneficial interests therein)) was not a Qualified Purchaser at the time of its acquisition of the Offered Notes (or beneficial interests therein), or that any Investor in the Rule 144A Note was not a Qualified Purchaser at the time of its acquisition thereof (or of a beneficial interest therein), then the SPC will have the right, at its option, to require such person to dispose of the Offered Notes (or beneficial interests therein) to a Qualified Purchaser or a non-U.S. person immediately upon receipt of a notice from the SPC that such Investor was not a Qualified Purchaser at the time of its acquisition of the Offered Notes (or beneficial interests therein). See “Description of the Offered Notes and the Other Transaction Documents—Offered Notes and the Related Indenture Supplement—Investment Company Act Required Disposition.”

## FORWARD-LOOKING STATEMENTS

This Offering Circular may contain statements that constitute forward-looking statements. These statements appear in a number of places in this Offering Circular and include statements regarding the intent, belief or current expectations of Alfa-Bank and its officers with respect to (among other things) the financial condition of Alfa-Bank, the financial condition of the Guarantor, the volume and characteristics of the Diversified Payment Rights and/or the extent of Alfa-Bank’s relationships with Payors and Payees.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors. The information in this Offering Circular, including the information under “Risk Factors” and “Alfa-Bank’s Diversified Payment Rights Business,” identifies important factors that could cause such differences (including a change in overall economic conditions in Russia, a change in Alfa-Bank’s financial condition or its Payment Order business, a change in the Guarantor’s financial condition, the change in value of the Russian Ruble relative to the U.S. Dollar and/or other currencies and the effect of new legislation or government directives in Russia).

Moreover, no assurances can be given that any of the historical information, data, trends or practices mentioned and described in this Offering Circular are indicative of future results or events.

**NOTICE PURSUANT TO I.R.S. CIRCULAR 230**

THIS OFFERING CIRCULAR WAS NOT INTENDED OR WRITTEN BY THE SPC, ALFA-BANK, THEIR RESPECTIVE COUNSEL OR THE U.S. TAX COUNSEL TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THIS OFFERING CIRCULAR WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING BY THE SPC OF THE OFFERED NOTES. THIS OFFERING CIRCULAR IS LIMITED TO THE U.S. FEDERAL TAX ISSUES DESCRIBED HEREIN. IT IS POSSIBLE THAT ADDITIONAL ISSUES MAY EXIST THAT COULD AFFECT THE U.S. FEDERAL TAX TREATMENT OF AN INVESTMENT IN THE OFFERED NOTES, AND THIS DESCRIPTION DOES NOT CONSIDER OR PROVIDE ANY CONCLUSIONS WITH RESPECT TO ANY SUCH ADDITIONAL ISSUES. EACH TAXPAYER SHOULD SEEK ADVICE BASED UPON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR CONCERNING THE POTENTIAL TAX CONSEQUENCES OF AN INVESTMENT IN THE OFFERED NOTES.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF EACH PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF AN INVESTMENT IN THE OFFERED NOTES AND THE SPC AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. EXCEPT TO THE EXTENT THAT SUCH DISCLOSURE IS SUBJECT TO RESTRICTIONS REASONABLY NECESSARY TO COMPLY WITH SECURITIES LAWS, FOR THESE PURPOSES, THE TAX TREATMENT OF AN INVESTMENT IN THE OFFERED NOTES MEANS THE PURPORTED OR CLAIMED U.S. FEDERAL, STATE AND LOCAL INCOME TAX TREATMENT OF AN INVESTMENT IN THE OFFERED NOTES. MOREOVER, THE TAX STRUCTURE OF AN INVESTMENT IN THE OFFERED NOTES INCLUDES ANY FACT THAT MAY BE RELEVANT TO UNDERSTANDING THE PURPORTED OR CLAIMED U.S. FEDERAL, STATE AND LOCAL INCOME TAX TREATMENT OF AN INVESTMENT IN THE OFFERED NOTES.

## NOTICE TO U.S. INVESTORS

*Because of the following restrictions, Investors are advised to consult legal counsel before making any offer, resale, pledge or other transfer of the Offered Notes (or beneficial interests therein) offered hereby in reliance upon Rule 144A.*

Each Investor (and if such Investor is an insurance company general account, insurance company separate account, bank collective investment fund or investment fund managed by a qualified professional asset manager or an in-house asset manager, each fiduciary with respect to the assets used to acquire the Offered Notes (or beneficial interests therein)) in the U.S. Offering will be deemed to have represented and agreed as follows:

1. Such Investor (or if it is acting for the account of another person, such Investor has had confirmed to it in writing that such other person) understands and acknowledges that the Offered Notes (or beneficial interests therein) have not been and will not be registered under the Securities Act or any other applicable securities law and that the Offered Notes (or beneficial interests therein) are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A, and, unless so registered, may not be offered, sold, pledged or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities laws, pursuant to any exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.

2. Such Investor (or if it is acting for the account of another person, such Investor has had confirmed to it in writing that such other person) is not an “affiliate” (as defined in Rule 144 under the Securities Act) of Alfa-Bank or the SPC or acting on behalf of Alfa-Bank or the SPC, is a QIB and also is a Qualified Purchaser, is aware that any sale of the Offered Notes (or beneficial interests therein) to it will be made in reliance upon Rule 144A and represents that such acquisition will be for its own account or for the account of another QIB who is a Qualified Purchaser and also is aware that the sale to it is being made in reliance upon Rule 144A.

3. Such Investor (or if it is acting for the account of another person, such Investor has had confirmed to it in writing that such other person): (a) has had access to such financial and other information concerning the SPC, Alfa-Bank, the Guarantor, the Offered Notes and the Diversified Payment Rights as it has deemed necessary in connection with its decision to invest in the Offered Notes, including an opportunity to ask questions of and request information from Alfa-Bank and the SPC, (b) has not relied upon the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of the information in this Offering Circular or its investment decision and (c) acknowledges that no person has been authorized to give any information or make any representation other than those in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers or any affiliate or representative of any such person.

4. Such Investor agrees on its own behalf and on behalf of any investor account for which it is investing in the Offered Notes (or beneficial interests therein), and each subsequent Investor by its purchase or other acquisition of an Offered Note (or of beneficial interests therein) will be deemed to have agreed to offer sell, pledge or otherwise transfer such Offered Notes (or beneficial interests therein) before the date that is two years after the later of the date of original issue (*i.e.*, the Series 2006-A Borrowing Date) and the last date that the SPC or any affiliate thereof was the owner of such Offered Notes (or beneficial interests therein) (the “*Resale Restriction Termination Date*”) only (in each case, such transferee to be a non-U.S. person taking an interest in the Regulation S Note or a Qualified Purchaser): (a) to the SPC, (b) pursuant to a registration statement that has been declared effective under the Securities Act, (c) for so long as the Offered Notes are eligible for resale pursuant to Rule 144A, in a transaction meeting the requirements of Rule 144A, (d) pursuant to Rule 903 or 904 of Regulation S for offers and sales that occur outside the United States or (e) pursuant to another available exemption from the registration requirements of the Securities Act and other applicable securities laws, subject to the right of the SPC, Alfa-Bank and the Indenture Trustee, before any offer, sale or other transfer pursuant to clause (e), to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the SPC, Alfa-Bank and the Indenture Trustee. In addition, any such transfers must otherwise be in accordance with any applicable securities laws of any state or other jurisdiction of the United States, Russia, Luxembourg or any other jurisdiction. Each Investor acknowledges that the

SPC, Alfa-Bank and the Indenture Trustee reserve the right, before any offer, sale or other transfer of the Offered Notes (or beneficial interests therein) pursuant to clause (e) before the Resale Restriction Termination Date, to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the SPC, Alfa-Bank and the Indenture Trustee. Such Investor acknowledges that the Offered Notes held by it (or with respect to which it has a beneficial interest) will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “*SECURITIES ACT*”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA, THE RUSSIAN FEDERATION, LUXEMBOURG OR ANY OTHER JURISDICTION. THE HOLDER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) AGREES TO OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) BEFORE THE DATE (THE “*RESALE RESTRICTION TERMINATION DATE*”) THAT IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH ALFA DIVERSIFIED PAYMENT RIGHTS FINANCE COMPANY S.A. (THE “*SPC*”) OR ANY AFFILIATE THEREOF WAS THE OWNER OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN), ONLY: (a) TO THE SPC, (b) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (c) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A (“*RULE 144A*”) UNDER THE SECURITIES ACT, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (d) PURSUANT TO RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT FOR OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES OR (e) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS, SUBJECT TO THE RIGHT OF THE SPC, OPEN JOINT-STOCK COMPANY “ALFA-BANK” (THE “*BANK*”) AND JPMORGAN CHASE BANK, N.A., AS INDENTURE TRUSTEE (THE “*INDENTURE TRUSTEE*”), BEFORE ANY OFFER, SALE OR OTHER TRANSFER PURSUANT TO CLAUSE (e), TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE SPC, THE BANK AND THE INDENTURE TRUSTEE. IN ADDITION, ANY SUCH TRANSFERS MUST OTHERWISE BE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA, THE RUSSIAN FEDERATION, LUXEMBOURG OR ANY OTHER JURISDICTION.

ANY HOLDER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) IS REQUIRED TO BE A “QUALIFIED PURCHASER” (WITHIN THE MEANING OF SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED) AT THE TIME OF ITS ACQUISITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) AND BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) IS DEEMED TO HAVE REPRESENTED THAT IT IS SUCH A QUALIFIED PURCHASER AT THE TIME OF SUCH ACQUISITION. IF THE SPC DETERMINES THAT A HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) WAS NOT A QUALIFIED PURCHASER AT THE TIME OF ITS ACQUISITION OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN), THEN THE SPC WILL HAVE THE RIGHT, AT ITS OPTION, TO REQUIRE SUCH PERSON TO DISPOSE OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) TO A PERSON OR ENTITY THAT IS QUALIFIED TO HOLD THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) (OR, IF SUCH TRANSFEREE TAKES SUCH INTEREST IN THE REGULATIONS NOTE, TO A NON-U.S. PERSON) IMMEDIATELY UPON RECEIPT OF A NOTICE FROM THE SPC THAT SUCH HOLDER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) WAS NOT A QUALIFIED PURCHASER AT THE TIME OF ITS ACQUISITION OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN). ANY TRANSFER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE NULL AND VOID AB INITIO ABSENT DELIVERY TO THE INDENTURE TRUSTEE OF A QUALIFIED PURCHASER CERTIFICATE IN THE MANNER REQUIRED BY THE INDENTURE SUPPLEMENT.

EACH DIRECT OR INDIRECT HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN), IS DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER: (a) IT IS NOT AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO TITLE I OF ERISA, OR A “PLAN” AS DEFINED IN SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY FOREIGN, FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND PROHIBITED TRANSACTION PROVISIONS OF ERISA OR THE CODE, OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING, OR (b) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA, SECTION 4975 OF THE CODE OR ANY SUBSTANTIALLY SIMILAR APPLICABLE LAW.

5. One or more of the following is true as to all of the funds to be used by such Investor to acquire each Offered Note (or a beneficial interest therein): (a) either: (i) such funds do not constitute the assets of any “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), that is subject to Title I of ERISA, any “plan” as defined in to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the “Code”), or any entity whose underlying assets include “plan assets” of any of the foregoing, or a governmental, church or non-U.S. plan or other plan subject to any foreign, federal, state or local law that is substantially similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code, or (ii) the acquisition, holding and disposition of such Offered Note (or a beneficial interest therein) does not and will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or any substantially similar applicable law), and (b) it agrees not to sell or otherwise transfer any interest in the Offered Notes otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase, holding and disposition of such Offered Notes.

6. Such Investor understands that the Offered Notes offered in reliance upon Rule 144A will be represented by the Rule 144A Note. Before any interest in the Rule 144A Note may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Note, it will be required to provide a transfer agent with a written certification as to compliance with applicable securities law.

7. If such Investor is acquiring an Offered Note (or a beneficial interest therein) as a fiduciary or agent for one or more investor account(s), then it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

8. Such Investor acknowledges that Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by it by virtue of its purchase of an Offered Note (or a beneficial interest therein) is no longer accurate, then it shall promptly so notify Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee and the Initial Purchasers in writing.

## NOTICE TO INVESTORS IN THE INTERNATIONAL OFFERING

*Because of the following restrictions, Investors are advised to consult legal counsel before making any offer, resale, pledge or other transfer of the Offered Notes (or beneficial interests therein) offered hereby in reliance upon Regulation S.*

Each Investor (and if such Investor is an insurance company general account, insurance company separate account, bank collective investment fund or investment fund managed by a qualified professional asset manager or an in-house asset manager, each fiduciary with respect to the assets used to acquire the Offered Notes (or beneficial interests therein)) in the International Offering will be deemed to have represented and agreed as follows:

1. Such Investor (or if it is acting for the account of another person, such Investor has had confirmed to it in writing that such other person) understands and acknowledges that the Offered Notes (or beneficial interests therein) have not been and will not be registered under the Securities Act and if, before the expiration of the date that is 40 days after the closing date of this Offering, such Investor decides to reoffer, resell, pledge or otherwise transfer such Offered Notes (or beneficial interests therein), then such Offered Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only: (a) to the SPC, (b) pursuant to a registration statement that has been declared effective under the Securities Act, (c) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (d) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act or (e) pursuant to another available exemption from the registration requirements under the Securities Act and other applicable securities laws; *provided* that no such offer, sale, pledge or other transfer made prior to the date 40 days after the date hereof shall be made to a U.S. person or for the account or benefit of a U.S. person (other than a distributor). In addition, any such transfers must otherwise be in accordance with any applicable securities laws of any state or other jurisdiction of the United States of America, the Russian Federation and any other applicable jurisdiction. Furthermore, the Investor understands and acknowledges that: (i) the SPC has not been and will not be registered under the Investment Company Act and (ii) any transferee of an Offered Note (or a beneficial interest therein) that is a U.S. person is required to be a Qualified Purchaser at the time of its acquisition of such Offered Note (or beneficial interest).

2. Such Investor (or if it is acting for the account of another person, such Investor has had confirmed to it in writing that such other person): (a) has had access to such financial and other information concerning the SPC, Alfa-Bank, the Guarantor, the Offered Notes and the Diversified Payment Rights as it has deemed necessary in connection with its decision to invest in the Offered Notes, including an opportunity to ask questions of and request information from Alfa-Bank and the SPC, (b) has not relied upon the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of the information in this Offering Circular or its investment decision and (c) acknowledges that no person has been authorized to give any information or make any representation other than those in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers or any affiliate or representative of any such person.

3. Such Investor acknowledges that the Offered Notes held by it (or with respect to which it has a beneficial interest) will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA, THE RUSSIAN FEDERATION, LUXEMBOURG OR ANY OTHER JURISDICTION. THE HOLDER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN), ACKNOWLEDGES THAT THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES THAT THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES OF AMERICA GOVERNING THE OFFER AND SALE OF SECURITIES ONLY: (a) TO THE SPC, (b) PURSUANT TO A

REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (c) TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE, (d) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS; PROVIDED THAT NO SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER MADE PRIOR TO THE DATE 40 DAYS AFTER THE DATE HEREOF SHALL BE MADE TO A U.S. PERSON OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON (OTHER THAN A DISTRIBUTOR). IN ADDITION, ANY SUCH TRANSFERS MUST OTHERWISE BE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA, THE RUSSIAN FEDERATION AND ANY OTHER APPLICABLE JURISDICTION.

ANY TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT IS A U.S. PERSON AT THE TIME OF ITS ACQUISITION HEREOF (OR A BENEFICIAL INTEREST HEREIN) IS REQUIRED TO BE A “QUALIFIED PURCHASER” (WITHIN THE MEANING OF SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED) AND BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) IS DEEMED TO HAVE REPRESENTED THAT IT IS SUCH A QUALIFIED PURCHASER AT THE TIME OF SUCH ACQUISITION. IF THE SPC DETERMINES THAT A HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) WAS A U.S. PERSON BUT NOT A QUALIFIED PURCHASER AT THE TIME OF ITS ACQUISITION OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN), THEN THE SPC WILL HAVE THE RIGHT, AT ITS OPTION, TO REQUIRE SUCH PERSON TO DISPOSE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) TO A PERSON OR ENTITY THAT IS A NON-U.S. PERSON OR A QUALIFIED PURCHASER IMMEDIATELY AFTER RECEIPT OF A NOTICE FROM THE SPC THAT SUCH HOLDER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) WAS NEITHER A NON-U.S. PERSON NOR A QUALIFIED PURCHASER AT THE TIME OF ITS ACQUISITION OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN). ANY TRANSFER HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE NULL AND VOID AB INITIO ABSENT DELIVERY TO THE INDENTURE TRUSTEE OF A QUALIFIED PURCHASER CERTIFICATE IN THE MANNER REQUIRED BY THE INDENTURE SUPPLEMENT.

EACH DIRECT OR INDIRECT HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN), IS DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER: (a) IT IS NOT AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO TITLE I OF ERISA, OR A “PLAN” AS DEFINED IN SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY FOREIGN, FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND PROHIBITED TRANSACTION PROVISIONS OF ERISA OR THE CODE, OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING, OR (b) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA, SECTION 4975 OF THE CODE OR ANY SUBSTANTIALLY SIMILAR APPLICABLE LAW.

4. One or more of the following is true as to all of the funds to be used by such Investor to acquire each Offered Note (or a beneficial interest therein): (a) either: (i) such funds do not constitute the assets of any “employee benefit plan” as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, any “plan” or other arrangement as defined in Section 4975 of the Code or any entity whose underlying assets include “plan assets” of any of the foregoing, or a governmental, church or non-U.S. plan or other plan subject to any foreign, federal, state



or local law that is substantially similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code, or (ii) the acquisition, holding and disposition of such Offered Note (or a beneficial interest therein) does not and will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or any substantially similar applicable law), and (b) it agrees not to sell or otherwise transfer any interest in the Offered Notes otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase, holding and disposition of such Offered Notes.

5. Such Investor understands that the Offered Notes offered in reliance upon Regulation S will be represented by the Regulation S Note. Before any interest in the Regulation S Note may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Note, it will be required to provide a transfer agent with a written certification as to compliance with applicable securities law.

6. If such Investor is acquiring an Offered Note (or a beneficial interest therein) as a fiduciary or agent for one or more investor account(s), then it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

7. Such Investor acknowledges that Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by it by virtue of its purchase of an Offered Note (or a beneficial interest therein) is no longer accurate, then it shall promptly so notify Alfa-Bank, the Guarantor, the SPC, the Indenture Trustee and the Initial Purchasers in writing.

## FINANCIAL INFORMATION

The Guarantor, the holding company of the Alfa Banking Group (the Guarantor, together with its subsidiaries, the “*Alfa Banking Group*”), maintains its books of accounts and prepares its financial statements in U.S. Dollars in accordance with International Financial Reporting Standards (“*IFRS*”). The consolidated financial statements of the Guarantor include Alfa-Bank. Russian subsidiaries of the Guarantor, including Alfa-Bank, maintain their books of accounts and prepare their financial statements in Russian Rubles in accordance with Russian Accounting Rules (“*RAR*”), and non-Russian subsidiaries of the Guarantor maintain their books and accounts in accordance with any local applicable accounting requirements. Only the consolidated financial statements of Alfa-Bank’s parent, the Guarantor, are included in this Offering Circular as it is the guarantor of Alfa-Bank’s payment obligations to the SPC under the Transaction Documents. With respect to RAR financial statements, including those of Alfa-Bank, it should be noted that these financial statements differ from IFRS in certain significant respects.

Though the Guarantor is not required to prepare financial statements in accordance with IFRS, including International Accounting Standards (“*IAS*”) as promulgated by the International Accounting Standards Board (“*IASB*”) and interpretations issued by the Standards Interpretations Committee of the IASB, the consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 of the Guarantor included herein (the “*Annual Financial Statements*”) and interim consolidated financial statements (the “*Interim Financial Statements*”) for the six-months ended June 30, 2004 and 2005 have been prepared and presented in accordance with IFRS. IFRS differs in certain respects from U.S. generally accepted accounting principles (“*U.S. GAAP*”). For a description of highlights of certain differences between IFRS and U.S. GAAP, see “Accounting Practices” set forth in [Appendix B](#). The Annual Financial Statements and the Interim Financial Statements have been audited by ZAO PricewaterhouseCoopers Audit (the “*Auditor*”) (see the Auditor’s reports dated April 20, 2004, April 8, 2005 and October 6, 2005 in [Appendix A](#)). Unless otherwise indicated, the financial information presented herein is based upon the Annual Financial Statements and Interim Financial Statements attached hereto.

Unless otherwise indicated, references to “*US\$*,” “*\$*,” “*U.S. Dollars*” or “*Dollars*” in this Offering Circular are to United States Dollars. Unless otherwise indicated, references to “*Euro*” or “*€*” are to the single currency of the participating member states of the European Community that was adopted pursuant to the Treaty of Rome of March 27, 1957, as amended by the Single European Act 1986 and the Treaty of European Union of February 7, 1992, as amended. Certain financial information herein may be rounded. Unless otherwise indicated, references to “*RUR*” are to the single currency of the Russian Federation.

For the convenience of the reader, this Offering Circular presents translations of certain Russian Ruble amounts into Dollars at the Russian Ruble exchange rate as announced by the Central Bank of Russia (the “*Central Bank*”) (such exchange rate, the “*RUR/\$ Exchange Rate*”). No representation is made that the Russian Ruble or Dollar amounts in this Offering Circular could have been or could be converted into Dollars or Russian Rubles, as the case may be, at any particular rate or at all. For a discussion of the effects on Alfa-Bank of fluctuating exchange rates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

## ENFORCEMENT OF JUDGMENTS AND ARBITRAL AWARDS AND SERVICE OF PROCESS

Alfa-Bank is an open joint-stock company organized under the laws of Russia. All of the directors and officers of Alfa-Bank named herein reside in Russia and all or a significant portion of the assets of such persons may be, and a significant portion of the assets of Alfa-Bank are, located in Russia. Unless Alfa-Bank has appointed a process agent in the United States, it may not be possible for investors to effect service of process upon such persons or Alfa-Bank outside Russia. It may also not be possible for investors to enforce against such persons or Alfa-Bank in the courts of jurisdictions other than Russia any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. Russian courts are very unlikely to enforce judgments obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia or a federal law providing for reciprocal recognition and enforcement of court judgments. Even if there is such a treaty, Russian courts may nonetheless refuse to recognize and/or enforce a foreign court judgment on the grounds provided in the treaty and in Russian legislation in effect on the date on which such recognition and enforcement is

sought. Furthermore, Russian legislation may be changed by way of adopting new grounds for preventing foreign court judgments from being recognized and enforced in Russia.

The Guarantor is a holding company organized under the laws of the British Virgin Islands. All of the officers and directors of the Guarantor named herein reside in Luxembourg and Gibraltar and all or a substantial portion of the assets of such persons may be, and substantially all of the assets of the Guarantor are, located in the Russian Federation. As a result, it may not be possible for investors to effect service of process outside the British Virgin Islands upon the Guarantor or such persons. The Guarantor has been advised by its British Virgin Islands legal advisers, Harney Westwood & Riegels, that any final and conclusive monetary judgment for a definite sum obtained against the Guarantor in the courts of the United States in respect of the Offered Notes would be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary; *provided that*:

- (a) the courts of the United States had jurisdiction in the matter and the Guarantor either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process,
- (b) the judgment given by the courts of the United States was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the Guarantor,
- (c) in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the courts of the United States,
- (d) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy, and
- (e) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

A British Virgin Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

In connection with the issuance of Offered Notes, Alfa-Bank and the Guarantor will designate Alfa Capital Markets Incorporated as their agent upon whom process may be served in connection with any proceedings in New York, New York, and the SPC will appoint National Registered Agents, Inc. as its agent upon whom process may be served in connection with any proceedings in New York.

The Loan Agreement, the Loan Supplements, the Indenture, the Indenture Supplements and the Pledge Agreement will be governed by the laws of the State of New York and will provide for disputes, controversies and causes of action brought by any party thereto against Alfa-Bank to be settled by the arbitration in accordance with the International Arbitration Rules of the American Arbitration Association. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “*New York Convention*”). Therefore, arbitration awards obtained in the United States in relation to these Transaction Documents would be recognised and enforced against Alfa-Bank in the Russian Federation in accordance with the terms of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and political resistance to the enforcement of awards against Russian companies in favor of foreign investors.

#### **AVAILABLE INFORMATION**

Each of Alfa-Bank and the SPC will furnish, upon the request of any registered owner of an Offered Note (a “*Series 2006-A Noteholder*”) or beneficial owner of an Offered Note (a “*Series 2006-A Note Owner*”) such information as is specified in paragraph (d)(4) of Rule 144A: (a) to such Series 2006-A Noteholder or Series 2006-A Note Owner, (b) to a prospective purchaser of such Offered Note (or beneficial interest therein) who is a QIB designated by such Series 2006-A Noteholder or Series 2006-A Note Owner or (c) to the Indenture Trustee for delivery to such Series 2006-A Noteholder, Series 2006-A Note Owner or such prospective purchaser so designated, in each case in order to permit compliance by such Series 2006-A Noteholder or Series 2006-A Note Owner with

Rule 144A in connection with the resale of such Offered Note (or a beneficial interest therein) in reliance upon Rule 144A unless, at the time of such request, Alfa-Bank or the SPC, as applicable, is subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish to the SEC certain information pursuant to Rule 12g3-2(b) under the Exchange Act); *it being understood* that, except to the extent that Alfa-Bank prepares and discloses publicly its own financial statements: (i) any financial statements relating to Alfa-Bank may be included on a consolidated basis with the Guarantor, (ii) the Guarantor may not be required by the requirements of its home country and/or principal trading markets to deliver quarterly financial statements and (iii) so long as Alfa-Bank is in compliance with clause (g) of “Summary of Terms—Covenants of Alfa-Bank” below, Alfa-Bank and the Guarantor need not provide any financial information that is not required by the requirements of their respective home country and/or principal trading markets to be publicly disclosed; *it being further understood* that the SPC does not prepare any financial statements and thus need not deliver financial statements pursuant to Rule 144A(d)(4). For so long as the Offered Notes are outstanding, any information that is provided will be available upon request at the SPC’s or Alfa-Bank’s (as applicable) specified offices.

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## SUMMARY

*The following summary should be read in conjunction with, and is qualified in its entirety by, the detailed information and the financial statements and notes thereto appearing elsewhere in this Offering Circular. Prospective Investors should see “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Offered Notes. Reference is made to the Index of Defined Terms for the location of the definitions of certain capitalized terms.*

### **Business Overview**

Established in 1990, Alfa-Bank, indirectly through a chain of holding companies, is a wholly-owned subsidiary of the Guarantor, the holding/parent company of the Alfa Banking Group. The Alfa Banking Group is one of the leading banking groups in the Russian Federation. The Alfa Banking Group offers a wide range of banking services including corporate and retail lending, deposit, payment and account services, foreign exchange operations, cash handling services, investment banking services and other ancillary services to corporate and retail customers.

As detailed further in “Description of the Alfa Banking Group” herein, the Alfa Banking Group’s business is comprised of three main segments:

- (a) Corporate banking: comprises corporate lending, corporate deposit services, trade finance operations, structured corporate lending, corporate finance advisory services and leasing services;
- (b) Retail banking: comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal installment loans and auto loans, money transfers and private banking services; and
- (c) Investment banking: comprises securities trading, debt and equity capital markets services and derivative products.

The Alfa Banking Group carries out its corporate and retail banking activities principally through Alfa-Bank and its subsidiaries. Alfa-Bank, which is headquartered in Moscow, is the most significant asset of the Alfa Banking Group. The Alfa Banking Group carries out its investment banking activities principally through Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. As of December 31, 2005, the Alfa Banking Group had approximately 120 offices (including subsidiary branches, regional branches and outlets) throughout Moscow, St. Petersburg and other cities in Russia and the CIS. The Alfa Banking Group also operates through subsidiaries in Ukraine, Kazakhstan, The Netherlands, Cyprus, the United States and the United Kingdom.

As of June 30, 2005, the Alfa Banking Group had total assets of US\$8,150.9 million and total equity of US\$776.1 million. For the year ended December 31, 2004, the Alfa Banking Group generated operating income (net interest income, after the provision for loan impairment, plus other income) of US\$521.8 million and had a net profit of US\$152.8 million. For the six months ended June 30, 2005, the Alfa Banking Group generated operating income of US\$269.2 million and had a net profit of US\$87.3 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more extensive financial information and analysis on the Alfa Banking Group.

According to the Central Bank, as of December 1, 2005, Alfa-Bank: (a) was Russia’s fifth largest bank in terms of assets, (b) was the sixth largest in terms of shareholders’ equity, (c) was the twelfth largest in terms of number of branches and (d) had the sixth largest share (2.77%) of the Russian retail banking market, as measured by demand deposit accounts, behind Sberbank, Raiffeisenbank, Vneshtorgbank, Gazprombank and Citibank.

Alfa-Bank is registered with the Central Bank under No. 1326 and with the Moscow Registration Chamber under No. 001.937. Alfa-Bank’s registered office is 27 Kalanchyovskaya Str., Moscow 107078, Russian Federation. Alfa-Bank operates in all sectors of the Russian financial markets and is regulated and supervised by the Central

Bank. Since 1991, Alfa-Bank has been registered in Russia to carry out banking and foreign exchange activities under a general Central Bank banking license and obtained a license to deal in precious metals in 1994.

### **Strategy**

The Alfa Banking Group's strategic objective with respect to its banking activities is to develop further its universal banking operations and thereby enhance its profitability. To achieve this goal, the Alfa Banking Group has developed a strategy focusing on the following key initiatives:

- Focus on developing its retail banking business
- Increased focus on consumer finance
- Increased focus on medium-sized clients
- Expansion of investment banking operations
- Improving the Alfa Banking Group's funding base
- Attracting and retaining high caliber staff

### **Competitive Strengths**

Alfa-Bank believes that it has a number of competitive advantages over other banks operating in Russia, namely:

- Strong franchise and brand recognition
- Strong management team and advanced systems
- Established relationships with leading Russian companies
- International experience and reputation
- Strong shareholder commitment to support the bank

### **Credit Ratings**

Alfa-Bank has a long-term foreign and local currency counterparty credit and certificate of deposit rating of "BB-" and a short-term foreign and local currency counterparty credit and certificate of deposit rating of "B" from S&P, a bank foreign currency deposit rating of "Ba2/NP" and a bank financial strength rating of "D-" from Moody's.



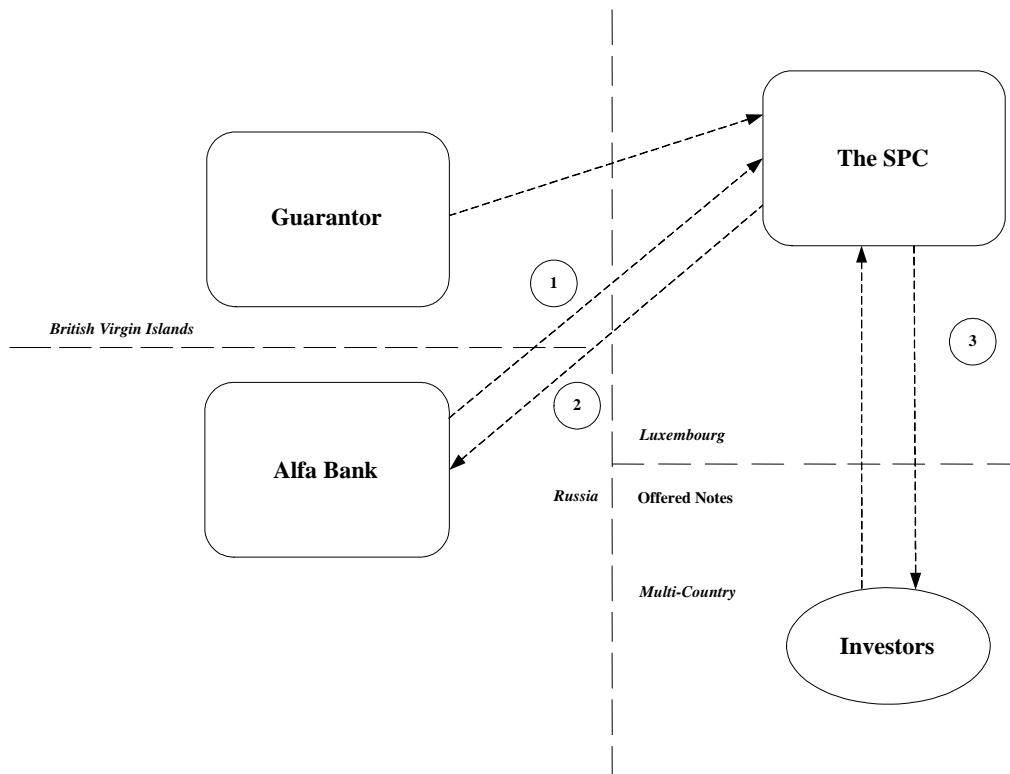
## DIAGRAMS OF THE TRANSACTION

The diagrams on the following pages illustrate (in simplified form) the structure of the transactions effected by the Transaction Documents. Of particular note, the diagrams reflect how Collections on the Diversified Payment Rights will be paid into the Concentration Accounts for application to payment from Alfa-Bank to the SPC (the proceeds of which payment will be used by the SPC to make payments to Note Secured Parties). A more detailed description of the transactions effected by the Transaction Documents and the Diversified Payment Rights is found in “Summary of Terms” and “Alfa-Bank’s Diversified Payment Rights Business.” Potential Investors are advised to review such sections in order to understand more fully the characteristics of the transactions effected by the Transaction Documents and the Diversified Payment Rights.

### *Transaction Structure*

The transaction contemplates: (1) a pledge by Alfa-Bank of all of its right, title and interest in, to and under the Diversified Payment Rights and other Loan Collateral to the SPC, (2) loans to Alfa-Bank by the SPC secured by the pledge over the Diversified Payment Rights and other Loan Collateral and guaranteed (along with Alfa-Bank’s payment obligations under all other Transaction Documents) by the Guarantor and (3) issuance of the Notes by the SPC, the gross proceeds of which will be used to make the loans to Alfa-Bank. Alfa-Bank retains all of its obligations to make applicable payments to the respective Payees of the Payment Orders.

### Pledge of Diversified Payment Rights & Secured Loan



Pursuant to the Pledge Agreement, Alfa-Bank will pledge to the SPC all of its current and future Diversified Payment Rights and the other Loan Collateral as collateral for the Loans (including the Series 2006-A Loan made by the SPC with the proceeds of the offering of the Offered Notes) made under the Loan Agreement and the Loan Supplements. The Loan Agreement, the Loan Supplements and the Pledge Agreement will be governed by New York law. See “Description of the Offered Notes and the Other Transaction Documents—Loan Agreement” and “Description of the Offered Notes and the Other Transaction Documents—Pledge Agreement.”

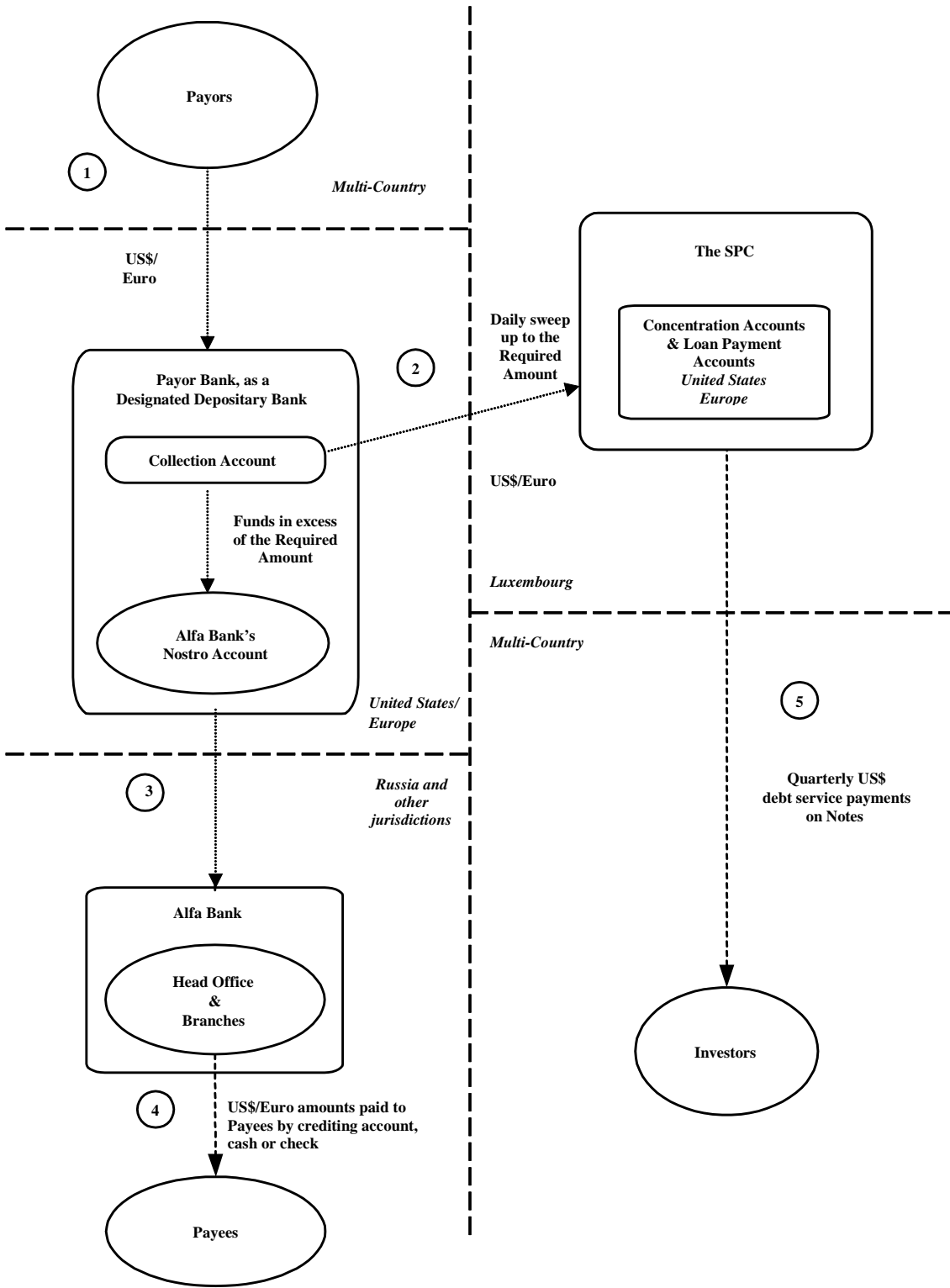
Pursuant to the Indenture and the Series 2006-A Indenture Supplement, the SPC will issue the Offered Notes to Investors. See “Description of the Offered Notes and the Other Transaction Documents—Indenture.”

*Diversified Payment Rights and Cash Flow*

Pursuant to the Account Agreements, Collections in respect of the Diversified Payments Rights will be transferred by the Designated Depository Banks to the Concentration Accounts until such time as the amount collectively on deposit therein, in the Deposit Account and in the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of “Summary of Terms—Allocation of Amounts in the Concentration Accounts” below) is equal to the Required Amount for the next Payment Date. See “Summary of Terms—Concentration Accounts.” Thereafter, unless an Early Amortization Period for any Loan exists (in which case, a portion of excess Collections in the Concentration Accounts will be transferred to the applicable Loan Payment Account until such time as there are sufficient funds in such Loan Payment Account to pay such Series in full), any Collections received for the remainder of the Interest Period will be released to Alfa-Bank.

Below is a diagram that illustrates the expected flow of Collections through the Collection Accounts at the Designated Depository Banks into the Concentration Accounts or Alfa-Bank’s nostro accounts maintained at each Designated Depository Bank, as the case may be:

**Diversified Payment Rights Cash Flow**



- (1) In the normal course of business, companies and other Payors primarily outside of Russia initiate transactions for the payment of amounts to Payees primarily in Russia through Alfa-Bank, thereby generating Payment Orders. See “Alfa-Bank’s Diversified Payment Rights Business—The Diversified Payment Rights.”
- (2) Collections on the Diversified Payment Rights received from a Payor Bank that is a Designated Depository Bank will be deposited into the Collection Account at such Designated Depository Bank. Starting on the first day of each Interest Period, amounts on deposit in the Collection Accounts will be transferred to the applicable Concentration Accounts on each business day until the Required Amount for the next Payment Date has been accumulated therein (and/or in the Deposit Account and/or in the Loan Payment Accounts and/or already sent to the SPC pursuant to clause (xiv) of “Summary of Terms—Allocation of Amounts in the Concentration Accounts” below). See “Summary of Terms—Concentration Accounts.” On each Business Day, the Indenture Trustee will allocate the amounts in the Concentration Accounts towards the future payment of the various components of the Required Amount, including depositing the appropriate amounts payable in respect of each Series (including the Offered Notes) into the applicable Loan Payment Accounts. See “Summary of Terms—Allocation of Amounts in the Concentration Accounts.” In the alternative, if sufficient funds are on deposit in the Deposit Account, then this process may be bypassed in the manner described in “Summary of Terms—Deposit by Alfa-Bank.”
- (3) Collections that are not required to be transferred to the Concentration Accounts (as described above in paragraph (2)) will be released to Alfa-Bank. See “Summary of Terms—Allocation of Amounts in the Concentration Accounts.”
- (4) Alfa-Bank, from its own funds, will pay to the respective Payee an amount equal to the Russian Ruble-equivalent or Dollar/Euro amount of the applicable Payment Order (less any commission or fee retained by Alfa-Bank). See “Summary of Terms—Covenants of Alfa-Bank.”
- (5) On each Payment Date (or Early Amortization Payment Date, if applicable), amounts on deposit in the Concentration Accounts and the Loan Payment Accounts will be applied to the payment by Alfa-Bank to the SPC of principal, Interest and other payments due with respect to each Loan (the proceeds of which payments will be used by the SPC to make payments due with respect to each Series, including the Offered Notes). See “Summary of Terms—Allocation of Amounts in the Concentration Accounts” and “Summary of Terms—Distribution of Amounts in the Loan Payment Accounts.”

## SUMMARY OF TERMS

The following summary should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Offering Circular. Prospective Investors in the Offered Notes should see “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Offered Notes.

**Securities Offered** ..... US\$350,000,000 of Series 2006-A Notes (*i.e.*, the Offered Notes). The Offered Notes will be issued by Alfa Diversified Payment Rights Finance Company S.A., a *société anonyme* incorporated under the laws of Luxembourg (*i.e.*, the SPC). The Offered Notes will not be obligations of, or guaranteed by, Alfa-Bank and the Guarantor.

The Offered Notes will be issued in the initial aggregate principal amount specified above, and any other Series will be issued in an initial aggregate principal amount specified in the applicable Indenture Supplement.

**Denominations** ..... The Offered Notes (or beneficial interests therein) will be offered for purchase in minimum authorized denominations of US\$250,000 and integral multiples of US\$1,000 in excess thereof. Each other Series will be issued in the denominations specified in the applicable Indenture Supplement.

**Originator of the Diversified Payment Rights** ..... Open Joint-Stock Company “Alfa-Bank” (*i.e.*, Alfa-Bank).

**Guarantor** ..... ABH Financial Limited, a company organized, registered and existing under the laws of the British Virgin Islands (*i.e.*, the Guarantor). The Guarantor is the indirect parent of Alfa-Bank.

**Loan Agreement** ..... Pursuant to an agreement, to be dated as of March 30, 2006 (the “*Closing Date*”), among Alfa-Bank, the Guarantor and the SPC (the “*Loan Agreement*”): (a) the SPC will use the gross proceeds from the issuance of the initial Series issued on the Closing Date (*i.e.*, the Offered Notes) (the “*Series 2006-A Loan*” or the “*Initial Loan*”) and later issuances of other Series (each an “*Additional Loan*” and, with the Series 2006-A Loan, the “*Loans*”) to make loans to Alfa-Bank (the initial principal amount of each such Loan, its “*Initial Loan Balance*”) and (b) except to the extent provided otherwise with respect to any Loan in the applicable Loan Supplement, the Guarantor will guaranty each Loan and all of Alfa-Bank’s other payment obligations under the Transaction Documents (the “*Guaranty*”). Collections freely available in the Concentration Accounts and/or the Loan Payment Accounts at the time of any payment by the SPC to the Note Secured Parties under the Transaction Documents will be considered to have been paid by Alfa-Bank to the SPC as a payment under the Transaction Documents (whether for payments of Interest, Additional Interest, Quarterly Amortization Amounts or otherwise) and the proceeds of such payments will be applied by the Indenture Trustee to the SPC’s payment obligations described in “—Allocation of Amounts in the Concentration Accounts” and “—Distribution of Amounts in the Loan Payment Accounts” below; *it being understood* that any amounts transferred to the Concentration Accounts from the Deposit Account will (as described in “—Deposit by Alfa-Bank” below) already be the proceeds of a payment by Alfa-Bank to the SPC.

In connection with the making of each Loan under the Loan Agreement, the parties to the Loan Agreement will enter into a supplement thereto (for each Loan, its "*Loan Supplement*") containing the Early Amortization Events, Loan Interest Rate, Additional Interest Rate, Maturity Date, Quarterly Amortization Amounts and certain other applicable terms of such Loan.

Pursuant to the Loan Agreement, Alfa-Bank will also: (a) acknowledge its pledge to the SPC of all of the Diversified Payment Rights then existing on the Closing Date or thereafter created through and including the date on which all payment obligations of the SPC, Alfa-Bank and the Guarantor under the Transaction Documents have been paid in full (including, if applicable, from any Default Payment and any payment of a Prepayment Amount made in connection with Alfa-Bank's prepayment of a Loan in full (see "*—Optional Prepayment*" below)) (the "*Pledge Termination Date*"), such pledge being effected by the execution and delivery of a pledge agreement (the "*Pledge Agreement*"), dated as of the Closing Date, among Alfa-Bank, the SPC and the Indenture Trustee, and (b) agree to make any and all payments in respect of an optional prepayment of a Loan (see "*—Optional Prepayment*" below), Defaults (see "*—Defaults*" below), certain costs and expenses and indemnities.

***Pledge Agreement*** ..... Pursuant to the Pledge Agreement, Alfa-Bank will grant a pledge to the SPC of all of Alfa-Bank's right, title and interest (if any) in, to and under the following (collectively, the "*Loan Collateral*"):

- (a) all of the Diversified Payment Rights, whether existing on the Closing Date or thereafter generated, and all Collections in respect thereof,
- (b) the Deposit Account, the Collection Accounts, the Concentration Accounts and, with respect to each Loan, the Loan Payment Account corresponding thereto, in each case including all amounts credited thereto or carried therein, any and all investments made with funds therein, any and all investment property and other financial assets credited thereto or carried therein and any and all security entitlements with respect to such financial assets, and
- (c) all proceeds, substitutions and replacements of any of the foregoing, including all accounts, instruments, chattel paper, general intangibles, investment property, goods, documents, letter-of-credit rights and money relating to or arising out of, or that are proceeds of, the collateral described above.

Interest, Additional Interest and principal payments on each Loan are primarily expected to be funded from the Collections and payments of any Default Payment or Prepayment Amount therefor, and will be paid to the SPC (or to the Indenture Trustee for the benefit of the SPC) on each Payment Date (or, if applicable, Early Amortization Payment Date or Prepayment Date) as provided in the Transaction Documents. Should the Collections be insufficient for Alfa-Bank to make any payment to the SPC under the Transaction Documents, then Alfa-Bank will pay to the Indenture Trustee (for the benefit of the SPC) an amount

equal to such shortfall by no later than the date on which such amounts are due.

Alfa-Bank's obligations with respect to the Transaction Documents will be secured solely by its grant to the SPC of a pledge of the Loan Collateral pursuant to the Pledge Agreement but will also be covered by the Guaranty from the Guarantor. In order to secure its obligations to the Note Secured Parties under the Notes and other Transaction Documents, the SPC will grant to the Indenture Trustee (for the benefit of the Note Secured Parties) a lien on its rights in, to and under the Pledge Agreement.

Notwithstanding anything herein to the contrary, the SPC (and, thus, the Indenture Trustee) might not have a security interest in any Collections that are deposited into an account that is not subject to an Account Agreement to the extent that such Collections are not identifiable cash proceeds of Diversified Payment Rights pursuant to the applicable Uniform Commercial Code (or similar law) and, in any event, will likely not have a perfected security interest in such account and Collections; *it being understood* that the fact that such Collections have been deposited into an account not subject to an Account Agreement (which account may include items other than Collections) will not be considered to be a breach of any representation or covenant or a Default or Early Amortization Event, as applicable, unless: (a) Alfa-Bank or the SPC, as applicable, has: (i) taken any action to make such Collections non-identifiable, (ii) negligently omitted to take any reasonable action that would make such Collections identifiable or (iii) caused or allowed such Collections to be so deposited in violation of any of its representations or covenants in the Transaction Documents or (b) any person other than the SPC or the Indenture Trustee has a lien of any kind thereon other than any right of set-off or similar banker's lien held by the Depository Bank at which such account is maintained.

"Collections" means the payments or other proceeds received by (or on behalf of) Alfa-Bank (whether through deposit into a Collection Account or otherwise) in respect of the Diversified Payment Rights.

**Issuer** ..... The SPC will be neither owned nor controlled by the Initial Purchasers, Alfa-Bank, the Guarantor or any of their respective affiliates. The business of the SPC will be limited to:

- (a) the issuance and sale of the Offered Notes and other notes (collectively, with the Offered Notes, the "Notes") pursuant to an indenture, to be dated as of the Closing Date (the "Indenture"), between the SPC and the Indenture Trustee, and supplements issued under the Indenture in connection with each issuance of a Series, including the supplement for the Offered Notes (together with the indenture supplements for other Series, the "Indenture Supplements"), and to secure its obligations to the Note Secured Parties under the Transaction Documents by its pledge of the Note Collateral,
- (b) making the Loans to Alfa-Bank,
- (c) the use of payments made by (or on behalf of) Alfa-Bank and/or the Guarantor under the Loan Agreement (including

payments made from the application of Collections on the Diversified Payment Rights and amounts deposited into the Deposit Account), along with any disbursements under any applicable Enhancements, to pay interest and principal on the Notes and other payments under the Transaction Documents, and

- (d) taking such other actions as are necessary or incidental to give effect to the foregoing, including entering into the Transaction Documents necessary or incidental to effect the foregoing.

**Initial Purchasers** .....Dresdner Bank AG London Branch and Merrill Lynch International will be the initial purchasers (*i.e.*, the Initial Purchasers) for the offering of the Offered Notes.

**Use of Proceeds** .....The gross proceeds from the sale of the Offered Notes will be used by the SPC to make the Series 2006-A Loan to Alfa-Bank under the Loan Agreement. Alfa-Bank will use such proceeds for general corporate purposes. No proceeds from the Loans will be used by Alfa-Bank to make loans or otherwise provide funds (directly or, to its knowledge, indirectly) to countries (or any person or entity of such countries) or any other person or entity contrary to the Prohibited Nations Acts.

“*Prohibited Nations Acts*” means: (a) The Trading with the Enemy Act of 1917, 50 U.S.C.A. app. §1 *et seq.*, of the United States of America, (b) the International Emergency Economic Powers Act, 50 U.S.C.A. §1701 *et seq.*, of the United States of America, (c) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“*USA PATRIOT Act*”), Pub. L. No. 107-56, 115 Stat. 272, of the United States of America, and (d) any similar acts, executive orders or similar governmental actions of the United States of America or Russia, in each case including regulations issued thereunder and as amended or supplemented from time to time.

**Indenture Trustee** .....JPMorgan Chase Bank, N.A., a national banking association, not in its individual capacity but solely as trustee (in such capacity, the “*Indenture Trustee*”), will act as trustee under the Indenture.

**Note Secured Parties**.....“*Note Secured Parties*” means each of the Indenture Trustee, the Investors, each Enhancer (if any), the counterparties under the Hedging Agreements (if any) and any other person entitled to payment under the Transaction Documents; *provided* that such term will not include: (a) the SPC, Alfa-Bank, the Guarantor or any of their respective affiliates other than to the extent that such person is an Investor or (b) any person in a capacity unrelated to the transactions contemplated by the Transaction Documents.

“*Investor*” means each Noteholder, Certificateholder and Beneficial Owner. “*Noteholder*” means the registered owner of a Note (*e.g.*, a Series 2006-A Noteholder). “*Certificateholder*” means the registered owner of a Certificate. “*Beneficial Owner*” means each Certificate Owner and Note Owner. “*Certificate Owner*” means a holder of a beneficial interest in a Certificate. “*Certificate*” means any certificate issued by a trust that acquires one or more Note(s), as specified in the applicable Indenture Supplement, which certificate is intended to give



the holder thereof a beneficial interest in such Note(s). “*Note Owner*” means a holder of a beneficial interest in a Note (e.g., a Series 2006-A Note Owner).

“*Series*” means each series of Notes (which may be a single Note), whether a Senior Series or a Subordinated Series, issued under an Indenture Supplement. Each such Series of Notes may have a corresponding series of Certificates issued by a trust owning such Series of Notes, the rights of the Certificateholders under which will be solely as described in the applicable Trust Agreement.

**Enhancement** ..... “*Enhancement*” means, with respect to any Series, each financial guaranty insurance policy, reserve account, letter of credit, guaranty or other form of enhancement (if any) for such Series as may be identified as such in the applicable Indenture Supplement; *provided* that the SPC must (and Alfa-Bank or any other person may) be obligated to reimburse the applicable Enhancer (or Enhancement) with respect to all disbursements thereunder. There will be no Enhancement with respect to the Offered Notes.

“*Enhancer*” means, with respect to any Series for which an Enhancement has been provided, any person identified as such in the applicable Indenture Supplement.

“*Enhancement Agreement*” means, with respect to the Enhancement(s) for any Series, any reimbursement or other agreement identified as such in the applicable Indenture Supplement.

**Controlling Party** ..... “*Controlling Party*” means: (a) as of any date of determination, with respect to the Offered Notes, the Series 2006-A Noteholders that, in the aggregate, hold more than 50% of the Note Balance of such Series on such date, and (b) with respect to any other Series, the person(s) identified as such in the applicable Indenture Supplement.

With respect to any Series for which the Controlling Party is a person other than all of the Investors of such Series, the vote of the Controlling Party relating to such Series will be deemed to represent (and replace) the vote of such Investors; *provided* that, with respect to certain waivers and amendments (including any that would reduce in any manner the amount of, or delay the timing of, any scheduled payments to Investors and/or Enhancers on such Series), the consent of certain or all of such Investors and/or the applicable Enhancer (as applicable) will also be required; *and provided further* that, if there are more than one outstanding Series, the SPC may not agree to the amendment of the Quarterly Amortization Amounts of any Loans unless the requirements of “—Issuance of Additional Series by the SPC” below are satisfied as if such amendment resulted in the issuance of an additional Series that replaces the applicable outstanding Series (and the making of a corresponding Additional Loan that replaces the applicable outstanding Loan). For the purpose of clarification, the Controlling Party of a Series will always have the right (without the consent of the Investors or Enhancers, as applicable, of such Series if such is/are not the Controlling Party) to instruct the Indenture Trustee to exercise any remedies with respect to and/or waive any Defaults and/or Early Amortization Events with respect to the corresponding Loan.

Notwithstanding anything herein or in the Transaction Documents to the contrary, should any Notes or Certificates (or beneficial interests therein) be owned by the SPC, Alfa-Bank, the Guarantor or any of their respective affiliates, then any vote participated in by Investors (including in determining any Controlling Party or Majority Controlling Party) will exclude from such voting the vote relating to (and principal amount of) the Notes or Certificates (or beneficial interests therein) of any such person; *provided* that if such persons own all of the Notes or Certificates (or beneficial interests therein) of the applicable Series, then such persons will not be excluded from any vote having to do exclusively with Series with respect to which such persons are the only Investors. In addition, while any Senior Series remains outstanding, any vote participated in by the Controlling Party(ies) of the Senior Series and/or Enhancers thereof and/or Investors therein will exclude from such voting the vote relating to (and principal amount of) any Subordinated Series (and any Certificates relating thereto). For the purpose of clarification, and subject to any transfer restrictions that may apply to any Series, each of the SPC, Alfa-Bank, the Guarantor and any of their respective affiliates is not prohibited by the Transaction Documents from being an Investor.

Except to the extent provided otherwise in the applicable Loan Supplement, notwithstanding anything else herein to the contrary, any payments made on any Series from the proceeds of an Enhancement as a result of a failure by Alfa-Bank (or the Guarantor on its behalf) to make the corresponding payment to the SPC under the applicable Loan will not reduce the amount payable by Alfa-Bank to the SPC under such Loan; *it being understood* that any later payments on such Loan (including Interest thereon) by (or on behalf of) Alfa-Bank to the SPC will (in the order set forth in the applicable Indenture Supplement, including after other payments to the applicable Noteholders have been made) be used by the SPC to reimburse the applicable Enhancer (or Enhancement) for having made such payment under the applicable Enhancement. For example, the Noteholders of a Series would receive interest based upon the Note Balance of such Series, with any additional Interest paid by Alfa-Bank on the corresponding Loan to be used by the SPC to compensate the applicable Enhancer for any interest on a Series paid from the proceeds of an Enhancement.

“*Note Balance*” of a Series means, on any date of determination, the result of: (a) the Loan Balance on such date of the Loan corresponding to such Series *minus* (b) the amount of principal payments made with respect to such Series by any Enhancer (or Enhancement) with respect to which such Enhancer (or Enhancement) has not been (either because it is not required to be or has not yet been) reimbursed.

“*Loan Balance*” with respect to any Loan means as of any date of determination, the outstanding principal balance of such Loan on such date after giving effect to any payments made on or before such date for all or any portion of the principal of such Loan.

***Diversified Payment Rights*** ..... “*Diversified Payment Rights*” means all right, title and interest (but none of the obligations) of Alfa-Bank in, to and under, and all monetary claims (*denezhnye trebovaniya*) of Alfa-Bank against Payors with respect to or arising from, Dollar- and/or Euro-denominated Payment Orders received (or to be received) by Alfa-Bank (including

its right to receive and/or retain for itself all payments made in connection with such Payment Orders), which Payment Orders are sent or delivered by a Payor to any office of Alfa-Bank (including any of its branches or other offices in Russia or elsewhere), in each case the payment to Alfa-Bank with respect to which is to be made outside of Russia; *provided* that “Diversified Payment Rights” will not include any right, title or interest of Alfa-Bank in, to or under any payments to be received in connection with Western Union Payments, Credit Card Payments or Check Payments whether or not they would otherwise be considered a Diversified Payment Right. Diversified Payment Rights arise in connection with Alfa-Bank’s rendering payment services to the Payors.

For the purpose of clarification:

- (a) rights relating to Payment Orders received by Alfa-Bank with respect to which payment to Alfa-Bank is to be made within Russia (including a Payment Order from a Customer Payor who instructs that the related payment to Alfa-Bank be made through a debit to such Customer Payor’s account maintained in Russia with Alfa-Bank) are not included within Diversified Payment Rights, and
- (b) with respect to any Payment Order, Diversified Payment Rights include the gross (or “face”) value of such Payment Order and not the “net” or other reduced amount (including any such reduction arising from any set-off relating to obligations payable by Alfa-Bank to the applicable Payor, which payment obligations are retained by Alfa-Bank and are to be paid to such Payor separately).

“*Western Union Payments*” means any payment to be received by Alfa-Bank from Western Union Financial Services, Inc., U.S.A. (and its successors and affiliates) relating to its money transfer program.

“*Credit Card Payments*” means any payment to be received by Alfa-Bank from any credit card issuing bank or credit card organization (including MasterCard, Visa, American Express, Maestro, MasterCard Europe, Cirrus or Diner’s Club) relating to the use of credit cards within Russia (including in connection with Alfa-Bank’s acquisition of any merchant vouchers).

“*Check Payments*” means any payment to be received by Alfa-Bank from any financial institution in connection with Alfa-Bank’s cashing of a check issued by a customer of such financial institution (or issued by such financial institution itself).

**Payment Orders** ..... “*Payment Order*” means an electronic or other message to instruct Alfa-Bank to make a payment of a certain amount to a beneficiary other than Alfa-Bank (including through deposit into such beneficiary’s account with Alfa-Bank), which message may be: (a) an MT102, MT102+, MT103, MT103+, MT202 or any other MT100-category or MT200-category message under the Society for Worldwide Interbank Financial Telecommunication’s (“*SWIFT*”) message system, (b) any other type of message, including a message sent via telex or the internet or using an Alfa-Bank customer form, or (c) any information made

available to Alfa-Bank by the applicable Payor in connection with a deposit of the applicable amounts into the applicable bank account so that Alfa-Bank will make a payment (including through deposit into such beneficiary's account at Alfa-Bank) of a certain amount to a beneficiary other than Alfa-Bank (in each of clauses (a), (b) and (c), including any type of message, category of message or message system that may be in addition to, may replace or may be utilized in substitution for any of the foregoing); *it being understood* that "Payment Order" will include: (i) any such message instructing that a payment be made to a beneficiary with respect to which payment Alfa-Bank has acquired from such beneficiary the right to receive and/or retain such payment in exchange for Alfa-Bank's prior financing of such beneficiary (for example, in connection with any pre-export loan or other export-related financing) and (ii) any such message that identifies Alfa-Bank as the named beneficiary but also refers (either in a "details" section or otherwise in the message, including in a transaction reference number) to a further beneficiary; *provided that*, whether or not otherwise included within the above description: (A) SWIFT MT400-category and MT700-category payment orders, advices and messages (and their respective successors) received by Alfa-Bank and (B) Foreign Book-Entry Payment Orders are not included in the definition of "Payment Order."

For the purpose of clarification, SWIFT MT200-category payment orders (and their respective successors) received by another financial institution for the benefit of Alfa-Bank are not included in the definition of "Payment Order" as Alfa-Bank is the beneficiary (and not the recipient) thereof (*it being understood* that such payment orders may be the manner whereby a Payor Bank makes payment for a Payment Order, which payment is thus included in the transaction) but SWIFT MT200-category payment orders (and their respective successors) received by Alfa-Bank for the benefit of another financial institution are included in the definition of "Payment Order."

"*Foreign Book-Entry Payment Order*" means a payment order received from a Customer Payor requesting that funds in an account of such Customer Payor maintained at a Non-Russian Office of Alfa-Bank be transferred to another account of such Customer Payor maintained at the same or another Non-Russian Office of Alfa-Bank.

"*Non-Russian Office*" means, with respect to any bank, a branch, representative office or other office of such bank that is located outside of Russia.

**Payors**..... "Payor" means a Payor Bank or a Customer Payor.

"*Payor Bank*" means, with respect to a Payment Order, a bank or other person (other than a Customer Payor or any branch or other office of Alfa-Bank) that sends or delivers such Payment Order to Alfa-Bank (including to any of its branches or other offices, including any of its Non-Russian Offices), the payment with respect to which Payment Order is to be made to Alfa-Bank through making (or causing to be made) a deposit into (or other credit to) a bank account maintained at a Third-Party Depository Bank or a Depository Bank that is a subsidiary of Alfa-Bank (whether such payment is effected through: (a) such Payor Bank crediting such payment to an account of Alfa-Bank (*i.e.*,

such Payor Bank is a Third-Party Depository Bank or a Depository Bank that is a Subsidiary of Alfa-Bank), (b) such Payor Bank sending a SWIFT MT202 payment order or similar message to a Third-Party Depository Bank or a Depository Bank that is a subsidiary of Alfa-Bank for the benefit of Alfa-Bank or (c) otherwise). For the purpose of clarification, a Payor Bank could be either outside of Russia (including a Non-Russian Office of a Russian Bank) or inside of Russia (including a Russian branch of a Non-Russian Bank).

“*Customer Payor*” means, with respect to a Payment Order, any person (including a customer of Alfa-Bank) that sends or delivers such Payment Order to Alfa-Bank (including to any of its branches or other offices, including any of its Non-Russian Offices), the payment with respect to which Payment Order is to be made to Alfa-Bank other than through making (or causing to be made) a deposit into (or other credit to) a bank account maintained at a Third-Party Depository Bank or a Depository Bank that is a subsidiary of Alfa-Bank. For example, payment could be effected by such Customer Payor through a request that its account at any of Alfa-Bank’s Non-Russian Offices be debited in the appropriate amount or by delivering cash to Alfa-Bank.

**Depository Banks** ..... “*Depository Bank*” means: (a) Alfa-Bank’s Non-Russian Offices and (b) any other correspondent bank of Alfa-Bank (each such other correspondent bank, other than a subsidiary of Alfa-Bank, a “*Third-Party Depository Bank*”), in each case that maintains outside of Russia a Dollar and/or Euro account for Alfa-Bank (including for any of its branches or other offices, including any of its Non-Russian Offices). For the purpose of clarification, a Third-Party Depository Bank may include an affiliate (other than a subsidiary) of Alfa-Bank.

**Designated Depository Banks** ..... “*Designated Depository Bank*” means a Depository Bank with respect to which an Account Agreement is in full force and effect. The Designated Depository Banks are expected to be initially The Bank of New York, Deutsche Bank Trust Company Americas, HSBC Bank USA, N.A. and JPMorgan Chase Bank, N.A..

Each Account Agreement will provide that neither Alfa-Bank nor the SPC may terminate such Account Agreement without the consent of the Indenture Trustee; *it being understood* that, as provided in the Indenture: (a) if the amount of Collections processed by the applicable Designated Depository Bank were less than 2.5% of the total DDB Collections for each of the four most recent Quarterly Reporting Periods, then the Indenture Trustee will provide such consent for the immediate termination of such Account Agreement without confirmation from any other person, and (b) otherwise, the Indenture Trustee will provide such consent only at the instruction of the Majority Controlling Parties and such termination will then occur only after the earlier of the Pledge Termination Date and the period established for termination in the applicable Account Agreement. Notwithstanding the above, without the consent of each of the Controlling Parties, the Indenture Trustee will not provide such consent if: (i) an Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both) exists and/or (ii) an Early Amortization Event (including any relating to any Debt Service Coverage Test) for any Loan would have

occurred had such Designated Depository Bank not been such during the entire preceding Monthly Reporting Period and Quarterly Reporting Period.

“*Majority Controlling Parties*” means, on any date of determination, the Controlling Parties representing Series the Investor(s) and/or Enhancer(s) of which hold (in the aggregate) more than 50% of the sum of: (a) the aggregate Note Balances of all Series *plus* (b) reimbursement rights for the amount of any principal payments made with respect to all Series by the Enhancers and remain unreimbursed on such date.

**Collection Accounts** ..... Each Designated Depository Bank will: (a) be notified of Alfa-Bank’s pledge to the SPC (and the SPC’s pledge of its rights under such pledge to the Indenture Trustee) of Alfa-Bank’s (including, in certain circumstances, certain of its branches’ and other offices’) existing *nostro* account(s) maintained with it (each a “*Collection Account*”), into which account(s) such Designated Depository Bank will agree, pursuant to its Account Agreement, to deposit all Collections received (or paid) by it in respect of any Diversified Payment Rights (such Collections received in the Collection Accounts at Third-Party Depository Banks being referred to herein as “*DDB Collections*,” *it being understood* that DDB Collections may include Collections deposited into Collection Accounts at affiliates (other than subsidiaries) of Alfa-Bank); *it being further understood* that, as the Designated Depository Banks are not responsible for identifying any payments as being related to a Diversified Payment Right, any Collections that do not contain the account number and/or other identification of the applicable Collection Account might not be so deposited, and (b) establish a new account to be owned and controlled by Alfa-Bank into which account Alfa-Bank may direct any payments to it not related to the Diversified Payment Rights. The Indenture Trustee will control each Collection Account in the manner described in the applicable Account Agreement.

For the purpose of clarification: (a) payment orders to Alfa-Bank’s branches or other offices from Alfa-Bank’s own branches or other offices (including from its Non-Russian Offices), whether or not Designated Depository Banks, do not result in Diversified Payment Rights and, as such, the related payments will not be deposited into any Collection Account (such branches or other offices to deposit such amounts in other accounts of Alfa-Bank maintained thereat); *it being understood* that the Collection Accounts (if any) at Alfa-Bank’s Non-Russian Offices will only be utilized for funds (if any) that may be transferred thereto in connection with a Diversified Payment Right relating to a Payment Order sent or delivered by a Customer Payor, and (b) subject to clause (n) of “—Covenants of Alfa-Bank” below, an Account Agreement may be signed with a Designated Depository Bank to cover one or more of Alfa-Bank’s accounts at such bank without covering all of Alfa-Bank’s accounts at such bank.

**Trapped Unpledged Flows** ..... Notwithstanding anything else herein to the contrary, the Pledge Agreement will provide that at any time after a Payment Date (or Early Amortization Payment Date, if applicable) to and including the fifth Business Day after such Payment Date (or Early Amortization Payment Date, if applicable), Alfa-Bank may notify the Indenture Trustee of any amounts that do not relate to Diversified Payment Rights (such as

payments related to SWIFT MT202 payment orders received by another financial institution for the benefit of Alfa-Bank and that do not provide for a payment to Alfa-Bank for a Payment Order) that were deposited into the Concentration Accounts during the period from the preceding Payment Date (or Early Amortization Payment Date, if applicable) to but excluding such Payment Date (or Early Amortization Payment Date, if applicable) (such period, the “Return Period”). As such amounts are not included in the pledge of Diversified Payment Rights to the SPC (though they are included within the Loan Collateral due to the pledge over the Collection Accounts and all funds therein), the Indenture Trustee (unless a Default Payment is then payable by Alfa-Bank) will (to the extent of amounts then available in the Concentration Accounts and Loan Payment Accounts) promptly (but, in any event, by no later than the later of such fifth Business Day and the second Business Day after the Indenture Trustee’s receipt of such notice) after the end of such Return Period transfer to Alfa-Bank (to the account that Alfa-Bank notifies the Indenture Trustee) an amount equal to: (a) the aggregate amount so notified by Alfa-Bank for such Return Period (*minus* any such amounts already transferred to Alfa-Bank pursuant to the next paragraph with respect to such Return Period) (the “Returnable Amount”) *minus* (b) the lesser of: (i) the Returnable Amount and (ii) the aggregate amount of Collections released to Alfa-Bank pursuant to “—Allocation of Amounts in the Concentration Accounts” below during such Return Period (*it being understood* that all funds immediately thereafter remaining in the Concentration Accounts and Loan Payment Accounts will be allocated among the Concentration Accounts and Loan Payment Accounts pursuant to “—Allocation of Amounts in the Concentration Accounts” below as if such funds were Collections on such date). Such transfer will be considered to be a full return by the Indenture Trustee and the SPC to Alfa-Bank of such Returnable Amount for such Return Period and a full return by Alfa-Bank to the Indenture Trustee and the SPC of the amount determined under clause (b). With respect to any Returnable Amount for which Alfa-Bank does not deliver any such notice by the indicated date for any Return Period, any such claims that Alfa-Bank might have for such Returnable Amount will be considered to have been satisfied in full (including through the release to Alfa-Bank of Collections pursuant to “—Allocation of Amounts in the Concentration Accounts” below during such Return Period). Notwithstanding the above, with respect to any such notice, the Indenture Trustee will withhold such Returnable Amount until Alfa-Bank has delivered to the Indenture Trustee evidence reasonably satisfactory to the Indenture Trustee that such deposits did not relate to Diversified Payment Rights.

Notwithstanding the preceding paragraph other than the last sentence thereof, on any Business Day during a Return Period that the Returnable Amount for such Return Period *minus* the amount then determined pursuant to clause (b) of the preceding paragraph is US\$5,000,000 (including the Dollar equivalent of any such amounts denominated in Euro) or greater, Alfa-Bank may so notify the Indenture Trustee and the Indenture Trustee then will (to the extent of amounts then available in the Concentration Accounts and Loan Payment Accounts) promptly (but, in any event, on such Business Day or (if such notice is received by the Indenture Trustee after 3:00 p.m. (New York City time) or is in respect of any Returnable Amount denominated in Euro) by no later than its Business Day after such

Business Day) transfer from the Concentration Accounts and Loan Payment Accounts to Alfa-Bank (to the account that Alfa-Bank notifies the Indenture Trustee) an amount equal to: (a) such Returnable Amount *minus* (b) the amount determined pursuant to clause (b) of the preceding paragraph (*it being understood* that all funds immediately thereafter remaining in the Concentration Accounts and Loan Payment Accounts will be allocated among the Concentration Accounts and Loan Payment Accounts pursuant to “—Allocation of Amounts in the Concentration Accounts” below as if such funds were Collections on such date); *provided* that no such transfer will be made if: (A) a Default Payment is then payable by Alfa-Bank or (B) unless all of the Designated Depository Banks are then transferring Collections to the Concentration Accounts, such Business Day is ten Business Days or fewer before the end of such Return Period (in which event, the mechanism described in the preceding paragraph might apply). Such transfer will be considered to be a full delivery by the Indenture Trustee and the SPC to Alfa-Bank of such Returnable Amount and a full delivery by Alfa-Bank to the Indenture Trustee and the SPC of the amount determined under clause (b).

If, after any transfer of funds to Alfa-Bank under the two preceding paragraphs, the Required Amount for the next Payment Date (or Early Amortization Payment Date, if applicable) is not on deposit in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts (in the aggregate) (or already sent to the SPC pursuant to clause (xiv) of “—Allocation of Amounts in the Concentration Accounts” below during the applicable Interest Period), then the Indenture Trustee will promptly (and, in any event, by no later than its next Business Day) instruct each Designated Depository Bank that is not then transferring Collections to the applicable Concentration Account to, by no later than its business day after its receipt of such instruction (or such later time as may have been agreed in the applicable Account Agreement), begin transferring all amounts received in such bank’s Collection Account to the applicable Concentration Account until such time as the Indenture Trustee notifies such Designated Depository Bank otherwise; *it being understood* that if Alfa-Bank has requested any transfer of a Returnable Amount and if (pursuant to the last sentence of the second paragraph above) the Indenture Trustee has not yet delivered any applicable amounts relating thereto to Alfa-Bank, for purposes of this paragraph such transfer will be deemed to have been made on the date of the Indenture Trustee’s receipt of such request from Alfa-Bank.

Any amounts that the Indenture Trustee has available to it in cash and that, except for the existence of an obligation to pay a Default Payment, would otherwise have been transferred to Alfa-Bank pursuant to the above will be deemed to be, and applied as, a partial payment of the related Default Payment payable by Alfa-Bank to the SPC.

**Indenture**.....Pursuant to the Indenture and the Indenture Supplement for the Offered Notes, the SPC will issue the Offered Notes, which Notes, together with any other Notes issued by the SPC and any other liabilities of the SPC to Note Secured Parties under the Transaction Documents, will be secured by all of the SPC’s rights and other assets, including its right, title and interest (if any) in, to and under the following (collectively, the “*Note Collateral*”):



- (a) all of the Diversified Payment Rights, whether existing on the Closing Date or thereafter generated, and all Collections in respect thereof,
- (b) the Deposit Account, the Collection Accounts, the Concentration Accounts and, with respect to each Loan, the Loan Payment Account corresponding thereto, in each case including all amounts credited thereto or carried therein, any and all investments made with funds therein, any and all other financial assets credited thereto or carried therein and any and all security entitlements with respect to such financial assets,
- (c) with respect to each Series, any Enhancements for such Series,
- (d) the Loan Agreement, the Pledge Agreement, the Hedging Agreements, the Account Agreements and, with respect to each Loan, the Loan Supplement corresponding thereto, together with all instruments, chattel paper or letters of credit evidencing, representing, arising from or existing in respect of, relating to, securing or otherwise supporting the payment of any amounts due and payable to (or for the benefit of) the SPC thereunder, including the right to require Alfa-Bank to make payments to the SPC after a Default,
- (e) all other assets of the SPC, including deposit and securities accounts and all funds and investments in each such account, and
- (f) all proceeds, substitutions and replacements of any of the foregoing, including all accounts, instruments, chattel paper, general intangibles, investment property, goods, documents, letter-of-credit rights and money relating to or arising out of, or that are proceeds of, the collateral described above;

*provided* that the Note Collateral will not include: (i) any account(s) into which the proceeds of a transaction fee (if any) to be received by the SPC will be deposited on (or in relation to) each Borrowing Date, (ii) any accounts into which the initial proceeds of the issuance of a Series are deposited before such amounts are lent to Alfa-Bank and (iii) the account in which the SPC's ordinary share capital is maintained, but in each case only to the extent of such amounts that remain in such account(s).

Interest and principal payments on each Series will be funded from: (a) payments under the corresponding Loan (including the deemed payments thereon made from the Collections or from any amounts that Alfa-Bank deposited into the Deposit Account as described in “—Deposit by Alfa-Bank” below and payments of any Default Payment or Prepayment Amount therefor), and (b) amounts available under any corresponding Enhancement(s), and will be paid to the applicable Noteholder(s) (or to the Indenture Trustee for their benefit) on each Payment Date (or, if applicable, Early Amortization Payment Date) as provided in the Transaction Documents.

The SPC's obligations with respect to the Offered Notes will be limited-recourse obligations secured solely by the grant by the SPC of a

pledge over the Note Collateral pursuant to the Indenture. Except to the extent of any Enhancement for a particular Series, the SPC will not have any funds available to it to make payments with respect to any Series except to the extent that it receives payment from (or on behalf of) Alfa-Bank and/or the Guarantor with respect to the corresponding Loan.

Notwithstanding anything herein to the contrary, the SPC (and, thus, the Indenture Trustee) might not have a security interest in any Collections that are deposited into an account that is not subject to an Account Agreement to the extent that such Collections are not identifiable cash proceeds of Diversified Payment Rights pursuant to the applicable Uniform Commercial Code (or similar law) and, in any event, will likely not have a perfected security interest in such account and Collections; *it being understood* that the fact that such Collections have been deposited into an account not subject to an Account Agreement (which account may include items other than Collections) will not be considered to be a breach of any representation or covenant or a Default or Early Amortization Event, as applicable, unless: (a) Alfa-Bank or the SPC, as applicable, has: (i) taken any action to make such Collections non-identifiable, (ii) negligently omitted to take any reasonable action that would make such Collections identifiable or (iii) caused or allowed such Collections to be so deposited in violation of any of its representations or covenants in the Transaction Documents or (b) any person other than the SPC or the Indenture Trustee has a lien of any kind thereon other than any right of set-off or similar banker's lien held by the Depository Bank at which such account is maintained.

**Business Day** ..... “*Business Day*” means any day other than a Saturday, Sunday or other day on which banking institutions in New York City, New York or Moscow, Russia are permitted or required by applicable law to remain closed; *provided* that, with respect to any actions taken or to be taken by the Indenture Trustee or a trustee acting as a Noteholder for the benefit of any related Certificateholders, such term means a day in the jurisdiction of such person other than a Saturday, Sunday or other day on which such person is not open for business.

“*New York Business Day*” means a day other than a Saturday, Sunday or other day on which banking institutions in New York City, New York are permitted or required by applicable law to remain closed.

**Payment Date** ..... “*Payment Date*” means June 15, 2006 and the 15th day of each March, June, September and December thereafter; *provided* that if any such date is not a New York Business Day, then such Payment Date will be the next New York Business Day unless such next New York Business Day would fall in another calendar month, in which case such Payment Date will be the preceding New York Business Day.

**Interest** ..... Alfa-Bank will pay interest on each Loan in an aggregate amount equal to:

- (a) the sum of: (i) the Interest calculated with respect thereto *plus* (ii) amounts payable with respect to such Interest as a result of “—Withholding Taxes” below, *plus*

- (b) the sum of: (i) the Additional Interest calculated with respect thereto *plus* (ii) amounts payable with respect to such Additional Interest as a result of “—Withholding Taxes” below,

in each case as calculated and payable in accordance with the terms and conditions set out in this Agreement and the applicable Loan Supplement.

A component of the interest payable by Alfa-Bank to the SPC on each Loan is the “Interest” payable thereon as described in clause (a)(i) above. The amount of such Interest payable by Alfa-Bank to the SPC on each Loan (and, thus, the amount of interest payable by the SPC on the corresponding Series) will be calculated based upon the Loan Interest Rate for such Loan as set forth in the applicable Loan Supplement, which Loan Interest Rate may be either a fixed or floating rate. Interest payable by Alfa-Bank to the SPC on each Loan will be paid on each Payment Date (or, if so specified in the applicable Loan Supplement, each Payment Date after the first Payment Date after the Borrowing Date thereof) and (if applicable) each Early Amortization Payment Date or Prepayment Date. The interest payable by the SPC to the Noteholders of a Series will be payable on each date on which Interest is payable by Alfa-Bank to the SPC with respect to the corresponding Loan, with each such payment by the SPC of interest on a Note being payable to the applicable Noteholder who is of record as of 5:00 p.m. (New York City time) on the last New York Business Day of the calendar month preceding such date of payment (the “*Record Date*”).

The amount of Interest payable by Alfa-Bank on the Series 2006-A Loan (and, thus, the amount of interest payable by the SPC on the Offered Notes) will accrue for each Interest Period from and including the Borrowing Date thereof at the rate of 1.60% *per annum* above Three-Month LIBOR as determined by the Indenture Trustee on the Determination Date before such Interest Period; *provided* that: (a) the Loan Interest Rate for the Series 2006-A Loan (and, thus, the effective interest rate for the Offered Notes) for the first Interest Period will be 6.53% *per annum* and (b) with respect to each Interest Period commencing on or after the Series 2006-A Maturity Date, the Loan Interest Rate for the Series 2006-A Loan (and, thus, the interest rate for the Offered Notes) will be an additional 2% *per annum* above such rate (the “*Series 2006-A Loan Interest Rate*” and, with the interest rates applicable to any other Loans as specified in the applicable Loan Supplements, the “*Loan Interest Rates*”).

The “*Interest*” required to be paid by Alfa-Bank to the SPC (and, thus, the amount of interest payable by the SPC to the Noteholder(s) of the corresponding Series) on each Payment Date (or, if applicable, Early Amortization Payment Date) with respect to each Loan will, except to the extent provided otherwise in the applicable Loan Supplement, equal the sum of:

- (a) the product of: (i) the applicable Loan Interest Rate, (ii) the average daily Loan Balance of such Loan from and including the preceding Payment Date (or: (A) in the case of the first Payment Date after the Borrowing Date for such Loan, the

Borrowing Date of such Loan, or (B) if applicable, the Early Amortization Payment Date for such Loan) to the applicable date of determination (*it being understood* that, if Interest is determined at any time before such average daily Loan Balance of such Loan is known (*e.g.*, when calculating the Required Amount for any Interest Period), then the average daily Loan Balance of such Loan for purposes of calculating Interest will: (x) if determined before the beginning of the relevant period, be deemed to be the Loan Balance of such Loan scheduled to be in effect on the first day of such period after giving effect to all payments of principal scheduled to be paid on or before the first day of such period, and (y) if determined during the relevant period, be determined by assuming that the Loan Balance of such Loan for the remainder of such period will be the Loan Balance of such Loan as of such date of determination), and (iii) the number of days in the related Interest Period (or, if applicable, since the most recent Early Amortization Payment Date with respect to such Loan or Payment Date) (with respect to Loans with fixed Loan Interest Rates, based upon a month of 30 days) *divided by 360*,

- (b) the amount of any Interest accrued and payable but not paid on any prior Payment Date or (if applicable) Early Amortization Payment Date in respect of such Loan, and
- (c) to the extent permitted by applicable law, the product of: (i) the applicable Loan Interest Rate, (ii) the amount determined pursuant to clause (b) and (iii) the number of days in the related Interest Period (or, if applicable, since the most recent Early Amortization Payment Date in respect of such Loan or Payment Date) (with respect to Loans with fixed Loan Interest Rates, based upon a month of 30 days) *divided by 360*.

As provided in the Indenture, Noteholders of a Series will be entitled to receive (on a *pro rata* basis) from the SPC an amount of interest equal to the amount of Interest payable by Alfa-Bank to the SPC on the corresponding Loan; *provided* that, as noted in “—Controlling Party” above, if any principal of such Series has been paid under any Enhancement, then the amount of interest payable by the SPC to such Noteholders will be an amount equal to such Interest payable on the corresponding Loan if it had been determined by replacing the term “Loan Balance” in the definition thereof by the term “Note Balance” (*it being understood* that should any amount of Interest paid with respect to the corresponding Loan be less than the full amount payable with respect thereto, then the SPC will use such amounts in the order established in the applicable Indenture Supplement for payments to Noteholders and Enhancers of such Series).

“*Interest Period*” means, for each Loan: (a) initially, the period from and including the Borrowing Date of such Loan to but excluding the first Payment Date (or if so indicated in the applicable Loan Supplement, the second Payment Date) thereafter, and (b) thereafter, the period from the end of the preceding Interest Period to but excluding the next Payment Date.

“*Determination Date*” means, for any Interest Period, the second London Business Day before the day on which such Interest Period commences; *provided* that if such second London Business Day is not a New York Business Day, then the Determination Date will be the preceding London Business Day that is also a New York Business Day.

“*London Business Day*” means a day (other than Saturday, Sunday or public holiday) on which transactions in Dollars are effected in the London interbank market.

“*Three-Month LIBOR*” means, as of any Determination Date:

- (a) the rate for deposits in Dollars for a period equal (or substantially equal) to the relevant Interest Period that appears on Telerate Page 3750 as of 11:00 a.m. (London time) on such Determination Date (or, if more than one rate is quoted, the arithmetic mean (rounded upwards to the nearest 1/16th of 1%) of such quoted rates),
- (b) if no such rate appears on Telerate Page 3750, then the rate for such Determination Date will be the rate for deposits in Dollars for a period equal (or substantially equal) to the relevant Interest Period that appears on page LIBOR01 of the Reuters Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying comparable rates or prices) as of 11:00 a.m. (London time) on such Determination Date, or
- (c) if Three-Month LIBOR cannot be determined on such Determination Date using the foregoing methods, then the Three-Month LIBOR for the relevant Interest Period will be the Three-Month LIBOR as determined using the foregoing methods for the first day before such Determination Date on which Three-Month LIBOR can be so determined.

Investors in each Series (and any related Enhancer) will also be entitled to the payment by the SPC of Additional Amounts (if any) to the extent described under “—Withholding Taxes” below (except to the extent that such amounts are paid directly to the applicable taxing authorities).

***Additional Interest*** ..... A component of the interest payable by Alfa-Bank to the SPC on each Loan is the “Additional Interest” payable thereon as described in clause (b)(i) of the first paragraph of “—Interest” above. The amount of such Additional Interest payable by Alfa-Bank to the SPC on each Loan will be calculated based upon the Additional Interest Rate for such Loan as set forth in the applicable Loan Supplement. The Additional Interest with respect to each Loan will be paid by Alfa-Bank to the SPC on the dates designated for payment of Interest on such Loan; *provided* that Alfa-Bank may pay all or any portion of such Additional Interest before the applicable scheduled payment date should it so elect.

The amount of Additional Interest for each Interest Period payable by Alfa-Bank to the SPC on each Loan will be calculated based upon the rate (for each Loan, its “*Additional Interest Rate*”) agreed from time to time between the SPC and Alfa-Bank in the manner specified in the

applicable Loan Supplement (and notified by them to the Indenture Trustee); *provided* that the SPC and Alfa-Bank may (with notice by them to the Indenture Trustee) amend the Additional Interest Rate for any Loan from time to time, which amendment would apply for such Loan to the entire applicable Interest Period (including any portion thereof occurring before the date on which the Indenture Trustee receives such notice). Should the Additional Interest for any Loan be insufficient (when combined with the Additional Interest payable by Alfa-Bank with respect to all other Loans) to generate (during such Interest Period) the amount necessary for the SPC to be able to pay the Required Amount for the applicable Interest Period (other than interest and principal payments on the Series but including the SPC's Luxembourg profit tax obligations and any other tax obligations (including for any income taxes payable by the SPC as a result of the SPC being determined to be a corporation or other entity subject to U.S. federal income taxes)) (for each Interest Period, its "*Aggregate Required Additional Interest*"), then Alfa-Bank shall be obligated to pay such shortfall. If Alfa-Bank should at any time request an increase in the Additional Interest Rate for any Series, then the SPC will promptly agree to such increase.

The "*Additional Interest*" required to be paid by Alfa-Bank to the SPC on each Payment Date (or, if applicable, Early Amortization Payment Date) with respect to each Loan will, except to the extent provided otherwise in the applicable Loan Supplement, equal the sum of:

- (a) the product of: (i) the applicable Additional Interest Rate, (ii) the average daily Loan Balance of such Loan from and including the preceding Payment Date (or: (A) in the case of the first Payment Date after the Borrowing Date for such Loan, the Borrowing Date of such Loan, or (B) if applicable, the Early Amortization Payment Date for such Loan) to the applicable date of determination (*it being understood* that, if Additional Interest is determined at any time before such average daily Loan Balance of such Loan is known (*e.g.*, when calculating the Required Amount for any Interest Period), then the average daily Loan Balance of such Loan for purposes of calculating Additional Interest will: (x) if determined before the beginning of the relevant period, be deemed to be the Loan Balance of such Loan scheduled to be in effect on the first day of such period after giving effect to all payments of principal scheduled to be paid on or before the first day of such period, and (y) if determined during the relevant period, be determined by assuming that the Loan Balance of such Loan for the remainder of such period will be the Loan Balance of such Loan as of such date of determination), and (iii) the number of days in the related Interest Period (or, if applicable, since the most recent Early Amortization Payment Date with respect to such Loan or Payment Date) (with respect to Loans with fixed Loan Interest Rates, based upon a month of 30 days) *divided by* 360,
- (b) the amount of any Additional Interest accrued and payable but not paid on any prior Payment Date or (if applicable) Early Amortization Payment Date in respect of such Loan, and

- (c) to the extent permitted by applicable law, the product of: (i) the applicable Additional Interest Rate, (ii) the amount determined pursuant to clause (b) and (iii) the number of days in the related Interest Period (or, if applicable, since the most recent Early Amortization Payment Date in respect of such Loan or Payment Date) (with respect to Loans with fixed Loan Interest Rates, based upon a month of 30 days) *divided by 360*.

Pursuant to the Indenture, the SPC will deposit any payments of Additional Interest that it receives from (or on behalf of) Alfa-Bank into the applicable Concentration Account for application in the manner described in “—Allocation of Amounts in the Concentration Accounts” below; *it being understood* that such amounts thus will not be applied directly to the SPC’s obligations with respect to the applicable Series but will rather be general funds of the SPC that will be allocated in the manner described in “—Allocation of Amounts in the Concentration Accounts” below.

As noted above, should the sum of the Additional Interest for all Loans for any Interest Period be less than the Aggregate Required Additional Interest for such Interest Period, Alfa-Bank will immediately pay to the Indenture Trustee (for the benefit of the SPC) such shortfall (such payment to be deposited into the applicable Concentration Account(s) or otherwise at the instruction of the SPC).

***Interest-Only Period*** ..... Any interest-only period (“*Interest-Only Period*”) with respect to any Loan will be as specified in the applicable Loan Supplement. As the first Quarterly Amortization Amount for the Series 2006-A Loan will be paid on the Payment Date in June 2006, there is no Interest-Only Period for the 2006-A Loan.

***Principal Payments;***

***Scheduled Amortization Period*** ..... For each Loan (and, thus, for each Series), on each Payment Date, commencing on the first Payment Date after the Interest-Only Period applicable thereto (or, if there is no Interest-Only Period applicable thereto, then the first (or, if so indicated in the applicable Loan Supplement, the second) Payment Date after the Borrowing Date thereof) and ending on the earlier of: (a) the date on which such Loan has been paid in full and (b) the first Early Amortization Payment Date after the date on which an Early Amortization Period for such Loan shall have commenced (such period, the “*Scheduled Amortization Period*”), in addition to interest on the Loans as described in the first paragraph of “—Interest” above, the SPC will be entitled to receive from Alfa-Bank (and the Noteholder(s) of the applicable Series will be entitled to receive from the SPC) a quarterly principal amortization amount specified in the applicable Loan Supplement (for each Loan, the “*Quarterly Amortization Amount*”). The Quarterly Amortization Amount for the Series 2006-A Loan (and, thus, the quarterly principal payment by the SPC to the Noteholders of the Offered Notes) will equal the amounts specified below (as such amounts may be reduced, on a *pro rata* basis, from time to time as described in “—Distribution of Amounts in the Loan Payment Accounts,” “—Early Amortization Period” and “—Optional Prepayment” below):

<u>Payment Date</u>	<u>Series 2006-A Loan</u>
June 2006	US\$17,500,000
September 2006	US\$17,500,000
December 2006	US\$17,500,000
March 2007	US\$17,500,000
June 2007	US\$17,500,000
September 2007	US\$17,500,000
December 2007	US\$17,500,000
March 2008	US\$17,500,000
June 2008	US\$17,500,000
September 2008	US\$17,500,000
December 2008	US\$17,500,000
March 2009	US\$17,500,000
June 2009	US\$17,500,000
September 2009	US\$17,500,000
December 2009	US\$17,500,000
March 2010	US\$17,500,000
June 2010	US\$17,500,000
September 2010	US\$17,500,000
December 2010	US\$17,500,000
March 2011	US\$17,500,000

**Maturity Date** ..... Unless redeemed or otherwise paid prior thereto, the final payment by Alfa-Bank to the SPC on the Series 2006-A Loan (and, thus, by the SPC to the applicable Noteholders on the Offered Notes) is to be made on the March 2011 Payment Date (*i.e.*, the Series 2006-A Maturity Date). With respect to any other Loan (and, thus, the corresponding Series), the maturity date (together with the Series 2006-A Maturity Date, each an “*Maturity Date*”) will be as specified in the applicable Loan Supplement.

**Issuance of Additional Series by the SPC** ... The Indenture and the Loan Agreement will provide that Alfa-Bank may, from time to time, request the SPC to make an Additional Loan, which Additional Loan the SPC would fund by its issuance (either to a trust or one or more other Noteholder(s)) of an additional Series that may be *pari passu* with (with the Offered Notes, the “*Senior Series*”) or subordinated to (the “*Subordinated Series*”) the Offered Notes; *provided that (inter alia)*:

- (a) as specified in the Loan Supplement for the Series 2006-A Loan, so long as such Loan remains outstanding and the Prepayment Amount for the full prepayment of such Loan is not to be paid in full on the applicable Borrowing Date (including from the proceeds of such Additional Loan), the average amount of DDB Collections during the four most recent full Quarterly Reporting Periods for which Servicing Reports have been delivered (*it being understood* that if such Borrowing Date is before the delivery of Servicing Reports for four full Quarterly Reporting Periods after the Closing Date, then such determination will be made as if the transactions contemplated by the Transaction Documents had been in effect during such earlier periods before the Closing Date) (the “*Rolling Four Quarter Period*”) was greater than the Additional Loan Threshold,



- (b) as specified in the Indenture Supplement for the Offered Notes, so long as such Series remains outstanding and the Prepayment Amount for the full prepayment of the Series 2006-A Loan is not to be paid in full at the time of such issuance (including from the proceeds of the Additional Loan made with the proceeds of the issuance of such additional Series), the Rating Agency rating the Offered Notes shall have notified the Indenture Trustee in writing that the proposed issuance shall not result in a withdrawal or reduction of its then-current rating of the Offered Notes to below the lower of: (i) its then-current rating of the Offered Notes (*i.e.*, before giving effect to such proposed issuance) and (ii) its initial rating of the Offered Notes,
- (c) except with respect to any outstanding Loan for which the Prepayment Amount for the full prepayment thereof is to be paid in full on the applicable Borrowing Date (including from the proceeds of such Additional Loan); (i) as specified in the Loan Agreement, the SPC shall have received an officer's certificate from Alfa-Bank that no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both) shall exist before or could reasonably be expected to exist immediately after giving effect to such proposed Additional Loan, and (ii) as specified in the Indenture, the Indenture Trustee shall have received an officer's certificate from each of Alfa-Bank and the SPC that no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both) shall exist before or could reasonably be expected to exist immediately after giving effect to such proposed Additional Loan,
- (d) as specified in the Indenture, the gross proceeds of such issuance are used by the SPC to make, on the date of such issuance, an Additional Loan to Alfa-Bank,
- (e) as specified in the Loan Agreement, the scheduled payment dates with respect thereto shall be the Payment Dates, with the exception that the first payment date applicable thereto may be the second Payment Date after the applicable Borrowing Date, and
- (f) as specified in the Indenture, the SPC complies with any additional requirements for the issuance of additional Series that are specified in the Indenture Supplements of Series that will remain outstanding after the issuance of the proposed additional Series.

Pursuant to the Indenture, the SPC may not issue an additional Series without receiving a request in writing from Alfa-Bank for an Additional Loan (which requirement cannot be revised absent Alfa-Bank's consent). No Investor consent to any such issuance will be required.

“*Additional Loan Threshold*” means, with respect to any contemplated making of an Additional Loan, the result of: (a) the greater of 10:1x and the Series 2006-A Minimum Quarterly Debt Service Coverage Ratio *multiplied by* (b) the Maximum Quarterly Debt Service that, after the Borrowing Date of such Additional Loan, would be scheduled to be paid on any Payment Date after the most recently ended Rolling Four Quarter Period (assuming for any Loan with a floating Loan Interest Rate, a Loan Interest Rate equal to the arithmetic average of all Loan Interest Rates applied to such Loan at any time since its Borrowing Date or, if higher or if relating to the contemplated Additional Loan, the Loan Interest Rate that would be in effect for such Additional Loan if it were to be made on the date on which such calculation is made, in each case *plus 1% per annum*); *provided* that this test will: (i) take into account Collections received at a Depository Bank during such Rolling Four Quarter Period if such Depository Bank is a Designated Depository Bank on the Borrowing Date of such Additional Loan even though such Depository Bank was not a Designated Depository Bank during any portion of such Rolling Four Quarter Period and to the extent that such payments were credited to the account(s) covered by the Account Agreement(s) with such Designated Depository Bank, (ii) exclude DDB Collections credited to the Collection Account(s) at a bank during such Rolling Four Quarter Period if such bank is no longer a Designated Depository Bank or its Account Agreement(s) cease(s) to cover such Collection Account(s) (or is scheduled to terminate within 30 days) on the Borrowing Date of such Additional Loan and (iii) for any Quarterly Reporting Period, disregard any DDB Collections from Payment Orders sent by the Ukrainian and Belarussian offices of Payor Banks in excess of 20% (or, with respect to either such country, 15%) of the total DDB Collections during such Quarterly Reporting Period.

“*Reporting Period*” means each Monthly Reporting Period and each Quarterly Reporting Period.

“*Quarterly Reporting Period*” means: (a) initially, the period commencing on April 1, 2006 and ending at the end of the last day of June 2006, and (b) thereafter, each successive period of three consecutive calendar months thereafter.

“*Monthly Reporting Period*” means: (a) initially, the period commencing on April 1, 2006 and ending at the end of the last day of such month, and (b) thereafter, each calendar month thereafter.

***Issuance of Additional Notes of the Same Series as the Offered Notes***.....

The Indenture and the Loan Agreement will provide that (with respect to any Loan and the corresponding Series, except to the extent provided otherwise in the applicable Loan Supplement) Alfa-Bank may, from time to time, request the SPC to increase an existing Loan, which increase would be funded by the SPC’s issuance of additional Notes of the corresponding Series (*it being understood* that such additional Notes will be consolidated with, and form a single series with, the outstanding Notes of such corresponding Series); *provided* that:

- (a) as specified in the Loan Agreement, the remaining Quarterly Amortization Amounts for such Loan are increased on a *pro rata* basis to reflect the corresponding increase in the Loan Balance of such Loan,

- (b) as specified in the Indenture, any applicable Enhancer for such Series shall have consented to such additional issuance in its sole discretion and any Enhancement for such Series is amended, amended and restated or otherwise revised or replaced to the extent necessary to increase the coverage thereunder accordingly, in each case with the consent of any such applicable Enhancer,
- (c) as specified in the Indenture, each Rating Agency rating such Series shall have notified the Indenture Trustee in writing that the proposed issuance shall not result in a withdrawal or reduction of its rating (both with and, if applicable, without consideration of any applicable Enhancement) of such Series to below the lower of: (i) the then-current rating on such Series and (ii) the initial rating on such Series,
- (d) as specified in the Indenture, the gross proceeds of such issuance are used by the SPC to increase the corresponding Loan to Alfa-Bank, the Borrowing Date of which will be the same as the issuance date of such additional Notes,
- (e) as specified in both the Indenture and the Loan Agreement, the requirements of “—Issuance of Additional Series by the SPC” above are satisfied as if the proposed issuance were the issuance of an additional Series or making of an Additional Loan (as applicable),
- (f) as specified in the Indenture, if such Series is listed for trading on any securities exchange, then such additional Notes shall also be permitted to be traded thereon, and
- (g) as specified in both the Indenture and the Loan Agreement, such increase does not otherwise alter the pricing, tenor or other terms of such Series or Loan (as applicable).

As specified in the Indenture and the Loan Agreement (as applicable), each of the SPC, Alfa-Bank, the Guarantor, the Indenture Trustee and any applicable Enhancer are (without the need for any approvals, consents or instructions from any Investors, but in accordance with all other provisions applicable thereto) authorized to join in the execution of any amendment (including amendment and restatement) or to execute any replacement of the applicable Indenture Supplement, the applicable Loan Supplement, any applicable Enhancement and any other applicable Transaction Documents to the extent required to provide for such additional issuance and the corresponding increase in the corresponding Loan. Promptly after any such additional issuance, the Indenture Trustee will notify the Noteholders of the applicable Series.

**Concentration Accounts** .....Within one of its business days of receipt, without set-off or counterclaim on account of claims against Alfa-Bank, the SPC, the Indenture Trustee or any other person, during each Interest Period each Designated Depository Bank will transfer all amounts received in its Collection Account(s) to a Dollar-denominated (with respect to Dollar amounts) or Euro-denominated (with respect to Euro amounts) segregated trust account in the name of the Indenture Trustee (the

“Dollar Concentration Account” and the “Euro Concentration Account,” respectively; each a “Concentration Account”). Each Interest Period the Indenture Trustee will notify Alfa-Bank, the SPC and (subject to any separate agreement in its Account Agreement) each Designated Depository Bank promptly (and, in any event, by no later than the Indenture Trustee’s next Business Day) after the Required Amount (as previously calculated by Alfa-Bank and reported to the Indenture Trustee pursuant to the Loan Agreement) for the next Payment Date (or Early Amortization Payment Date, if applicable) is on deposit (in the aggregate) in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of “—Allocation of Amounts in the Concentration Accounts” below during the applicable Interest Period) and instruct each Designated Depository Bank pursuant to its Account Agreement to commence transferring any additional funds in its Collection Account(s) until the 14th day of the next March, June, September or December (as applicable) (or if such day is not a business day for the applicable Designated Depository Bank, its next business day) (or to the extent provided otherwise in the applicable Account Agreement) to Alfa-Bank’s other account(s) at such Designated Depository Bank. Promptly (and, in any event, within one of its Business Days) after sending such notice, the Indenture Trustee will transfer to Alfa-Bank any amounts in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts in excess of the portion of the Required Amount (*minus* any such amount already sent to the SPC pursuant to clause (xiv) of “—Allocation of Amounts in the Concentration Accounts” below) required to be on deposit in any such account. The Indenture Trustee will revoke any such notice to the Designated Depository Banks promptly (and, in any event, within one Business Day) after: (a) its actual knowledge of the existence or commencement of an Early Amortization Period for any Loan or (b) its actual knowledge that additional funds are needed for the Indenture Trustee to hold an amount equal to the Required Amount (in the aggregate) in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of “—Allocation of Amounts in the Concentration Accounts” below during the applicable Interest Period). It is to be noted that the above description of the timing of payments may from time to time be off by a day or more due to there being different business days in the applicable jurisdictions.

If the Required Amount is increased due to the proviso to the definition thereof, the occurrence of an Early Amortization Period, the SPC’s entering into a Hedging Agreement or otherwise at any time during which the DDB Collections are not being transferred from the Collection Accounts to the Concentration Accounts, then the Indenture Trustee will (unless an amount at least equal to such increased Required Amount is collectively on deposit in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of “—Allocation of Amounts in the Concentration Accounts” below during the applicable Interest Period)) promptly instruct each Designated Depository Bank to forward all Collections received in its Collection Account(s) to the applicable Concentration Account(s) until such time as the Indenture Trustee notifies it otherwise pursuant to the preceding paragraph; *provided* that if such increase is due to the SPC’s entering into a Hedging Agreement,

and there was immediately prior thereto on deposit in the Deposit Account an amount at least equal to the Required Amount for the Payment Date thereafter, then the Indenture Trustee will not so notify the Designated Depository Banks unless, by the Business Day after the SPC enters into the Hedging Agreement, the Deposit Account shall not hold an amount at least equal to such increased Required Amount.

With respect to any amount payable under the Transaction Documents in a currency other than Dollars or Euro, upon deposit of Dollars or Euro into the applicable Loan Payment Account or retention in the applicable Concentration Account pursuant to “—Allocation of Amounts in the Concentration Accounts” below, such Dollars and/or Euro will be as promptly as possible caused by the Indenture Trustee to be converted into such other currency and held by the Indenture Trustee in the applicable Loan Payment Account or Concentration Account (or a sub-account thereof) until the applicable date of payment of such amount. For example, if principal is payable with respect to a Loan that is denominated in Yen, then upon deposit of the allocated amount into the applicable Loan Payment Account, such amount will be caused by the Indenture Trustee to be converted into Yen as promptly as possible after being deposited into such Loan Payment Account and will be held by the Indenture Trustee in such Loan Payment Account (or a sub-account thereof) until the next Payment Date (or Early Amortization Payment Date, as applicable). The Required Amount will not be deemed to have been satisfied until such time as the related payment obligations in all currencies have been provided for in full in the appropriate currencies.

Pending application in accordance with the Indenture and the corresponding Indenture Supplement, amounts in the Concentration Accounts will be invested by the Indenture Trustee (at the instruction of Alfa-Bank, which may be a standing instruction) in Eligible Investments that are both denominated and payable in the relevant currency that is to be invested.

“*Eligible Investment*” means any investment in either: (a) direct obligations of, or fully guaranteed by: (i) the United States or (ii) so long as rated at least “Aa2” by Moody’s Investors Service, Inc. (“*Moody’s*”) and “AA” by each of Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“*S&P*”), and (if rated by Fitch Ratings Ltd. (“*Fitch*”)) Fitch, Japan, the United Kingdom, Switzerland or any member of the Euro-zone, (b) demand and time deposits in, cash escrow deposits in a trust or deposit account of, certificates of deposit of, bankers’ acceptances issued by or money market funds or accounts with any commercial bank or other financial institution organized under the laws of the United States, Japan, the United Kingdom, Switzerland, any member of the Euro-zone or any political subdivision thereof (including the Indenture Trustee and its affiliates, acting in their respective commercial capacities and, in the case of money market funds, including any such fund for which the Indenture Trustee or an affiliate thereof acts as the sponsor, distributor, investment manager or advisor), in each case which commercial bank or financial institution shall have a rating of at least “A-1” by S&P, “F1” by Fitch (if rated by Fitch) and “P-1” by Moody’s at the time of investment (or, with respect to money market funds, which funds shall have the highest rating available thereto from S&P, Fitch (if rated by

Fitch) and Moody's), (c) repurchase obligations with respect to any obligation described in clause (a) or entered into with a commercial bank or other financial institution meeting the requirements specified in clause (b), (d) commercial paper rated at least "A-1" by S&P, "F1" by Fitch (if rated by Fitch) and "P-1" by Moody's at the time of investment or (e) with respect to the Loan Payment Account for any Loan, such other investments as specified in the applicable Loan Supplement; *provided* that each Eligible Investment:

- (i) will be: (A) evidenced by a negotiable certificate or instrument or issued in the name of the Indenture Trustee or its nominee or (B) in book-entry form in the name of the Indenture Trustee or its nominee, and
- (ii) will mature not later than the New York Business Day before the next Payment Date (or Early Amortization Payment Date, if applicable), except overnight deposits (which may mature or be available on such Payment Date (or Early Amortization Payment Date, if applicable)); *it being understood* that the maturity date of any investment of deposits into the Deposit Account made by Alfa-Bank before the beginning of the applicable Interest Period as described in "—Deposit by Alfa-Bank" below will be not later than the New York Business Day before the Payment Date at the end of such applicable Interest Period;

*provided* that all such investments must comply with the requirements of Sections 12(d)(1)(A)(i) and (B)(i) of the Investment Company Act that may make it unlawful for the SPC to purchase or otherwise acquire any security issued by any registered investment company if the SPC (if not the owner thereof, determined as if it were the owner of such investments) immediately after such purchase or acquisition owns in the aggregate more than 3% of the total outstanding voting stock of such investment company.

**Deposit by Alfa-Bank**.....As specified in the Indenture, if, at noon (New York City time) on the second New York Business Day before the first day of an Interest Period (or, with respect to the first Interest Period, at noon (New York City time) on such first day), there shall be on deposit in a Dollar-denominated segregated trust account (the "*Deposit Account*") maintained in the United States in the name of the Indenture Trustee, the Concentration Accounts and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (n) of "—Allocation of Amounts in the Concentration Accounts" below during the applicable Interest Period) an amount at least equal to the sum of: (a) the expected Required Amount (in the applicable currencies) (calculated, with respect to a Loan with a floating Loan Interest Rate that has not yet been determined for such Interest Period, assuming a base interest rate (*i.e.*, the portion of the Loan Interest Rate not represented by a certain margin over a floating base) at least equal to the amount of such base if it were to be determined on the date of the deposit *plus 0.50% per annum*) payable on the Payment Date after the end of such Interest Period (or during such Interest Period), *plus* (b) except with respect to the first Interest Period, the Required Amount payable on the Payment Date after such second New York Business Day, then the Indenture Trustee will promptly (but in any event no later than its Business Day

before the first day of such Interest Period or, if the first Interest Period, then on the first day thereof) notify each Designated Depository Bank that (from the first day of such Interest Period) it shall thereafter (unless and until notified otherwise by the Indenture Trustee) transfer any funds in its Collection Account until but excluding the Payment Date after the end of such Interest Period to Alfa-Bank's account maintained with such Designated Depository Bank. If any component of the Required Amount is denominated in a currency other than Dollars, then such portion of the deposited amount will be deposited into a subaccount of the Deposit Account denominated in such currency.

If at 5:00 p.m. (New York City time) on the first day of an Interest Period:

- (a) the amount on deposit in the Deposit Account exceeds the Required Amount for the Payment Date at the end of such Interest Period, then any excess amounts will be promptly (and, in any event, within one Business Day) withdrawn from the Deposit Account by the Indenture Trustee and be delivered to Alfa-Bank, or
- (b) the amount on deposit in the Deposit Account is less than the Required Amount for the Payment Date at the end of such Interest Period, then: (i) if the amount on deposit in the Deposit Account is at least 95% of such Required Amount, the amount of such shortfall will be promptly (and, in any event, within one Business Day) notified by the Indenture Trustee to the SPC and Alfa-Bank and if the amount on deposit in the Deposit Account is not at least equal to such Required Amount at noon (New York City time) on the second Business Day after Alfa- Bank's receipt of such notice, then the Indenture Trustee will instruct the Designated Depository Banks to transfer funds in their Collection Accounts to the applicable Concentration Account until such time as the Indenture Trustee gives them the notice described in the second paragraph of "—Concentration Accounts" above, or (ii) otherwise, the Indenture Trustee will promptly (and, in any event, within one Business Day) instruct the Designated Depository Banks to transfer funds in their Collection Accounts to the applicable Concentration Account until such time as the Indenture Trustee gives them the notice described in the second paragraph of "—Concentration Accounts" above.

Should the Required Amount for the next Payment Date change (as certified in an officer's certificate by Alfa-Bank to the Indenture Trustee) during any Interest Period, then:

- (a) if such Required Amount is decreased and the amount on deposit in the Deposit Account then exceeds such changed Required Amount, then any excess amounts will be promptly (and, in any event, within one Business Day) withdrawn from the Deposit Account by the Indenture Trustee and be delivered to Alfa-Bank ; *provided* that the Indenture Trustee will not do so to the extent that it has actual knowledge that such officer's certificate from Alfa-Bank is incorrect, or

- (b) if such Required Amount is increased and the amount on deposit in the Deposit Account is then less than such changed Required Amount, then: (i) if there are at least ten Business Days before the next Payment Date and the amount on deposit in the Deposit Account was at least equal to the Required Amount for such Payment Date as calculated before such increase, the amount of such shortfall will be promptly (and, in any event, within one Business Day) notified by the Indenture Trustee to the SPC and Alfa-Bank and if the amount on deposit in the Deposit Account is not at least equal to such changed Required Amount at noon (New York City time) on the second Business Day after Alfa-Bank's receipt of such notice, then the Indenture Trustee will promptly (and, in any event, within one Business Day) instruct the Designated Depository Banks to transfer funds in their Collection Accounts to the applicable Concentration Account until such time as the Indenture Trustee gives them the notice described in the second paragraph of "—Concentration Accounts" above, or (ii) otherwise, the procedures described in "—Concentration Accounts" will continue to apply.

Amounts in the Deposit Account will be withdrawn by the Indenture Trustee from time to time during an Interest Period (and on the Payment Date at the end thereof) to the extent necessary (and not otherwise available for such purposes in the Concentration Accounts and/or Loan Payment Accounts) so that any amounts payable by Alfa-Bank to the SPC are paid from such withdrawn amounts; *provided* that the Indenture Trustee will not do so to the extent that (under the Loan Agreement) Alfa-Bank shall have delivered to the Indenture Trustee (for the benefit of the SPC) any such amount in immediately available funds in the applicable currency. Any such amounts so withdrawn from the Deposit Account for payment to the SPC will be deposited by the Indenture Trustee into the applicable Concentration Account(s) for allocation in the manner described in "—Allocation of Amounts in the Concentration Accounts" below.

Upon the commencement of an Early Amortization Period for any Loan, all amounts credited to the Deposit Account will be transferred by the Indenture Trustee to the applicable Concentration Account(s) for allocation in the manner described in "—Allocation of Amounts in the Concentration Accounts" below.

Pending application in accordance with the Indenture, amounts in the Deposit Account will be invested by the Indenture Trustee (at the instruction of Alfa-Bank, which may be a standing instruction) in Eligible Investments that are both denominated and payable in the applicable currency.

For the purpose of clarification: (a) any amounts due and payable from the SPC to a counterparty under a Hedging Agreement will be taken into account in determining the Required Amount; *it being understood* that any amount due and payable from a counterparty to the SPC will not be taken into account in connection with such determination, and (c) subject to the pledge thereon granted by Alfa-Bank to the SPC under the Pledge Agreement, Alfa-Bank will be the beneficial owner of the Deposit Account and all amounts and investments credited thereto.



**Allocation of Amounts**

**in the Concentration Accounts**

Collections received in a Concentration Account will (based upon information provided to the Indenture Trustee by Alfa-Bank on behalf of the SPC) be: (a) allocated by the Indenture Trustee to an account for the Series 2006-A Loan (the “*Series 2006-A Loan Payment Account*”) or the applicable account for each other Loan (collectively with the Series 2006-A Loan Payment Account, the “*Loan Payment Accounts*”) or (b) retained in such Concentration Account, as applicable, for payment to the appropriate person, on each of the Indenture Trustee’s Business Days in the following order of priority (for the purpose hereof, the phrase “Collections in each Concentration Account” will include any amounts transferred from the Deposit Account in the manner described in “—Deposit by Alfa-Bank” above, any payments (except as specifically provided elsewhere in the Transaction Documents) by (or on behalf of) Alfa-Bank to the SPC under the Transaction Documents, any earnings on investments made with funds in the Concentration Accounts and any amounts paid to the SPC (or to the Indenture Trustee for the benefit of the SPC) under a Hedging Agreement):

- (i) *first*, to the extent necessary to pay the Indenture Trustee (and, on a *pro rata* basis with the Indenture Trustee, to any trustee acting as a Noteholder for the benefit of any related Certificateholders) in accordance with the respective amount of fees payable to them on or before the next Payment Date, such Collections will be retained in (or, if in the Euro Concentration Account, converted into Dollars and transferred to) the Dollar Concentration Account and paid to such person(s) on the date(s) when due; *provided* that any such amounts payable in Euro will be retained in the Euro Concentration Account (and, if necessary, transferred from the Dollar Concentration Account to the Euro Concentration Account and converted into Euro) and paid to the applicable recipient(s) on the date(s) when due,
- (ii) *second*, all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the following amounts due and payable for each Senior Series on or before the next Payment Date, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis): (A) all premiums, guaranty fees and other fees relating to the Enhancement(s) (if any) in respect of the Senior Series that are due on or before the next Payment Date and remain unpaid (*plus* any interest payable to the applicable Enhancer in connection therewith), (B) any amounts in respect of interest owing in respect of the Senior Series that were paid on any previous day from the proceeds of any disbursements under any Enhancement applicable to the Senior Series and for which the applicable Enhancer (or Enhancement) has not yet been reimbursed (*plus* any interest payable to it in connection therewith), (C) any interest owing in respect of the Senior Series and payable on the next Payment Date (calculated as if no Early Amortization Period with respect to any Loan corresponding to a Senior Series

exists) and (D) any Additional Amounts payable by the SPC with respect thereto,

- (iii) *third*, all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the following amounts due and payable for each Senior Series, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) the Quarterly Amortization Amount: (A) scheduled to be paid in respect of the Loans corresponding to the Senior Series on the next Payment Date *plus* (B) scheduled to be paid in respect of such Loans on any previous Payment Date that has not yet been paid (including in respect of such Loans for which a corresponding amount of a Senior Series was paid on any previous day from the proceeds of any disbursements under any Enhancer (or Enhancement) for which the applicable Enhancer (or Enhancement) has not yet been reimbursed) (*plus* any interest payable to any such Enhancer in connection therewith),
- (iv) *fourth*, if an Early Amortization Period exists with respect to any Loan corresponding to a Senior Series, then: (A) unless a Default Payment with respect to any Loan has been required to be paid with respect to such Loan and has not yet been so paid (in which event only clause (B) will apply), the Sharing Percentage of all remaining Collections in each Concentration Account will be released to Alfa-Bank, and (B) the balance of all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the outstanding Loan Balance of the Loan corresponding to each Senior Series with respect to which Loan an Early Amortization Period exists, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis; *provided* that once an amount equal to the outstanding Loan Balance of any such Loan has been so allocated to the applicable Loan Payment Account, then it will not be included in any such allocation calculation) the aggregate outstanding Loan Balance of all such Loans (after giving effect to any amounts already allocated to the payment thereof pursuant to clause (iii)),
- (v) *fifth*, all remaining Collections in each Concentration Account will be paid (on a *pro rata* basis based upon the following amounts due and payable on or before the next Payment Date (whether or not an Early Amortization Period with respect to any Loan exists), with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) to each person (other than Alfa-Bank, the SPC, any affiliate of either thereof and any other person to the extent that such other person's involvement in the transaction relates to a Subordinated Series) to whom: (A) any other amount under the Transaction Documents (other than the Hedging

Agreements and other than any amount by which the Required Amount has been increased due to clause (a) of the proviso to the definition of “Required Amount”) is then due and payable by the SPC (*it being understood* that such amounts will be retained in the applicable Concentration Account and paid to such person(s) on the date(s) when due) and (B) any Additional Amounts are payable but have not yet been paid by the SPC,

- (vi) *sixth*, except with respect to any Senior Series corresponding to a Loan the Loan Balance of which has been reduced to zero (or with respect to which funds shall have been allocated for such purpose pursuant to clauses (iii) and/or (iv)), during any period during which the Required Amount for any Loan corresponding to a Senior Series has been increased due to clause (a) of the proviso to the definition of “Required Amount,” all remaining Collections in each Concentration Account will be deposited (on a *pro rata* basis based upon the respective Loan Balances of each such Loan (after subtracting the amount of any funds allocated to the payment thereof pursuant to clauses (iii) and (iv)), with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) into the applicable Loan Payment Account(s) up to an amount equal to the increase in the Required Amounts allocated to each such Loan caused by such proviso,
- (vii) *seventh*, all remaining Collections in each Concentration Account will be retained in (or, if in the Euro Concentration Account, converted into Dollars and transferred to) the Dollar Concentration Account to the extent necessary to pay (on a *pro rata* basis) the amounts due and payable on or before the next Payment Date to any counterparty under any Hedging Agreement entered into by the SPC with respect to a Senior Series, which amounts will be paid to such counterparty(ies) on the date(s) when due; *provided* that any such amounts payable in Euro will be retained in the Euro Concentration Account (and, if necessary, transferred from the Dollar Concentration Account to the Euro Concentration Account and converted into Euro) and paid to the applicable counterparty(ies) on the date(s) when due,
- (viii) *eighth*, all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the following amounts due and payable for each Subordinated Series on or before the next Payment Date, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis): (A) all premiums, guaranty fees and other fees relating to the Enhancement(s) (if any) in respect of the Subordinated Series that are due on or before the next Payment Date and remain unpaid (*plus* any interest payable to the applicable Enhancer in connection therewith), (B) any amounts in respect of interest owing in respect of the Subordinated Series that were paid on any previous day from

the proceeds of any disbursements under any Enhancement applicable to the Subordinated Series for which the applicable Enhancer (or Enhancement) has not yet been reimbursed (*plus* any interest payable to the applicable Enhancer in connection therewith), (C) any interest owing in respect of the Subordinated Series and payable on the next Payment Date (whether or not an Early Amortization Period with respect to any Loan corresponding to a Subordinated Series exists) and (D) any Additional Amounts payable by the SPC with respect thereto,

- (ix) *ninth*, all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the following amounts due and payable for each Subordinated Series, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) the Quarterly Amortization Amount: (A) scheduled to be paid in respect of the Loans corresponding to the Subordinated Series on the next Payment Date *plus* (B) scheduled to be paid in respect of such Loans on any previous Payment Date that has not yet been paid (including in respect of such Loans for which a corresponding amount of a Subordinated Series was paid on any previous day from the proceeds of any disbursements under any Enhancement applicable to the Subordinated Series for which the applicable Enhancer (or Enhancement) has not yet been reimbursed) (*plus* any interest payable to any such Enhancer in connection therewith),
- (x) *tenth*, if an Early Amortization Period exists with respect to any Loan corresponding to a Subordinated Series, then: (A) unless funds have already been released to Alfa-Bank on such Business Day under clause (iv)(A) or a Default Payment with respect to any Loan has been required to be paid with respect to such Loan and has not yet been so paid (in which event only clause (B) will apply), the Sharing Percentage of all remaining Collections in each Concentration Account will be released to Alfa-Bank, and (B) the balance of all remaining Collections in each Concentration Account will be deposited into the applicable Loan Payment Account(s) to the extent necessary to pay (on a *pro rata* basis based upon the outstanding Loan Balance of the Loan corresponding to each Subordinated Series with respect to which Loan an Early Amortization Period exists, with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis; *provided* that once an amount equal to the outstanding Loan Balance of any such Loan has been so allocated to the applicable Loan Payment Account, then it will not be included in any such allocation calculation) the aggregate outstanding Loan Balance of all such Loans (after giving effect to any amounts already allocated to the payment thereof pursuant to clause (ix)),

- (xi) *eleventh*, all remaining Collections in each Concentration Account will be paid (on a *pro rata* basis based upon the following amounts due and payable on or before the next Payment Date (whether or not an Early Amortization Period with respect to any Loan exists), with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) to each person (other than Alfa-Bank, the SPC or any affiliate of either thereof) to whom: (A) any other amount under the Transaction Documents (other than the Hedging Agreements and other than any amount by which the Required Amount has been increased due to clause (a) of the proviso to the definition of “Required Amount”) is then due and payable by the SPC (*it being understood* that such amounts will be retained in the applicable Concentration Account and paid to such person(s) on the date(s) when due) and (B) any Additional Amounts are payable but have not yet been paid by the SPC,
- (xii) *twelfth*, except with respect to any Subordinated Series corresponding to a Loan the Loan Balance of which has been reduced to zero (or with respect to which funds shall have been allocated for such purpose pursuant to clauses (ix) and/or (x)), during any period during which the Required Amount for any Loan corresponding to a Subordinated Series has been increased due to clause (a) of the proviso to the definition of “Required Amount,” all remaining Collections in each Concentration Account will be deposited (on a *pro rata* basis based upon the respective Loan Balances of each such Loan (after subtracting the amount of any funds allocated to the payment thereof pursuant to clauses (ix) and (x)), with the amounts in each Concentration Account being converted into Euro or Dollars, as applicable, so that such allocations are applied on such *pro rata* basis) into the applicable Loan Payment Account(s) up to an amount equal to the increase in the Required Amounts allocated to each such Loan caused by such proviso,
- (xiii) *thirteenth*, all remaining Collections in each Concentration Account will be retained in (or, if in the Euro Concentration Account, converted into Dollars and transferred to) the Dollar Concentration Account to the extent necessary to pay (on a *pro rata* basis) the amounts due and payable on or before the next Payment Date to any counterparty under any Hedging Agreement entered into by the SPC with respect to a Subordinated Series, which amounts will be paid to such counterparty(ies) on the date(s) when due; *provided* that any such amounts payable in Euro will be retained in the Euro Concentration Account (and, if necessary, transferred from the Dollar Concentration Account to the Euro Concentration Account and converted into Euro) and paid to the applicable counterparty(ies) on the date(s) when due,
- (xiv) *fourteenth*, all remaining Collections in each Concentration Account will be paid to the SPC to the extent necessary to pay any administrative and other costs of the SPC (including legal

fees and disbursements, fees, indemnities and other payments to underwriters or similar placement agents for the Notes, registered office fees, companies registry fees and Taxes (including Luxembourg profits taxes)) that are due and payable on or before the next Payment Date, which amounts will be used by the SPC to pay such administrative and other costs as such costs are required to be paid; *it being understood* that the Indenture Trustee only will distribute such amounts to the SPC with respect to a particular Payment Date (and the Interest Period then ended) to the extent notified thereof not later than two Business Days before the preceding Payment Date,

(xv) *fifteenth*, all remaining Collections in the Concentration Accounts will be applied to reimburse the Guarantor for any payments made by it under its Guaranty; *it being understood* that no interest or other amounts are payable to the Guarantor with respect thereto, and

(xvi) *sixteenth*, all remaining Collections in each Concentration Account will be released to Alfa-Bank; *provided* that if any amounts payable by Alfa-Bank under the Transaction Documents are then due and unpaid, then any remaining funds will first be applied by the Indenture Trustee (on behalf of Alfa-Bank) to pay such amounts on such Business Day;

*provided* that if the Indenture Trustee has been notified by Alfa-Bank (including in a Servicing Report), the SPC or any Note Secured Party that the breach of any Debt Service Coverage Test(s) for any outstanding Loan for which the Controlling Party of the corresponding Series is not an Enhancer has (at any time, whether or not since cured) resulted in an Early Amortization Event for such Loan but not (or, if still existing, not yet) an Early Amortization Period for such Loan (and a Release Date has not yet occurred with respect to such Early Amortization Event), then:

(i) for each of the Indenture Trustee's first ten Business Days after its receipt of such notice (the eleventh Business Day after the Indenture Trustee's receipt of such notice, the "*Retention Commencement Date*"), the allocations pursuant to clauses (xv) and (xvi) will be made as if this proviso did not exist, and

(ii) on the Retention Commencement Date, the Indenture Trustee will promptly notify each of the Designated Depository Banks that are not then sending Collections in their Collection Account(s) to the applicable Concentration Account to do so until notified otherwise by the Indenture Trustee, and

(A) any allocations pursuant to clauses (xv) and (xvi) shall not be made,

(B) with respect to each Series corresponding to a Loan for which such an Early Amortization Event has occurred, until the earlier of: (1) the Indenture Trustee's receipt from the Controlling Party of such

Series that this proviso shall no longer apply with respect to such Early Amortization Event and (2) the date at least one month after the Monthly Reporting Period for which such Debt Service Coverage Test had been breached on which the Indenture Trustee receives a Servicing Report evidencing that the average of the three most recently-reported monthly Debt Service Coverage Ratios is at least equal to the test level from the relevant quarterly Debt Service Coverage Test (or as otherwise provided in the applicable Indenture Supplement) for such Loan (such earlier date, the “*Release Date*,” and the period from the Retention Commencement Date through the Release Date being the “*Retention Period*”), the Retained Amount for such Series will be transferred to and retained in the applicable Loan Payment Account; thereafter: (x) if the Retention Period for such Series terminates before an Early Amortization Period with respect to such Loan commences, then all such amounts in the applicable Loan Payment Account will be released from such Loan Payment Account and will be allocated in the manner provided for in clauses (xv) and (xvi), and (y) if an Early Amortization Period with respect to such Loan commences before the Retention Period for such Series terminates, then all such amounts will be retained in such Loan Payment Account as if they were an allocation to such Loan Payment Account under clause (iv)(B) and will be applied pursuant to the applicable Loan Supplement on the next Early Amortization Payment Date, and

- (C) all remaining Collections in the Concentration Accounts in excess of what is required to fund the Retained Amounts for all such Series will be allocated in the manner provided for in clauses (xv) and (xvi) as if this proviso did not exist.

“*Retained Amount*” with respect to a Series means, for each date of determination, an amount equal to such Series’ *pro rata* share (based upon the outstanding Loan Balance of the Loan corresponding to each Series for which a Retention Period is in effect on such date and for which the effect of the proviso below does not yet apply) of: (a) the amount of Collections that would have been allocated on such date in the manner provided for in clauses (xv) and (xvi) in the absence of the Retention Period for any Series *minus* (b) unless a payment has already been made to Alfa-Bank on such date under clause (iv)(A) or (x)(A), such portion of such Collections that would be sent to Alfa-Bank on such date pursuant to clause (x)(A) if an Early Amortization Period with respect to a Loan corresponding to a Subordinated Series were to exist; *provided* that the aggregate Retained Amount for any Series at any time on deposit in the Loan Payment Account for the corresponding Loan will not exceed the outstanding Loan Balance of such Loan.

As provided in “—Concentration Accounts” above, all such amounts that are to be deposited into a Loan Payment Account corresponding to a Loan that is denominated in a currency other than Dollars or Euro will be caused by the Indenture Trustee to be converted into such currency as promptly as possible after being deposited into such Loan Payment Account. For the purpose of calculating the allocations among the Loans pursuant to the above, the *pro rata* portion of the principal, interest or other amount(s) payable with respect to any Loan or Series that is payable in a currency other than Dollars generally will be determined by notionally converting such amount into Dollars using the exchange rate (except with respect to Euro, taking into consideration any exchange fees or other charges) that will be (or, as closely as possible, is expected to be) used to convert Dollar Collections into such other currency.

The “*Required Amount*” for each Payment Date (and the Interest Period then ended) and each Early Amortization Payment Date (if applicable) means the amount necessary to allocate or pay in full all amounts that (were there unlimited funds in the Concentration Accounts) would be allocated or paid with respect to such date (and the Interest Period or, with respect to an Early Amortization Payment Date, shorter period then ending) pursuant to clauses (i) through (xiv) above; *provided* that: (a) for any Loan, the Required Amount for any Payment Date may be increased to the extent provided in the applicable Loan Supplement (*it being understood* that the aggregate amount necessary to reflect all increases caused by any such revisions will be the Required Amount), and (b) with respect to any Hedging Agreements, the amount to be included in such determination will be the net amount (if any) that would be payable by the SPC for such Payment Date (and the Interest Period then ended) under such Hedging Agreement as of the date of determination. Any amounts paid in respect of principal as a result of the preceding proviso that would not have been paid but for the application of such proviso will be applied to reduce the Quarterly Amortization Amounts of each applicable Loan scheduled to be paid on the remaining Payment Dates on a *pro rata* basis or such other manner as may be set forth in the corresponding Loan Supplement.

“*Sharing Percentage*” means, at any time, the higher of: (a) 34% and (b) the lowest percentage identified as the “*Sharing Percentage*” in the Indenture Supplement(s) for Senior Series (if any) corresponding to Loans with respect to which Loans an Early Amortization Period then exists; *provided* that: (i) if the Controlling Parties with the power to instruct the Indenture Trustee to make determinations with respect to a majority (or, with respect to an increase in the percentage described in clause (a), all) of the aggregate Loan Balances of all Loans corresponding to Senior Series (with respect to an allocation under clause (iv) above) or Subordinated Series (with respect to an allocation under clause (x) above) with respect to which Loans an Early Amortization Period exists inform the Indenture Trustee and the SPC otherwise, then the Sharing Percentage will be such other higher or lower percentage as shall be selected by such Controlling Parties, (ii) if an Indenture Supplement does not identify a Sharing Percentage, then the Sharing Percentage for the corresponding Series will be deemed to be 34%, and (iii) if no Senior Series are outstanding, then clause (b) will be interpreted as if the reference to “Senior Series” therein were a reference to “Subordinated Series.”



The Indenture Supplement for the Offered Notes will provide that the Sharing Percentage for such Loan will be 34%; *provided* that if the only existing Early Amortization Event for the Series 2006-A Loan is clause (s) of “—Early Amortization Events” below, then the Sharing Percentage for the Offered Notes will be 80%.

***Distribution of Amounts***

***in the Loan Payment Accounts*** .....Each Loan Payment Account will be in the name of the Indenture Trustee and maintained in the United States (or, with respect to any Loan denominated in a currency other than Dollars, in any other country specified in the applicable Loan Supplement or, if not so specified, in a country in which such currency is the national currency). All amounts on deposit in a Loan Payment Account will be paid in the manner specified in the Indenture Supplement for the corresponding Series (via reference in the corresponding Loan Supplement); *it being understood* that payments of principal and interest by Alfa-Bank on any Loan (and thus by the SPC on the applicable Series) will only be payable: (a) on a Payment Date, (b) during an Early Amortization Period with respect to such Loan, on an Early Amortization Payment Date, (c) on a Prepayment Date for such Loan or (d) on the date described in “—Defaults” below, as a result of the payment of a Default Payment for such Loan. If: (i) a Payment Date, an Early Amortization Payment Date or a Prepayment Date is not a Business Day for the Indenture Trustee, then it will arrange for the corresponding payments to be made on such day as if it were a Business Day for the Indenture Trustee, and (ii) a payment is required to be made on a day on which settlement in the applicable currency cannot be made (for example, a payment in Euro that cannot be made on a Payment Date as it is not a business day for transactions in Europe), then the Indenture Trustee will make such payment on its next Business Day on which such payment can be made; *it being understood* that no interest or other additional payment with respect to such delay will be paid.

All amounts on deposit in the Loan Payment Account for the Series 2006-A Loan will be allocated or paid by the Indenture Trustee (based upon information provided by Alfa-Bank on behalf of the SPC) on each of its Business Days in the following order of priority:

- (a) *first*, the amount necessary to pay all interest payable by the SPC in respect of the Offered Notes on the next Payment Date (whether or not an Early Amortization Period with respect to the Series 2006-A Loan exists) will be retained in the applicable Loan Payment Account and will be paid (on a *pro rata* basis to the applicable Noteholders of record as of the most recent Record Date) on such next Payment Date (or, to the extent accrued, Early Amortization Payment Date); *provided* that if an Early Amortization Period with respect to such Loan exists, if such Series would not be repaid in full on such Early Amortization Payment Date, then the amount necessary to pay all accrued interest in respect of such Series on the next Payment Date (such amount to be determined as if no Early Amortization Period with respect to such Loan were to exist but giving effect to any payment of principal made on such Early Amortization Payment Date) will be retained in the applicable Loan Payment Account for allocation to the

payment of interest on the next Payment Date (or Early Amortization Payment Date, if applicable),

- (b) *second*, any Additional Amounts payable by the SPC with respect to the payments under clause (a) (on a *pro rata* basis to the applicable Noteholders),
- (c) *third*, all remaining amounts equal to the Quarterly Amortization Amount (if any) scheduled to be paid on the Series 2006-A Loan on the next Payment Date (or scheduled to be paid on any previous Payment Date but that has not yet been paid) will be retained in the applicable Loan Payment Account and paid (on a *pro rata* basis to the applicable Noteholders of record as of the most recent Record Date) on such next Payment Date (or, if applicable, on the next Early Amortization Payment Date with respect to such Loan; *it being understood* that the Loan Supplement for the Series 2006-A Loan will provide that the Quarterly Amortization Amount for such Loan for such Payment Date will be reduced by the amount of any such payments from the Series 2006-A Loan Payment Account on an Early Amortization Payment Date),
- (d) *fourth*, if an Early Amortization Period with respect to the Series 2006-A Loan exists (or if funds were allocated to the applicable Loan Payment Account as a result of the existence of an Early Amortization Period with respect to such Loan that has since ended), then all remaining amounts (up to an amount equal to the aggregate amount deposited into the applicable Loan Payment Account pursuant to clause (iv) of “— Allocation of Amounts in the Concentration Accounts” above as a result of the existence of such Early Amortization Period, excluding any such amounts already paid to the applicable Noteholders on any earlier Early Amortization Payment Date) will be retained in the applicable Loan Payment Account and paid (on a *pro rata* basis to the applicable Noteholders of record on the most recent Record Date) on the next Early Amortization Payment Date (if the Early Amortization Period for such Loan has ended, determined as if such Early Amortization Period still existed); *it being understood* that the Loan Agreement will provide that if such payment from the Series 2006-A Loan Payment Account results in a partial prepayment of the Offered Notes, then such prepayment will result in a corresponding reduction of each remaining scheduled Quarterly Amortization Amount of such Loan on a *pro rata* basis (or, if a Default Payment for the Series 2006-A Loan is then payable with respect thereto, in inverse order of maturity), and
- (e) *fifth*, all remaining amounts will be deposited into the applicable Concentration Account.

Pending application in accordance with the Indenture and the applicable Indenture Supplement, amounts in a Loan Payment Account will be invested by the Indenture Trustee (at the instruction of Alfa-Bank, which may be a standing instruction) in Eligible

Investments that are both denominated and payable in the applicable currency.

*Covenants of the SPC* ..... Pursuant to the Indenture, the SPC will agree to, among other covenants, certain negative covenants relating to the conduct of its business, including agreements not to:

- (a) create, assume or otherwise incur indebtedness (including any contingent obligations) or any other obligations or liabilities other than the Notes, any obligations under Enhancement Agreements, any other obligations under or contemplated by the Transaction Documents (including under Hedging Agreements) and normal course obligations relating to the maintenance of its existence (including the payment of taxes, registration fees, accounting expenses and similar costs),
- (b) create or suffer to exist any liens on the Note Collateral or any of its other properties other than liens created for the benefit of the Indenture Trustee pursuant to the Transaction Documents and liens for taxes, assessments and other governmental charges payable by the SPC and not yet due,
- (c) (i) create or acquire any subsidiaries or (ii) other than as specifically contemplated by the Transaction Documents, make any investment (which permitted investments must comply with Sections 12(d)(1)(A)(i) and (B)(i) of the Investment Company Act),
- (d) pay any dividends or make any other distribution to its equityholder(s) other than to declare and pay a dividend in the amount of up to the amount of the SPC's transaction fees described in the proviso to the definition of "Note Collateral" above promptly after each Borrowing Date,
- (e) consolidate or merge with or into any other person or (except pursuant to the Transaction Documents) sell, assign, lease, transfer or otherwise dispose of (or purport to sell, assign, lease, transfer or otherwise dispose of), directly or indirectly, all or any part of its properties to any other person,
- (f) engage in any business activity other than as required or contemplated under the Transaction Documents,
- (g) take, or (where it has the power to prevent the relevant action) knowingly permit to be taken, any action that would prematurely terminate, or discharge or prejudice the validity or effectiveness of, any of the Transaction Documents or the validity, effectiveness or priority of the liens created thereby,
- (h) make, or cause or permit to be made on its behalf, any payment, monetary transfer or deposit other than as specifically contemplated by the Transaction Documents, as required by applicable law or payments on obligations permitted by clauses (a) and (d), or

- (i) have any directors, officers, employees or corporate service providers that are members of the Alfa Consortium (or directors, officers and/or employees of any entity in the Alfa Consortium) or are direct shareholders of any entity in the Alfa Consortium.

“*Hedging Agreement*” means an interest rate agreement or any currency swap, cap or collar agreement or similar arrangement entered into by the SPC providing for the transfer or mitigation of interest rate or currency risks either generally or under specific contingencies; *it being understood* that: (a) such agreement will specifically provide that the counterparty thereto will only receive payment in the manner described in “—Allocation of Amounts in the Concentration Accounts” above and contain such counterparty’s agreement that it will not initiate any bankruptcy or similar proceeding against the SPC, (b) the SPC will deliver a copy of each such agreement (including any swap confirmations relating thereto) to the Indenture Trustee promptly after the execution thereof; *it being understood* that no Hedging Agreement may be entered into except in writing (*i.e.*, any undocumented swap will not be considered to be a Hedging Agreement), (c) the SPC will enter into any Hedging Agreement only at the request of Alfa-Bank, (d) any payments to the SPC thereunder will be made to the Indenture Trustee for deposit into the applicable Concentration Account, (e) such agreement will specifically provide that payments thereunder are due and payable on a net basis, (f) such agreement will hedge interest rate and/or foreign exchange exposure relating to either a Senior Series or a Subordinated Series and (g) such agreement will contain the acknowledgment and agreement of the counterparty that the SPC’s right, title and interest in, to and under such agreement have been pledged to the Indenture Trustee. Any Hedging Agreement may be guaranteed by any person (including Alfa-Bank and/or the Guarantor) and/or may be secured by collateral other than the Loan Collateral and the Note Collateral; *it being understood* that the SPC’s obligations thereunder would be secured by the Note Collateral in the manner described herein.

***Covenants of Alfa-Bank*** .....Alfa-Bank will agree in the Loan Agreement, among other things:

- (a) not to take any action (including through any of its branches or other offices) to reduce or terminate, or sell, assign or otherwise dispose of, its Payment Order business (including by transferring all or a portion of such business to any of its affiliates or by terminating (or taking or refraining from taking any action that would cause the termination of) its membership in the SWIFT or any other Payment Order system), whether in a single transaction or a series of related transactions, or make any other change in such business, in each case that could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect; *it being understood* that administrative and operational matters relating to Alfa-Bank’s Payment Order business may, as permitted in the Loan Agreement, be handled by third parties (including Alfa-Bank’s affiliates),
- (b) not to (including through any of its branches or other offices):
  - (i) purport to create, incur or suffer to exist any lien on the

Diversified Payment Rights or other Loan Collateral other than: (A) liens created pursuant to the Transaction Documents, (B) liens created by operation of law for taxes, assessments and other governmental charges payable by Alfa-Bank and/or the SPC and not yet due and (C) any right of set-off or similar banker's lien held by a Depositary Bank on an account of Alfa-Bank that is not a Collection Account, (ii) sell, assign, transfer or otherwise dispose of any of the Diversified Payment Rights or other Loan Collateral to any person other than to the SPC pursuant to the Transaction Documents or (iii) sell, assign, transfer or otherwise dispose of, or create, incur or suffer to exist any lien (other than liens for taxes, assessments and other governmental charges payable by Alfa-Bank but that are not yet due) on, its rights under the Transaction Documents; *it being understood* that (so long as any such action will not breach any of Alfa-Bank's representations, warranties, covenants or other obligations under the Transaction Documents or result in an Early Amortization Event with respect to any Loan) Alfa-Bank may take any of the actions listed above with respect to any of its property other than the Diversified Payment Rights or any other Loan Collateral, including for the purpose of entering into a secured loan or a "true sale" securitization supported by such property,

(c) not to close any merger with or into, consolidation with or sale, assignment or other conveyance (directly or indirectly) of all or substantially all of its property (whether in a single transaction or a series of related transactions) to, any person unless:

(i) (A) with respect to any merger or consolidation, Alfa-Bank is the surviving entity, or (B) such person assumes in writing all of Alfa-Bank's rights and obligations under the Transaction Documents and Alfa-Bank (or such person) delivers to the Indenture Trustee one or more opinion(s) of counsel in form and substance reasonably satisfactory to the Indenture Trustee to the effect that: (1) such assumption is sufficient for each such Transaction Document to constitute a legal, valid and binding obligation of such person, enforceable against it in accordance with its terms and (2) following such assumption, the SPC will continue to have a pledge over the Loan Collateral in the manner contemplated in the Loan Agreement and the Pledge Agreement,

(ii) each Rating Agency shall have notified the Indenture Trustee in writing that such merger, consolidation, sale, assignment or conveyance will not result in such Rating Agency withdrawing or reducing its rating(s) with respect to any Series (determined without consideration of any applicable Enhancement that is a financial guaranty insurance policy or similar guaranty with respect to such Series but after giving effect to such merger, consolidation, sale, assignment

or conveyance) to below the lower of: (A) its then-current such rating on such Series and (B) its initial such rating on such Series, and

- (iii) no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both) shall be expected to exist immediately after giving effect to such proposed merger, consolidation, sale, assignment or conveyance,
- (d) except to the extent required by applicable law (including by any governmental authority): (i) not to take any action (or refrain from taking any action) that would impair in any respect the rights and interests of the SPC, the Indenture Trustee and/or any other person under the transactions contemplated by the Transaction Documents (including by causing any payment obligation that would otherwise be a Diversified Payment Right not to fall within the definition thereof) and (ii) to continue in all respects to service and administer its Payment Order business, for so long as any Loan remains outstanding, as in effect on its Borrowing Date, in each case except to the extent that any failure to do so could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect; *it being understood* that Alfa-Bank may continue to provide alternative payment-related services (such as those relating to letter of credit/documentary credit/MT700-type transactions and cash against documents/collections/MT400-type transactions) to the extent that such services are not provided for the purpose of causing a Material Adverse Effect,
- (e) (i) to cause to be filed in the appropriate jurisdictions in the United States all Uniform Commercial Code financing statements, and any continuation statements with respect thereto, necessary in order to reflect the pledge of the Loan Collateral to the SPC and promptly to provide the SPC and the Indenture Trustee with confirmation of all such filings, (ii) to cause a certified and notarized Russian translation of the Loan Agreement, the Pledge Agreement and each Loan Supplement (in each case, in form and substance certified to the Indenture Trustee as a correct translation by Russian counsel acceptable to it (other than counsel to Alfa-Bank and/or any of its affiliates with respect to the Transaction Documents)) to be delivered to the SPC and the Indenture Trustee by no later than 90 days after the date of such Transaction Document and (iii) reasonably promptly to execute and deliver all further documents, and take all further action, that may be necessary or desirable that the SPC or the Indenture Trustee may reasonably request in order to effect more fully the purposes of the Pledge Agreement and the other Transaction Documents and the pledge of the Loan Collateral thereunder, to protect or more fully evidence the SPC's pledge over the Loan Collateral or to enable the SPC or the Indenture Trustee

to exercise or enforce any of their respective rights in respect thereof,

- (f) to have at least one Designated Depository Bank that is not affiliated with Alfa-Bank with respect to each of Dollars and Euro; *provided* that if all outstanding Loans are denominated: (i) in Dollars, then no Designated Depository Bank with respect to Euro will be required, and (ii) in Euro, then no Designated Depository Bank with respect to Dollars will be required,
- (g) to not permit its total capital ratio to fall below the minimum total capital ratio required by the Central Bank, such calculation to be made by reference to the latest annual, semester or quarterly (as applicable) non-consolidated (and/or, if required by local applicable law, consolidated) accounts of Alfa-Bank; *provided* that should Alfa-Bank carry on a banking business in more than one jurisdiction, it will not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction,
- (h) subject to clause (c), to maintain, renew and keep in full force and effect its legal existence and rights, licenses, consents, approvals, franchises and privileges in the jurisdictions necessary: (i) for the continued generation of Diversified Payment Rights, (ii) for the performance of its obligations under the Transaction Documents and (iii) in the normal conduct of its business (including its Payment Order business) (except, in each case, to the extent that any failure to have such rights, licenses, consents, approvals, franchises and privileges could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect),
- (i) to comply at all times in all respects with: (i) all applicable laws of Russia (including regulations imposed by the Central Bank) and, only to the extent that they apply to or in any way affect the generation of the Diversified Payment Rights and/or the other transactions contemplated by the Transaction Documents (including the performance of its obligations thereunder), all applicable laws of the United States and other jurisdictions (including to ensure compliance with: (A) any applicable laws relating to the collection of export-related payments (such as Russia's currency control laws) and (B) the Prohibited Nations Acts (including the requirement of the USA Patriot Act to maintain a process agent in the United States to accept service of process from the Secretary of the Treasury or the Attorney General of the United States pursuant to 31 U.S.C.A. §5318(k)), and (ii) all of its obligations under the SWIFT and other Payment Order systems, in both of clauses (i) and (ii) except where non-compliance therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,

- (j) to provide each Rating Agency (at Alfa-Bank's sole expense) such reports, records and documents as each shall reasonably request to monitor or affirm the rating(s) assigned by it to each outstanding Series (determined either with or without giving consideration of any applicable Enhancement that is a financial guaranty insurance policy or similar guaranty of such Series); *it being understood* that Alfa-Bank will not request that any Rating Agency (or cause any Rating Agency to be requested to) stop rating any Series rated by such Rating Agency without the prior consent of the SPC and the Indenture Trustee (which the Indenture Trustee may not provide absent the consent of each of the Investors and Enhancers (if any) of such Series),
- (k) (i) to notify the SPC and the Indenture Trustee by no later than ten Business Days after the end of each Reporting Period (or, if earlier, the date on which the Servicing Report for such Reporting Period has been delivered to the Indenture Trustee) (*provided* that it will use reasonable efforts to provide such notice within five Business Days) after its opening of any new correspondent banking account into which Collections may be deposited and (ii) that any Collections that it (or any other person on its behalf) receives (for any reason whatsoever) in respect of Diversified Payment Rights will be: (A) if received or held by Alfa-Bank, deposited into the applicable Concentration Account or any Collection Account, and (B) if received by another person on behalf of Alfa-Bank (including any Depository Bank for which an Account Agreement is not in effect), instructed to be so deposited, in each case promptly (but in any event within two Business Days after Alfa-Bank's obtaining actual knowledge of its (or such other person's) receipt thereof); *provided* that: (1) if: (y) an amount at least equal to the Required Amount for the next Payment Date (or Early Amortization Payment Date, if applicable) is collectively on deposit in the Deposit Account, the Concentration Accounts and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of "—Allocation of Amounts in the Concentration Accounts" above during the applicable Interest Period) or (z) no Early Amortization Period with respect to any Loan exists, then Alfa-Bank may retain all such Collections, and (2) any amounts that are released to it pursuant to "—Allocation of Amounts in the Concentration Accounts" above may be retained by it (for the purpose of clarification, any reduction in a payment made by a Payor or otherwise on a Diversified Payment Right (whether arising from any set-off relating to obligations payable by Alfa-Bank to the applicable Payor or otherwise) will be considered for the purpose of this paragraph as Collections received by Alfa-Bank),
- (l) to: (i) cause all electronic and printed reports generated by its computer system(s) for disclosure to (or use by) parties other than Alfa-Bank that relate to any material portion of the Diversified Payment Rights to reflect that the Diversified Payment Rights (and the Collections thereon) are subject to the pledge under the Pledge Agreement and (ii) deliver notice



to each of its Dollar and Euro correspondent banks (whether through a broadcast SWIFT message or otherwise) notifying them that: (A) the right to receive payments on Diversified Payment Rights has been pledged by Alfa-Bank to the SPC, who has pledged such right to the Indenture Trustee, and (B) all future Payment Orders sent by such Payor Bank to Alfa-Bank, and the service provided by Alfa-Bank to such Payor Bank with respect thereto, will be governed by Russian law (such notice: (1) with respect to existing correspondent banks, to be delivered on or as promptly as possible after the Closing Date, and (2) with respect to future correspondent banks, to be delivered as promptly as possible after becoming a correspondent bank thereof) (for the purpose of this clause, “correspondent bank” will mean those banks from whom Alfa-Bank may receive and accept a Dollar- and/or Euro-denominated Payment Order whether or not Alfa-Bank maintains a *nostro* account with such bank),

(m) to reflect on its (and cause to be reflected on its consolidated group’s) financial statements (which may be accomplished by indicating such pledge in any notes thereto): (i) that the Loan Collateral has been pledged by Alfa-Bank to the SPC and (ii) the aggregate Loan Balance of all Loans remaining outstanding,

(n) (i) by the Closing Date, to sign Account Agreements covering accounts with Third-Party Depository Banks that in the aggregate have received at least 70% of the collections with respect to payment rights that would have been Diversified Payment Rights had the Loan Agreement been in effect during the 12 calendar months ended December 31, 2005, (ii) within 40 Business Days after any Quarterly Reporting Period (or, if earlier, within 30 Business Days after the date on which the Servicing Report for such Quarterly Reporting Period has been delivered to the Indenture Trustee), to sign Account Agreements with each of its affiliates and its Non-Russian Offices that received into its accounts (whether or not already subject to an Account Agreement) at least 8% (in the aggregate for all such accounts at the applicable affiliate or Non-Russian Office) of all Collections during such Quarterly Reporting Period (*it being understood* that “received” means the actual receipt by such person, including from Customer Payors, as opposed to indirect receipt through a correspondent bank or otherwise), which Account Agreements will cover all accounts thereat that receive Collections, (iii) use commercially reasonable efforts to sign Account Agreements with additional Depository Banks (other than those referred to in clause (ii)) thereafter; *provided* that with respect to any Depository Bank (including all branches and other offices thereof) that shall have received Collections into one or more of its account(s) (whether or not already subject to an Account Agreement), which Collections in such account(s) represent at least 8% (in the aggregate for all such accounts at such Depository Bank) of the Collections received during each of the preceding two consecutive Quarterly Reporting Periods, then Alfa-Bank will, by the end of the Quarterly Reporting

Period after such two consecutive Quarterly Reporting Periods (or, if such event is a result of a merger between Depository Banks, by 180 days after the completion of such merger), either: (A) sign an Account Agreement with such Depository Bank covering such account(s) or (B) close each of its Dollar- and Euro-denominated account(s) with such Depository Bank that are not subject to an Account Agreement (additional Dollar- and Euro-denominated accounts with which bank may not, for one year after such closure, be opened unless such bank shall have signed an Account Agreement covering such accounts), and (iv) subject to clause (k)(ii), to request that the banks holding all Dollar- and/or Euro-denominated “*loro*” or similar accounts for the benefit of Alfa-Bank promptly deliver all Collections in such accounts to the applicable Concentration Account,

- (o) at any time during normal business hours, upon at least ten days’ prior notice (except during the existence of an Early Amortization Event with respect to any Loan, in which event such notice will not be required), to (except during the existence of an Early Amortization Event with respect to any Loan, no more than once per calendar year and at the cost and expense of the person(s) conducting such review) permit (and, where applicable, to cause each of its subsidiaries to permit) each of: (i) the SPC, (ii) the Indenture Trustee, (iii) any Rating Agency and/or (iv) any Enhancer that is a Controlling Party (in each case, and/or their respective agents) to conduct a review of Alfa-Bank’s (or such subsidiaries’) books, records, accounts and systems relating to the Loan Collateral wherever such books, records, accounts and systems are located and, (except during the existence of an Early Amortization Event with respect to any Loan) so long as such person has provided at least ten days’ advance notice (or such longer period as may be reasonably necessary), discuss Alfa-Bank’s Payment Order business with its officers and other employees involved in such business (*it being understood* that such persons will: (A) except during the existence of an Early Amortization Event with respect to any Loan, use reasonable efforts to provide Alfa-Bank with a detailed request of information desired to be reviewed as soon as reasonably practical before such review, (B) use reasonable efforts to coordinate such reviews and (C) with respect to any information obtained in connection with such reviews, maintain the confidentiality thereof in accordance with all applicable laws and use the same caution that the applicable such person uses with respect to its own confidential information); *provided* that to the extent that certain banking secrecy and similar laws, rules and regulations binding upon Alfa-Bank and/or such subsidiaries prohibit them from disclosing certain information (including any specific information relating to Alfa-Bank’s and/or such subsidiaries’ customers, including the names, account numbers and other information relating to Payees) with or without the consent of such customers, such persons will be required first to provide evidence of either a ruling of an appropriate court (for example, in situations where any such person needs such information in order to enforce its rights

under the Transaction Documents) or satisfaction of another applicable exception to such laws before Alfa-Bank and such subsidiaries are required to provide such information to such persons; *it being understood* that Alfa-Bank will cooperate with any Controlling Party that is an Enhancer or the Indenture Trustee (and/or their respective agents) in asking Alfa-Bank's current and/or former independent accountants to make themselves available for any of the visits contemplated in this paragraph; *provided, however*, that any refusal of such accountants to comply with such request will not be a breach of this covenant,

(p) not to (and not to permit any of its subsidiaries to) service any Dollar- or Euro-denominated payment orders or payment rights related thereto owned by any other person (including any of its affiliates) *unless*: (i) such servicing and the related transactions are in material compliance with all applicable laws and all necessary approvals from governmental authorities shall have been obtained to ensure such compliance (including, to the extent applicable, compliance with Russia's currency control laws and the Prohibited Nations Acts), (ii) Alfa-Bank (and/or such subsidiaries) shall have put in place sufficient servicing procedures to ensure either that: (A) the books and records relating to such payment orders and payment rights shall at all times be distinct from (and not confused with) the books and records for the Diversified Payment Rights and the related Payment Orders or (B) if the same books and records, that such books and records clearly distinguish between the Diversified Payment Rights and the related Payment Orders, on the one hand, and such other payment rights and payment orders, on the other hand, and (iii) the payors of all such payment rights will make payments thereunder to an account not in the name of Alfa-Bank except in its capacity as a servicer on behalf of such other person; for the purpose of clarification, Alfa-Bank's subsidiaries that are banks may engage in the payment order business on their own behalf (including securitizing their rights related thereto) so long as they are in compliance with clauses (i), (ii) and (iii),

(q) within 120 days after the end of: (i) the first semester (or, to the extent that quarterly financial statements are prepared and made publicly-available, the first three fiscal quarters) of each fiscal year of the Guarantor and (ii) each fiscal year of the Guarantor, to provide to the SPC and the Indenture Trustee copies of an audited (or, with respect to clause (i), unaudited if audited are not prepared) consolidated IFRS balance sheet and statement of income of the Guarantor, in each case accompanied by:

(A) an audit (or, for any unaudited fiscal periods, review) report of an independent auditor, which report does not have a qualification that identifies an occurrence or circumstance that could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect, and

- (B) an officer's certificate: (1) stating that no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan upon with the expiration of any applicable grace period, the delivery of notice or both) has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event, and (2) attaching a certified copy of an extract from Alfa-Bank's corporate pledge book, which copy reflects Alfa-Bank's pledge of the Loan Collateral to the SPC;

*provided* that any such financial statement will be deemed to have been delivered on the date on which Alfa-Bank or the Guarantor has posted such financial statement in English on its website on the internet (*it being understood* that Alfa-Bank will promptly notify the SPC, the Indenture Trustee and each Rating Agency that Alfa-Bank or the Guarantor has posted such financial statement on such website); *and provided further* that Alfa-Bank will promptly provide such other information as the SPC and/or the Indenture Trustee may reasonably request (and that Alfa-Bank may provide without violating any applicable law),

- (r) to make (or make available) the appropriate payment relating to each Diversified Payment Right to the identified payee (each a "Payee") of the corresponding Payment Order within the framework of its customary business practices (and in accordance with applicable law),
- (s) to cause all of its properties (including its computer system(s) with respect to the servicing of Diversified Payment Rights and the related Payment Orders) used in or useful for the conduct of its Payment Order business to be maintained in good repair, and to cause to be made any repairs, replacements and/or improvements thereto as may be necessary for it to conduct its Payment Order business, in each case except where the failure to do so could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (t) promptly (and in any event within five Business Days with respect to clause (i) below and ten Business Days otherwise, in each case after Alfa-Bank obtains actual knowledge of such event) to provide the SPC and the Indenture Trustee: (i) notification of an Early Amortization Event with respect to any Loan or an event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both, (ii) if one or more of such events described in clause (i) of this paragraph has/have actually occurred (including events that have since been cured), notice specifying all such events and what actions have been taken and/or will be taken with respect to such events, and (iii) notice of any lien asserted or claim

made against any Loan Collateral (other than under the Transaction Documents),

- (u) during any period in which it is neither subject to Section 13 or 15(d) under the Exchange Act nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, to make available to any Investor, or to a prospective Investor who is a QIB, in connection with any sale (or proposed sale) of a Note or Certificate (or beneficial interest therein), in each case at such Investor's or prospective Investor's request to Alfa-Bank, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act; *it being understood* that, except to the extent that Alfa-Bank prepares and discloses publicly its own financial statements: (i) any financial statements relating to Alfa-Bank may be included on a consolidated basis with the Guarantor and (ii) if the Guarantor (or, if applicable, Alfa-Bank) is not required by the requirements of its home country and/or principal trading markets to deliver quarterly financial statements, then Alfa-Bank would not be required by Rule 144A(d)(4) to provide any financial information other than the financial statements delivered pursuant to clause (g) of “—Covenants of Alfa-Bank” above,
- (v) to maintain its back-up computer system(s) with respect to the servicing of Diversified Payment Rights and the related Payment Orders in such a manner so that such system(s) is/are capable of providing Alfa-Bank with at least a similar level of performance and information in all material respects as Alfa-Bank's back-up computer system(s) is/are capable of providing on, for each Loan, the applicable Borrowing Date, and
- (w) not later than the tenth Business Day after the completion of each Reporting Period, to provide to the SPC and the Indenture Trustee: (i) a report (a “*Servicing Report*”) containing: (A) the applicable information relating to the Collections (including those corresponding to the Collection Accounts with each Designated Depository Bank) received during the preceding monthly or quarterly, as applicable, Reporting Period, (B) any necessary calculations relating to the Debt Service Coverage Tests and other quantitative Early Amortization Events, (C) confirmation as to whether any new correspondent banking relationships were entered into during the applicable Reporting Period with respect to which the applicable correspondent bank is, pursuant to clause (l)(ii), to be notified of the pledge under the Pledge Agreement and (if so) evidence of the Bank's compliance with Section 5.18 of the Pledge Agreement and (D) such other information as the SPC and/or, the Indenture Trustee may reasonably request and that Alfa-Bank may reasonably provide in accordance with applicable law and (ii) an officer's certificate addressed to the SPC and the Indenture Trustee verifying the accuracy of such report and stating that no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the

expiration of any applicable grace period, the delivery of notice or both) occurred during the Reporting Period or, if one or more occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event.

“*Material Adverse Effect*” means: (a) with respect to Alfa-Bank: (i) a material adverse effect on Alfa-Bank’s Dollar- and/or Euro-denominated Payment Order business or the Diversified Payment Rights taken as a whole, (ii) a material impairment of the ability of Alfa-Bank to perform its obligations under the Transaction Documents to which it is a party, (iii) a material adverse effect on the transactions contemplated by the Transaction Documents, including: (A) on the validity or enforceability against Alfa-Bank of any of the Transaction Documents to which it is a party or (B) with respect to the valid pledge of the Loan Collateral to the SPC or the rights of the Note Secured Parties in the Note Collateral, or (iv) a material adverse effect on the Loan Collateral (including the volume and/or collectibility of the Diversified Payment Rights), (b) with respect to the SPC: (i) a material impairment of the ability of the SPC to perform its obligations under the Transaction Documents to which it is a party, (ii) a material impairment of the validity or enforceability against the SPC of any of the Transaction Documents to which it is a party, (iii) a material adverse effect on the Note Collateral (including the volume and/or collectibility of the Diversified Payment Rights) or (iv) a material adverse effect on the rights of the Note Secured Parties in the Note Collateral, and (c) with respect to the Guarantor: (i) a material impairment of the ability of the Guarantor to perform its obligations under the Transaction Documents to which it is a party or (ii) a material impairment of the validity or enforceability against the Guarantor of any of the Transaction Documents to which it is a party.

***Covenants of the Guarantor*** .....The Guarantor will agree in the Loan Agreement, among other things:

- (a) not to close any merger with or into, consolidation with or sale, assignment or other conveyance (directly or indirectly) of all or substantially all of its property (whether in a single transaction or a series of related transactions) to, any person unless:
  - (i) (A) with respect to any merger or consolidation, the Guarantor is the surviving entity, or (B) such person assumes in writing all of the Guarantor’s rights and obligations under the Transaction Documents and the Guarantor (or such person) delivers to the Indenture Trustee one or more opinion(s) of counsel in form and substance reasonably satisfactory to the Indenture Trustee to the effect that such assumption is sufficient for each such Transaction Document to constitute a legal, valid and binding obligation of such person, enforceable against it in accordance with its terms,
  - (ii) each Rating Agency shall have notified the Indenture Trustee in writing that such merger, consolidation, sale, assignment or conveyance will not result in such

Rating Agency withdrawing or reducing its rating(s) with respect to any Series (determined without consideration of any applicable Enhancement that is a financial guaranty insurance policy or similar guaranty with respect to such Series but after giving effect to such merger, consolidation, sale, assignment or conveyance) to below the lower of: (A) its then-current such rating on such Series and (B) its initial such rating on such Series, and

- (iii) no Early Amortization Event with respect to any Loan (or any event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both) shall be expected to exist immediately after giving effect to such proposed merger, consolidation, sale, assignment or conveyance,
- (b) except to the extent required by applicable law (including by any governmental authority), not to take any action (or refrain from taking any action) that would impair in any respect the rights and interests of the SPC, the Indenture Trustee and/or any other person under the transactions contemplated by the Transaction Documents,
- (c) reasonably promptly to execute and deliver all further documents, and take all further action, that may be necessary or desirable that the SPC or the Indenture Trustee may reasonably request in order to effect more fully the purposes of the Guaranty or to enable the SPC or the Indenture Trustee to exercise or enforce any of their respective rights in respect thereof,
- (d) subject to clause (a), to maintain, renew and keep in full force and effect its legal existence and rights, licenses, consents, approvals, franchises and privileges in the jurisdictions necessary: (i) for the performance of its obligations under the Transaction Documents to which it is a party and (ii) in the normal conduct of its business (except, in each case, to the extent that any failure to have such rights, licenses, consents, approvals, franchises and privileges could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect),
- (e) to comply at all times in all respects with all applicable laws of Russia (including regulations imposed by the Central Bank), the British Virgin Islands and, only to the extent that they apply to or in any way affect the transactions contemplated by the Transaction Documents (including the performance of its obligations thereunder), all applicable laws of the United States and other jurisdictions, in each case except where non-compliance therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,

- (f) to reflect on its consolidated financial statements (which may be accomplished by indicating such in any notes thereto): (i) that the Loan Collateral has been pledged by Alfa-Bank to the SPC, (ii) the aggregate Loan Balances of all Loans remaining outstanding and (iii) the Guarantor's guaranty of Alfa-Bank's payment obligations under the Transaction Documents,
- (g) to: (i) not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices to fall below 8%, such recommendations to be as provided in such committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991 and from time to time thereafter, and such calculation to be made by reference to the latest annual, semester or quarterly (as applicable) consolidated accounts of the Guarantor, and (ii) not permit the total capital ratio of any of its subsidiaries (including Alfa-Bank) that carries on a banking business to fall below the minimum total capital ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such subsidiary carries on its banking business, such calculation to be made by reference to the latest annual, semester or quarterly (as applicable) non-consolidated (and/or, if required by local applicable law, consolidated) accounts of such subsidiary; *provided* that should any such subsidiary carry on a banking business in more than one jurisdiction, the Guarantor shall not permit such subsidiary's total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction, and
- (h) promptly (and in any event within five Business Days with respect to clause (i) below and ten Business Days otherwise, in each case after the Guarantor obtains actual knowledge of such event) to provide the SPC and the Indenture Trustee: (i) notification of an Early Amortization Event with respect to any Loan or an event that would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both, (ii) if one or more of such events described in clause (i) of this paragraph has/have actually occurred (including events that have since been cured), notice specifying all such events and what actions have been taken and/or will be taken with respect to such events, and (iii) notice of any lien asserted or claim made against any Loan Collateral (other than under the Transaction Documents).

***Representations and Warranties  
of Alfa-Bank*** .....

As of the Closing Date and (except as set forth in the applicable Loan Supplement) each date of the making of a Loan (each a "*Borrowing Date*"), Alfa-Bank will make certain representations and warranties in the Loan Agreement to the effect that (among other things):



- (a) it is duly licensed and qualified to do business as a commercial bank in accordance with the laws of Russia, it has been duly organized and it: (i) is validly existing and in good standing as a joint stock company under the laws of Russia, with full corporate power and authority (including all licenses and authorizations) to own or lease its property and to conduct its business as presently conducted and to execute, deliver and perform its obligations under each Transaction Document to which it is a party and to consummate the transactions contemplated thereby, and (ii) is duly qualified as a foreign corporation and is in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, in each case except to the extent that any failure thereof could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (b) its execution and delivery of the Transaction Documents to which it is a party, and its performance thereunder (including the pledge of the Loan Collateral to the SPC): (i) have been duly authorized by all necessary corporate action (including any necessary shareholder or similar action), (ii) require no action by or in respect of, or filing with, any governmental authority (including the Central Bank), except such as have been taken or made on or before the Closing Date (or such Borrowing Date) and remain in full force and effect; *it being understood* that certain Uniform Commercial Code financing statements (and similar filings) that have been delivered to the SPC on or before the Closing Date may be filed by (or on behalf of) the SPC with the appropriate registries promptly after the Closing Date, (iii) will not contravene any applicable law of any jurisdiction or any contractual, treaty or other obligation of Russia, in each case except to the extent that the failure to comply therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect, (iv) will not contravene or constitute a default under any contractual obligation, judgment, injunction, order, writ or decree binding upon it, any of its subsidiaries or any of their respective properties and (v) other than the pledge of the Loan Collateral to the SPC under the Pledge Agreement, will not result in the creation or imposition of any lien on any of its (or any of its subsidiaries) properties,
- (c) each of the Transaction Documents to which it is a party has been duly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms (subject to customary bankruptcy and similar exceptions),
- (d) it is in compliance with all applicable laws (including the Prohibited Nations Acts) and contractual obligations except to the extent that the failure to comply therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,

- (e) on each Borrowing Date, except with respect to any Loan to be repaid in full (including from the proceeds of the Loan to be made) on such Borrowing Date, there exists: (i) no Default or Early Amortization Event with respect to any Loan and (ii) no event the existence of which would be a Default or Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both,
- (f) it: (i) is solvent, (ii) will not be rendered insolvent under Russian law by virtue of the transactions contemplated by the Transaction Documents, (iii) is not entering into the Transaction Documents to which it is a party with the actual intent to hinder, delay or defraud its present or future creditors and (iv) is receiving from the SPC reasonable consideration for its entering into the Transaction Documents (including its pledge of the Loan Collateral to the SPC),
- (g) there is no litigation, arbitration, tax or labor claim or other similar action or proceeding of or before any arbitrator or governmental authority pending or (to its knowledge) threatened against it or any of its properties that could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (h) the financial statements most recently delivered in accordance with clause (q) of “—Covenants of Alfa-Bank” above (or on the Closing Date) are complete and correct in all material respects and give a true and fair view of the Guarantor’s financial condition on the dates and for the periods involved (subject, with respect to interim unaudited periods, to applicable audit adjustments), and have been prepared in accordance with the indicated accounting standards, which (except as explicitly described therein) have been consistently applied,
- (i) from the date of the Guarantor’s most recent audited financial statements until the Closing Date (or applicable Borrowing Date), there has not been any material adverse change in, or any development that could reasonably be expected to materially adversely affect, its business, properties, financial condition and/or operations,
- (j) it has filed all tax returns and reports that are required by applicable law to have been filed by it and has paid all taxes thereby shown to be owing, in each case except for any taxes that are immaterial, are not yet due or are being contested in good faith,
- (k) it is not an “investment company” or a company directly or indirectly controlled by an “investment company” within the meaning of the Investment Company Act,
- (l) it: (i) is subject to civil and commercial law with respect to its obligations under the Transaction Documents to which it is a party and its execution, delivery and performance thereof and

thereunder constitute private and commercial acts rather than public or governmental acts, (ii) is not entitled to any sovereign or other immunity from the jurisdiction of any court or from any action, suit or proceeding, or from set-off or service of process in connection therewith, and none of its properties is immune from attachment (before or after judgment) or execution and (iii) has made in the Transaction Documents to which it is a party a valid waiver of any right it may have to sovereign immunity,

- (m) (i) its pledge of the Loan Collateral to the SPC under the Pledge Agreement on the Closing Date constitutes a first priority security interest in the Loan Collateral, which security interest attaches to the Diversified Payment Rights immediately and automatically upon their creation, (ii) such pledge provides the SPC with a first priority perfected security interest in the Loan Collateral under New York law, which pledge would be enforceable against Alfa-Bank under Russian law (subject only to: (A) any liens for taxes, assessments and other governmental charges payable by Alfa-Bank and not yet due, (B) the fact that such pledge may not provide the SPC with a security interest in any Collections that are deposited into an account that is not subject to an Account Agreement to the extent that such Collections are not identifiable cash proceeds of Diversified Payment Rights, (C) the fact that such pledge may not be perfected with respect to any Collections that are deposited into an account that is not subject to an Account Agreement and that the Depository Bank at which such account is maintained may hold a right of set-off or similar banker's lien on such account, (D) with respect to the Closing Date, the fact that the appropriate Uniform Commercial Code financing statement(s) have been delivered to the SPC but may not yet have been filed by the appropriate recorder, and (E) Russian laws affecting creditors' rights generally in the case of a bankruptcy, insolvency, temporary administration or similar event relating to Alfa-Bank), (iii) the pledge of the Loan Collateral to the SPC will not be capable of being set aside or invalidated by (or at the instigation of) Alfa-Bank, any of its creditors or any other person (including any liquidator, trustee, receiver or similar official with respect to Alfa-Bank), including such persons seeking to take such actions under any applicable reorganization, bankruptcy, insolvency or similar laws in effect in Russia; *it being understood* that, as a result of the insolvency of Alfa-Bank, its temporary administrator (or similar person) may terminate such pledge with respect to Loan Collateral generated thereafter, and (iv) upon execution and delivery of the Pledge Agreement, the SPC's making the Series 2006-A Loan to Alfa-Bank and the filing of the Uniform Commercial Code financing statements referenced in clause (b)(ii), no other action will be required under Russian, Luxembourg and New York law to provide for, effect and/or perfect Alfa-Bank's pledge of the Diversified Payment Rights (whether existing on the Closing Date or thereafter generated) to the SPC or (upon execution of the applicable Account Agreement) its pledge of each Collection Account to the SPC, and

- (n) it is a member of SWIFT and has the right to send and receive Payment Orders via SWIFT's electronic message system, it has not received or issued any notice of termination of its membership in SWIFT and it has no knowledge of any existing circumstance(s) that would, whether now or with the passage of time, the delivery of notice or both, result in such a termination.

***Representations and Warranties  
of the Guarantor*** .....

As of the Closing Date and (except as set forth in the applicable Loan Supplement) each Borrowing Date, the Guarantor will make certain representations and warranties in the Loan Agreement to the effect that (among other things):

- (a) it is duly licensed and qualified to do business in accordance with the laws of the British Virgin Islands, it has been duly organized and it: (i) is validly existing and in good standing as a company with limited liability incorporated under the laws of the British Virgin Islands, with full corporate power and authority (including all licenses and authorizations) to own or lease its property and to conduct its business as presently conducted and to execute, deliver and perform its obligations under each Transaction Document to which it is a party and to consummate the transactions contemplated thereby, and (ii) is duly qualified as a foreign corporation and is in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, in each case except to the extent that any failure thereof could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (b) its execution and delivery of the Transaction Documents to which it is a party, and its performance thereunder: (i) have been duly authorized by all necessary corporate action (including any necessary shareholder or similar action), (ii) require no action by or in respect of, or filing with, any governmental authority, except such as have been taken or made on or before the Closing Date (or such Borrowing Date) and remain in full force and effect, (iii) will not contravene any applicable law of any jurisdiction or any contractual, treaty or other obligation of the British Virgin Islands, in each case except to the extent that the failure to comply therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect, (iv) will not contravene or constitute a default under any contractual obligation, judgment, injunction, order, writ or decree binding upon it, any of its subsidiaries (including Alfa-Bank) or any of their respective properties and (v) will not result in the creation or imposition of any lien on any of its (or, other than the pledge of the Loan Collateral to the SPC under the Pledge Agreement, any of its subsidiaries') properties,
- (c) each of the Transaction Documents to which it is a party has been duly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in

accordance with its terms (subject to customary bankruptcy and similar exceptions),

- (d) it is in compliance with all applicable laws (including the Prohibited Nations Acts) and contractual obligations except to the extent that the failure to comply therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (e) it: (i) is solvent, (ii) will not be rendered insolvent under British Virgin Islands law by virtue of the transactions contemplated by the Transaction Documents, (iii) is not entering into the Transaction Documents with the actual intent to hinder, delay or defraud its present or future creditors and (iv) is (through its subsidiary Alfa-Bank) receiving reasonable consideration for its entering into the Transaction Documents,
- (f) there is no litigation, arbitration, tax or labor claim or other similar action or proceeding of or before any arbitrator or governmental authority pending or (to its knowledge) threatened against it or any of its properties that could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (g) from the date of its most recent audited financial statements until the Closing Date (or applicable Borrowing Date), there has not been any material adverse change in, or any development that could reasonably be expected to materially adversely affect, its business, properties, financial condition and/or operations,
- (h) it has filed all tax returns and reports that are required by applicable law to have been filed by it and has paid all taxes thereby shown to be owing, in each case except for any taxes that are immaterial, are not yet due or are being contested in good faith,
- (i) it is not an “investment company” or a company directly or indirectly controlled by an “investment company” within the meaning of the Investment Company Act, and
- (j) it: (i) is subject to civil and commercial law with respect to its obligations under the Transaction Documents to which it is a party and its execution, delivery and performance thereof and thereunder constitute private and commercial acts rather than public or governmental acts, (ii) is not entitled to any sovereign or other immunity from the jurisdiction of any court or from any action, suit or proceeding, or from set-off or service of process in connection therewith, and none of its properties is immune from attachment (before or after judgment) or execution and (iii) has made in the Transaction Documents to which it is a party a valid waiver of any right it may have to sovereign immunity.

**Representations and Warranties  
of the SPC** .....

As of the Closing Date and (except as may be set forth in the applicable Indenture Supplement) each Borrowing Date, including the Borrowing Date of the Series 2006-A Loan, the SPC will make certain representations and warranties in the Indenture to the effect that (among other things):

- (a) it has been duly incorporated, is in good standing and has full power and authority, and all governmental licenses, authorizations, consents and approvals, to execute and deliver the Transaction Documents to which it is a party and to perform its obligations thereunder, in each case except where any failure thereof could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (b) its execution and delivery of the Transaction Documents to which it is a party, and its performance thereunder: (i) have been duly authorized by all necessary corporate action (including any necessary shareholder or similar action), (ii) require no action by or in respect of, or filing with, any governmental authority, except such as have been taken or made on or before the Closing Date (or such Borrowing Date) and remain in full force and effect; *it being understood* that certain Uniform Commercial Code financing statements (and similar filings) that have been delivered to the Indenture Trustee on or before the Closing Date may be filed by (or on behalf of) the Indenture Trustee with the appropriate registries promptly after the Closing Date, (iii) will not contravene any applicable law in any material respect, (iv) will not contravene or constitute a default under any contractual obligation, judgment, injunction, order or decree binding upon it or its properties and (v) except pursuant to the Transaction Documents, will not result in the creation or imposition of any lien on any of its properties,
- (c) each of the Transaction Documents to which it is a party has been duly executed and delivered by it and (with respect to any Note, upon its initial authentication and delivery by the Indenture Trustee) constitutes its legal, valid and binding obligation, enforceable against it (subject to customary bankruptcy and similar exceptions) in accordance with its terms,
- (d) it is in compliance with all applicable laws (including the Prohibited Nations Acts) except to the extent that the failure to comply therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (e) it has not engaged in any activities (including the incurrence of any indebtedness) since its incorporation other than those incidental to its incorporation and other appropriate corporate steps (including the issuance of shares or other equity interests and arrangements for the payment of administrative fees), the authorization and the issuance of the Notes, the execution of the Transaction Documents to which it is a party and the

performance of the activities referred to in or contemplated by the Transaction Documents,

- (f) on each Borrowing Date, except with respect to any Series to be repaid in full (including from the proceeds of the issuance of the Series to be issued) on such Borrowing Date, there exists: (i) no Early Amortization Event with respect to any Loan and (ii) no event the existence of which would be an Early Amortization Event with respect to any Loan with the expiration of any applicable grace period, the delivery of notice or both,
- (g) upon the execution and delivery of: (i) the Pledge Agreement on the Closing Date, it has a first priority perfected pledge on the Diversified Payment Rights immediately and automatically upon their creation and (other than the Collection Accounts) the other Loan Collateral, and (ii) the Pledge Agreement and each Account Agreement, it has a first priority pledge on the applicable Collection Account, in each case free and clear of all liens other than the security interest of the Indenture Trustee (subject only to: (A) any liens for taxes, assessments and other governmental charges payable by the SPC and/or Alfa-Bank and not yet due, (B) the fact that the SPC may not have a security interest in any Collections that are deposited into an account that is not subject to an Account Agreement to the extent that such Collections are not identifiable cash proceeds of Diversified Payment Rights, (C) the fact that the SPC's security interest may not be perfected with respect to any Collections that are deposited into an account that is not subject to an Account Agreement and that the Depositary Bank at which such account is maintained may hold a right of set-off or similar banker's lien on such account, (D) with respect to the Closing Date, the fact that the appropriate Uniform Commercial Code financing statement(s) have been delivered to the SPC (or the Indenture Trustee on its behalf) but may not yet have been filed by the appropriate recorder, and (E) Russian laws affecting creditors' rights generally in the case of a bankruptcy, insolvency, temporary administration or similar event relating to Alfa-Bank),
- (h) the Loan Agreement and Pledge Agreement create for the SPC the enforceable right to require Alfa-Bank to deliver the Collections to (or on behalf of) the SPC to the extent provided therein,
- (i) the Indenture Trustee has a first priority perfected lien over the Note Collateral under Luxembourg and New York law for the benefit of the Note Secured Parties (subject only to: (i) any liens for taxes, assessments and other governmental charges payable by the SPC and not yet due, (ii) the fact that the Indenture Trustee may not have a security interest in any Collections that are deposited into an account that is not subject to an Account Agreement to the extent that such Collections are not identifiable cash proceeds of Diversified Payment Rights, (iii) the fact that the Indenture Trustee's

security interest may not be perfected with respect to any Collections that are deposited into an account that is not subject to an Account Agreement and that the Depositary Bank at which such account is maintained may hold a right of set-off or similar banker's lien on such account and (iv) with respect to the Closing Date, the fact that the appropriate Uniform Commercial Code financing statement(s) have been delivered to the Indenture Trustee but may not yet have been filed by the appropriate recorder),

- (j) there is no litigation, arbitration, tax or labor claim or other similar action or proceeding of or before any arbitrator or governmental authority pending or (to its knowledge) threatened against it or any of its properties that could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (k) in reliance upon the transfer restrictions noted in the Indenture and in the Indenture Supplements, it is not required to register as an "investment company" under the Investment Company Act, and
- (l) it: (i) is solvent, (ii) will not be rendered insolvent under Luxembourg law by virtue of the transactions contemplated by the Transaction Documents and (iii) is not entering into the Transaction Documents with the actual intent to hinder, delay or defraud its present or future creditors.

**Early Amortization Period**.....During the period (the "*Early Amortization Period*") beginning on the day on which an Early Amortization Period is declared to have commenced or automatically commences with respect to a Loan pursuant to the provisions under "*—Early Amortization Events*" below, and continuing to and including the date on which the Prepayment Amount for such Loan (including all principal of and interest on such Loan) has been paid in full (or such earlier date as the Indenture Trustee (pursuant to the Indenture, upon the instruction of the Controlling Party of the corresponding Series) so determines), Collections allocated to the Loan Payment Account for the corresponding Loan will: (a) on the 15th day of each calendar month (or if such day is not a New York Business Day, then on the next New York Business Day thereafter), or (b) if so provided in any Loan Supplement for any Loan for which an Early Amortization Period exists, on each New York Business Day (*it being understood* that if such is so provided in any such Loan Supplement, then such will apply for all Loans for which an Early Amortization Period exists whether or not the Loan Supplement(s) for such other Loan(s) so provide) (each an "*Early Amortization Payment Date*") beginning with the first such day after the start of the Early Amortization Period with respect to such Loan and ending at the end of such Early Amortization Period, be applied as described in "*—Distribution of Amounts in the Loan Payment Accounts*" above. Except to the extent provided otherwise in the applicable Loan Supplement, amounts thus distributed and applied to reduce the payment of principal of such Series will be deemed to have been paid from the proceeds of a payment by Alfa-Bank to the SPC for a *pro rata* reduction of the remaining Quarterly Amortization Amounts for the corresponding Loan. Pursuant to clause (b), the Loan



Supplement for the Series 2006-A Loan will provide that each New York Business Day will be an Early Amortization Payment Date if, on such New York Business Day, there exists: (i) an Early Amortization Period for the Series 2006-A Loan and (ii) an Early Amortization Event described in clause (h) of “—Early Amortization Events” below relating to any one or more of the Defaults described in clauses (b)(i) (with respect to Alfa-Bank’s covenants described in clauses (a), (b), (c), (f), (g), (l)(ii), (n), (o) and (t) of “—Covenants of Alfa-Bank” above and with respect to the Guarantor’s covenants described in clauses (a), (c), (g) and (h) of “—Covenants of the Guarantor” above), (b)(iv) (relating to clause (i) of “—Covenants of Alfa-Bank” above), (c), (f)(ii), (h), (i), (j), (k), (l), (n), (o), (p), (q), (s) and/or (t) of “—Defaults” below. See “—Distribution of Amounts in the Loan Payment Accounts” above.

In addition to the above, if on any New York Business Day during an Early Amortization Period with respect to any Loan (other than any such day that is within five New York Business Days of the next Early Amortization Payment Date) the aggregate amount on deposit in the corresponding Loan Payment Account is sufficient to pay in full the Prepayment Amount for the corresponding Loan on the fifth New York Business Day after such New York Business Day, then the Indenture Trustee will promptly so notify the Noteholders and Enhancer(s) (if any) of the corresponding Series and will pay all amounts payable to the Noteholders, the Enhancer(s) (if any) and other recipients, in each case on such fifth New York Business Day.

**Early Amortization Events** .....As set forth in the Loan Agreement, the “*Early Amortization Events*” for each Loan will be those identified as such in the applicable Loan Supplement (including by reference to any as may be set out in the corresponding Indenture Supplement). The following will be designated as Early Amortization Events for the Series 2006-A Loan:

- (a) as specified in the Series 2006-A Indenture Supplement, the SPC shall have failed to make any payment, monetary transfer or deposit required to be made by it to the Note Secured Parties under the Transaction Documents and, except with respect to payments of: (i) principal or interest due with respect to the Notes or (ii) any other payments due with respect to a Series on the applicable Maturity Date (for each of which no grace period applies), such failure shall have continued unremedied for at least three Business Days after the date such payment, monetary transfer or deposit is required to be made,
- (b) as specified in the Series 2006-A Indenture Supplement, any representation or warranty made by the SPC in any Transaction Document shall be untrue or incorrect in any respect as of the time it was made or deemed made and such untruth or incorrect statement (or the actual circumstances that caused such statement to be untrue or incorrect) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (c) as specified in the Series 2006-A Indenture Supplement, any court, other governmental authority or arbitrator shall enter

against the SPC: (i) a final non-payment judgment, decree or order or (ii) a final judgment, decree or order for the payment of money or a final and enforceable claim for unpaid taxes in an amount that, when aggregated with the amount of all other unsatisfied final judgments, decrees or orders and enforceable claims for unpaid taxes against the SPC, exceeds US\$75,000 (or its equivalent in any other currency), and

(A) any such event: (1) could reasonably be expected to have a Material Adverse Effect or (2) shall have already had a Material Adverse Effect, and

(B) either: (1) such judgment, decree, order or enforceable tax claim is not discharged within 60 days after entry thereof or (2) there shall be any period of at least 60 consecutive days during which a stay of enforcement of such judgment, decree, order or enforceable tax claim shall not be in effect,

(d) as specified in the Series 2006-A Indenture Supplement, with respect to the SPC, either: (i) it shall commence a voluntary case, proceeding or other action: (A) under any applicable law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, suspension of payments or relief of debtors seeking to have an order for relief entered with respect to it or seeking to adjudicate it a bankrupt or insolvent or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, liquidator, administrator, custodian, conservator or other similar official of it or for any substantial part of its property, (ii) an involuntary case, proceeding or other action of a nature referred to in clause (i) shall be commenced against it that: (A) shall result in the entry of an order for relief or of an order granting or approving such adjudication or appointment referred to in clause (i) or (B) shall remain undismissed, undischarged, unstayed or unbonded for a period of at least 60 days after the SPC's actual knowledge of such action, (iii) an involuntary case, proceeding or other action shall be commenced against it that seeks issuance of a warrant of attachment, execution, distraint or similar process against any substantial part of its property that shall result in the entry of an order for any such relief and shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof, (iv) there shall be commenced against it any extra-judicial liquidation proceedings under any applicable insolvency laws or rules of any jurisdiction, (v) it shall admit in writing its inability to pay its debts as they become due, (vi) it shall make a general assignment for the benefit of creditors or (vii) it shall take any corporate (or similar) action in furtherance of, or indicating its consent to, approval of or acquiescence in, any of the foregoing acts,

(e) as specified in the Series 2006-A Indenture Supplement, any authorization, license, consent, registration or approval

required under or by the applicable laws of Russia, Luxembourg, the United States or any other applicable jurisdiction to enable the SPC to perform its obligations under the Transaction Documents to which it is a party shall cease to be in full force and effect (or it otherwise becomes illegal for the SPC to perform any of such obligations) and such situation shall have already had a Material Adverse Effect or could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect and, if such situation can be cured, shall continue for a period of at least 30 days after an authorized officer of the SPC obtains actual knowledge of such situation,

- (f) as specified in the Series 2006-A Indenture Supplement, except as specifically provided in clause (a), the SPC shall have failed to perform any of its covenants under the Transaction Documents in any respect and such failure shall have already had a Material Adverse Effect or could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect and (except for clauses (a), (b), (c)(i), (d), (e), (f), (g) and (h) of “—Covenants of the SPC” above, for which no grace period will apply) shall have continued unremedied for at least 30 days after an authorized officer of the SPC obtains actual knowledge of such failure,
- (g) as specified in the Loan Supplement for the Series 2006-A Loan, for any Quarterly Reporting Period, less than 60% of Collections received during such Quarterly Reporting Period shall have been deposited by Payor Banks into the Collection Accounts at Designated Depositary Banks that are Third-Party Depositary Banks; *provided* that this test will: (i) take into account Collections received at a Depositary Bank during such Quarterly Reporting Period if such Depositary Bank is a Designated Depositary Bank as of the close of business on the last Business Day of such Quarterly Reporting Period even though such Depositary Bank was not a Designated Depositary Bank during any portion of such Quarterly Reporting Period and to the extent that such payments were credited to the account(s) covered by the Account Agreement(s) with such Designated Depositary Bank and (ii) exclude Collections credited to the Collection Account(s) at a bank during such Quarterly Reporting Period if such bank is no longer a Designated Depositary Bank or its Account Agreement(s) cease(s) to cover such Collection Account(s) as of the close of business on the last Business Day of such Quarterly Reporting Period; *and provided further* that, for purposes of this paragraph, DDB Collections will not include any Collections through a Collection Account the Account Agreement with respect to which is, pursuant to its terms (including at the request of any of the parties thereto), to cease to be effective within 30 days after the last day of the applicable Quarterly Reporting Period,
- (h) as specified in the Loan Supplement for the Series 2006-A Loan, a Default shall have occurred with respect to the Series 2006-A Loan,

- (i) as specified in the Loan Supplement for the Series 2006-A Loan: (i) for any Quarterly Reporting Period, the Debt Service Coverage Ratio shall be less than the Series 2006-A Minimum Quarterly Debt Service Coverage Ratio and/or the Non-Affiliate Debt Service Coverage Ratio shall be less than 7.5:1x, or (ii) for any Monthly Reporting Period, the Debt Service Coverage Ratio shall be less than the Series 2006-A Minimum Monthly Debt Service Coverage Ratio and/or the Non-Affiliate Debt Service Coverage Ratio shall be less than 4.5:1x; *provided* that, with respect to both clauses (i) and (ii): (A) DDB Collections will not include any Collections through a Collection Account the Account Agreement with respect to which is, pursuant to its terms (including at the request of any of the parties thereto), to cease to be effective within 30 days after the last day of the applicable Reporting Period, and (B) for any period, any DDB Collections from Payment Orders sent by the Ukrainian and Belarussian offices of Payor Banks in excess of 20% (or, with respect to either such country, 15%) of the total DDB Collections during such period will be disregarded (*it being understood* that, to the extent available, the disregarded amounts will first be Affiliate Transaction Collections) (collectively, with respect to the Series 2006-A Loan, the “*Series 2006-A Debt Service Coverage Tests*,” and, with the comparable tests for any other Loan as specified in the applicable Loan Supplement, each a “*Debt Service Coverage Test*”),
- (j) as specified in the Series 2006-A Indenture Supplement, during any Quarterly Reporting Period, any Designated Depository Bank shall set-off a claim against any of the SPC, the Indenture Trustee or any affiliate of either thereof against Collections and the aggregate amount of all unremedied set-off claims shall exceed US\$10,000,000 (or its equivalent in any other currency) for at least ten Business Days after an authorized officer of Alfa-Bank obtains actual knowledge thereof,
- (k) as specified in the Series 2006-A Indenture Supplement, the SPC (in bad faith) shall allege in writing that any of its obligations under the Transaction Documents fails for any reason to be in full force and effect and at least two Business Days shall have passed after an authorized officer of Alfa-Bank obtains actual knowledge thereof,
- (l) as specified in the Series 2006-A Indenture Supplement, any litigation, administrative proceeding, arbitration or other action (excluding an involuntary case, proceeding or other action of a nature referred to in clause (d)(ii)) is instituted against the SPC that: (i) shall remain undismissed, undischarged, unstayed or unbonded for a period of at least 60 days after the SPC’s actual knowledge of such litigation, proceeding, arbitration, case or other action and (ii) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,

- (m) as specified in the Series 2006-A Indenture Supplement, the SPC shall become required to register as an “investment company” under the United States Investment Company Act of 1940 and at least two Business Days shall have passed after an authorized officer of Alfa-Bank obtains actual knowledge thereof,
- (n) as specified in the Loan Supplement for the Series 2006-A Loan, for each of two consecutive Quarterly Reporting Periods: (i) the amount of Collections is less than 60% of such flows for the comparable period in the prior year; *provided* that each single Diversified Payment Right (or series of Diversified Payment Rights related to the same payment) equal to or greater than US\$20,000,000 (or its equivalent in any other currency) will not be taken into account in any such calculations, and (ii) the Debt Service Coverage Ratio for such Quarterly Reporting Period is less than 12:1x,
- (o) as specified in the Loan Supplement for the Series 2006-A Loan, for each of two consecutive Quarterly Reporting Periods: (i) collections on Diversified Payment Rights denominated in currencies other than Dollars and Euro shall exceed 25% of the total collections with respect to all Diversified Payment Rights during such Quarterly Reporting Period; *provided* that for the purposes of this determination, “Diversified Payment Rights” shall be determined as if they were not limited to Dollars and Euro, and (ii) the Debt Service Coverage Ratio for such Quarterly Reporting Period is less than 12:1x,
- (p) as specified in the Loan Supplement for the Series 2006-A Loan, for any Quarterly Reporting Period: (i) any subsidiary of Alfa-Bank shall have received an amount of flows similar to Diversified Payment Rights equal to 5% or more of the aggregate Collections received during such Quarterly Reporting Period and (ii) the Debt Service Coverage Ratio for such Quarterly Reporting Period is less than 12:1x,
- (q) as specified in the Loan Supplement for the Series 2006-A Loan, an Early Amortization Period is declared (or is automatically deemed) to commence for any other Loan,
- (r) as specified in the Loan Supplement for the Series 2006-A Loan, for each of two consecutive Quarterly Reporting Periods: (i) the amount of Collections from Payor Bank(s) that are affiliates of Alfa-Bank (except direct or indirect shareholders of Alfa-Bank that are located in OECD countries and such shareholders’ direct or indirect subsidiaries that are also located in OECD countries, other than Alfa-Bank and its own subsidiaries) is greater than 25% of the total Collections during such Quarterly Reporting Period and (ii) the Debt Service Coverage Ratio (calculated as if such Collections from such affiliated Payor Banks did not exist) for such Quarterly Reporting Period is less than 12:1x; *it being understood* that if: (A) any Payor Bank becomes an affiliate of Alfa-Bank during such Quarterly Reporting Period, then the Collections

received from such Payor Bank during all of such Quarterly Reporting Period (including the time before it was an affiliate of Alfa-Bank) will be considered to be affiliate-related Collections and (B) any Payor Bank ceases to be an affiliate of Alfa-Bank during such Quarterly Reporting Period, then the Collections received from such Payor Bank during all of such Quarterly Reporting Period (including the time while it was an affiliate of Alfa-Bank) will not be considered to be affiliate-related Collections, or

- (s) as specified in the Loan Supplement for the Series 2006-A Loan, Moody's has an outstanding rating of Alfa-Bank's domestic currency deposit rating (or, if such rating is not published, then the foreign currency deposit rating) of "Ba3" or lower or no such rating is published (the "*Ratings Event*") and such shall have continued for at least two Business Days (the "*Cure Period*"); *provided* that, before the end of such Cure Period, should Alfa-Bank have delivered to the Indenture Trustee (for the benefit of the SPC) for deposit into a subaccount of the Loan Payment Account for the Series 2006-A Loan an amount that (when aggregated with the amount already on deposit in such Loan Payment Account) is at least equal to the Prepayment Amount of the Series 2006-A Loan determined as if the Series 2006-A Loan were to be repaid on the date that is the earlier of the Series 2006-A Maturity Date and the date that is 60 days (or, if such 60th day is not a Business Day, then the Business Day after such 60th day) after the Ratings Event, then:
- (i) the Cure Period will be through the date that is 60 days (or, if such 60th day is not a Business Day, then through the Business Day after such 60th day) after the Ratings Event,
  - (ii) notwithstanding any additional Collections deposited into such Loan Payment Account from the Concentration Accounts, such deposited amount will remain in such subaccount until the earlier of: (A) the commencement of an Early Amortization Period with respect to the Series 2006-A Loan (in which event such amount will, to the extent necessary, be applied to the prepayment of the Series 2006-A Loan as if it were Collections from Diversified Payment Rights) and (B) the waiver and/or amendment of this clause by the SPC and the Indenture Trustee (at the instruction of the Controlling Party of the Series 2006-A Notes) so that the Ratings Event will not result in an Early Amortization Event (in which event, such amount will be promptly (and, in any event, within one Business Day thereafter) returned by the Indenture Trustee (on behalf of the SPC) to Alfa-Bank; *it being understood* that any allocations from the Concentration Accounts to such Loan Payment Account will continue to be made without regard to such amounts being on deposit in such subaccount, and

- (iii) if no release of funds shall have occurred pursuant to clause (ii) by the end of such extended Cure Period, then an Early Amortization Period for the Series 2006-A Loan will be deemed automatically to have occurred and such amount will be transferred from such subaccount to the primary Loan Payment Account (and be considered to be Collections from Diversified Payment Rights transferred to such Loan Payment Account from the Concentration Accounts) for allocation in the manner provided for an Early Amortization Period with respect to the Series 2006-A Loan.

Notwithstanding the foregoing, the Series 2006-A Indenture Supplement will provide that an event referred to in clause (a), (d)(ii) or (e) existing for a period of up to 10 Business Days after the applicable grace period or in clause (f) for a period of up to 30 days after the applicable grace period will not constitute an Early Amortization Event for the Series 2006-A Loan if such delay or failure could not have been prevented by the exercise of reasonable diligence by the SPC and such delay or failure was caused by an act of God, riot, an act of war, terrorism, epidemic, flood, weather, landslide, fire, earthquake or similar causes. The preceding sentence does not, however, relieve the SPC from using commercially reasonable efforts to perform its obligations in a timely manner in accordance with the Transaction Documents.

Upon the occurrence of an Early Amortization Event for the Series 2006-A Loan other than as described in clause (a) (with respect to the applicable Maturity Date) or clause (d), the Indenture Trustee (pursuant to the Indenture, upon the instruction of the Controlling Party of the Offered Notes), by notice then given in writing to the SPC and Alfa-Bank, may declare that the Early Amortization Period with respect to such Loan has commenced; *provided* that, upon the occurrence of any Default for which a Default Payment has been required to be paid with respect to such Loan, the Early Amortization Period with respect to such Loan will be deemed automatically to have commenced without any notice or other action on the part of the Indenture Trustee or any other person. Upon the occurrence of an Early Amortization Event described in clause (a) (with respect to the applicable Maturity Date) or clause (d), an Early Amortization Period with respect to the Series 2006-A Loan will be deemed automatically to have commenced without any notice or other action on the part of the Indenture Trustee or any other person. The commencement of an Early Amortization Period for any other Loan will occur in the manner provided for in the applicable Loan Supplement.

“*Series 2006-A Minimum Quarterly Debt Service Coverage Ratio*” will mean 17.5:1x or such lower ratio as Moody’s and Alfa-Bank may agree from time to time and notify the SPC and the Indenture Trustee; *provided* that such ratio: (a) will not be lower than 12:1x and (b) if Moody’s rating of the Offered Notes is at any time less than the higher of: (i) two rating notches above (*e.g.*, “Baa1” compared to “Baa3”) Alfa-Bank’s local currency deposit rating (or, if such rating is not published, then the foreign currency deposit and debt ratings) from Moody’s and (ii) “Baa3”, then (for so long as such is the case) such

ratio will be 17.5:1x whether or not Moody's and Alfa-Bank have agreed to a lower number. For the purpose of clarification, any such agreed lower ratio will go into effect at the time notice thereof is received by the Indenture Trustee; *it being understood* that such will apply to the then-existing Quarterly Reporting Period even though such period may have started before the Indenture Trustee's receipt of such notice.

"Series 2006-A Minimum Monthly Debt Service Coverage Ratio" will mean 11.5:1x or such lower ratio as Moody's and Alfa-Bank may agree from time to time and notify the SPC and the Indenture Trustee; *provided* that such ratio: (a) will not be lower than 8:1x and (b) if Moody's rating of the Offered Notes is at any time less than the higher of: (i) two rating notches above (*e.g.*, "Baa1" compared to "Baa3") Alfa-Bank's local currency deposit rating (or, if such rating is not published, then the foreign currency deposit and debt ratings) from Moody's and (ii) "Baa3", then (for so long as such is the case) such ratio will be 11.5:1x whether or not Moody's and Alfa-Bank have agreed to a lower number. For the purpose of clarification, any such agreed lower ratio will go into effect at the time notice thereof is received by the Indenture Trustee; *it being understood* that such will apply to the then-existing Monthly Reporting Period even though such period may have started before the Indenture Trustee's receipt of such notice.

**Debt Service Coverage Ratio** ..... The "*Debt Service Coverage Ratio*" means: (a) with respect to any Monthly Reporting Period, the ratio of: (i) the aggregate amount of DDB Collections during such Monthly Reporting Period to (ii) 1/3rd of the Maximum Quarterly Debt Service determined as of the end of such Monthly Reporting Period (with respect to Debt Service Coverage Tests applicable to Loans that the SPC funded with the proceeds from a Senior Series, calculated as if no Subordinated Series were outstanding), (b) with respect to any Quarterly Reporting Period, the ratio of: (i) the aggregate amount of DDB Collections during such Quarterly Reporting Period to (ii) the Maximum Quarterly Debt Service determined as of the end of such Quarterly Reporting Period (with respect to Debt Service Coverage Tests applicable to Loans that the SPC funded with the proceeds from a Senior Series, calculated as if no Subordinated Series (and the corresponding Loans) were outstanding), or (c) with respect to any Loan, such other formulation as shall be specified in the applicable Loan Supplement.

The "*Non-Affiliate Debt Service Coverage Ratio*" means, with respect to any Quarterly Reporting Period, the ratio of: (a) the aggregate amount of Tested Collections during such Quarterly Reporting Period to (b) the Maximum Quarterly Debt Service determined as of the end of such Quarterly Reporting Period (with respect to the Series 2006-A Debt Service Coverage Tests calculated as if no Loan funded from the proceeds of a Subordinated Series (and such Series) were outstanding).

"*Tested Collections*" means, with respect to any period, the DDB Collections during such period that are not Affiliate Transaction Collections. In determining whether a DDB Collection was an Affiliate Transaction Collection, and recognizing that this may understate the Tested Collections and thus understate the Non-Affiliate Debt Service Coverage Ratio, Alfa-Bank will treat as Affiliate Transaction



Collections all DDB Collections that it has not affirmatively identified as not being an Affiliate Transaction Collection.

“*Russian Bank*” means a bank or similar financial institution that is either organized under the laws of or has its main office in Russia.

“*Non-Russian Bank*” means a bank or similar financial institution other than a Russian Bank.

“*Affiliate Transaction Collections*” means Collections that are payments for Payment Orders that instruct Alfa-Bank to make a payment to a Payee that is an affiliate of Alfa-Bank.

“*Maximum Quarterly Debt Service*” means, as of any date of determination, the highest amount among the results derived from the following calculation made in respect of each Payment Date scheduled to occur on or after such date of determination:

- (a) the aggregate amount of principal on all Loans (based upon the Quarterly Amortization Amount for each Loan) scheduled to be paid on such Payment Date, *plus*
- (b) the aggregate amount of Interest scheduled to be paid on all Loans on such Payment Date (calculated for each Loan as the product of: (i) the Loan Interest Rate corresponding to such Loan (or, for any Loan issued with a floating Loan Interest Rate, a Loan Interest Rate equal to the arithmetic average of all Loan Interest Rates applied to such Loan at any time since its Borrowing Date or, if higher, the Loan Interest Rate that would be in effect if such Loan were to be issued on such determination date, in each case *plus 1% per annum*), (ii) the Loan Balance for such Loan scheduled to be in effect on such Payment Date immediately before the payment of principal scheduled to be paid on such Payment Date and (iii) the number of days in the applicable Interest Period (with respect to Loans with fixed Loan Interest Rates, based upon a month of 30 days) *divided by 360*), *plus*
- (c) the aggregate amount of all premiums, guaranty fees or other fees payable by the SPC with respect to any Enhancements on such Payment Date and during the Interest Period then ended, *plus*
- (d) the aggregate amount of Additional Amounts payable by the SPC with respect to interest payable by it on the Notes and the payments described in clause (c).

**Defaults** ..... The “*Defaults*” for each Loan will be specified in the Loan Agreement and, to the extent applicable only to (or to be altered with respect to) one or more Loan(s), in the applicable Loan Supplement(s) (including, if applicable, by reference to one or more such events set forth in the Indenture Supplement for the corresponding Series).

Upon the occurrence of a Default applicable to any Loan, such Loan may be subject to mandatory prepayment, in whole but not in part (with

the corresponding Series being mandatorily redeemed from funds received in respect of the Default Payment that would be payable by Alfa-Bank to the SPC with respect to such Loan). From the Default Payment for any Loan, the SPC will pay to the applicable Noteholders (or Note Owners) an amount in the applicable currency equal to the sum of: (a) the outstanding principal balance of the corresponding Series, (b) all accrued and unpaid interest (if any) on such prepaid principal amount to but excluding the date of prepayment (the “*Prepayment Date*”), (c) all unpaid Additional Amounts payable by the SPC with respect to such Series and (d) all other amounts (if any) then due and payable to such Noteholders (or Note Owners) under the Transaction Documents in connection with such Series.

The Loan Agreement will provide that (except to the extent altered or supplemented in the applicable Loan Supplement) the following are Defaults with respect to each Loan, including the Series 2006-A Loan (*provided* that, as indicated below, certain events will be provided in the Loan Supplement for the Series 2006-A Loan (including by reference to one or more such events set forth in the Series 2006-A Indenture Supplement) and will be a Default with respect to such Loan only unless one or more other Loan Supplement(s) similarly incorporate(s) such event as an additional Default for the corresponding Loan(s)):

- (a) any representation or warranty made by Alfa-Bank or the Guarantor in any Transaction Document to which it is a party shall have been untrue or incorrect in any respect at the time when it was made and such untruth or incorrect statement (or the actual circumstances that caused such statement to be untrue or incorrect) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect,
- (b) except as specifically provided in another Default:
  - (i) Alfa-Bank shall have failed to observe or perform any of its covenants specified in clauses (a), (b), (c), (e), (f), (g), (k)(i), (l)(ii), (m), (n), (o), (q), (t) and (u) of “—Covenants of Alfa-Bank” above or the Guarantor shall have failed to observe or perform any of its covenants specified in clauses (a), (c), (f), (g) and (h) of “—Covenants of the Guarantor” above,
  - (ii) except to the extent already covered by clause (i), Alfa-Bank shall have failed to deliver any required report (including a Servicing Report), certificate or material notice within five Business Days (or, with respect to a Servicing Report, 10 Business Days) of the due date thereof,
  - (iii) Alfa-Bank shall have failed to observe or perform any of its covenants specified in clauses (h), (l)(i), (p) and (v) of “—Covenants of Alfa-Bank” above or the Guarantor shall have failed to observe or perform any of its covenants specified in clause (d) of “—Covenants of the Guarantor” above, in each case and such failure: (A) shall have already had or could

reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect and (B) shall continue unremedied for at least 15 days after an authorized officer of either Alfa-Bank or the Guarantor obtains (or reasonably should have obtained) actual knowledge of such failure,

- (iv) Alfa-Bank shall have failed to observe or perform any of its covenants specified in clauses (d), (i) and (j) of “—Covenants of Alfa-Bank” above or the Guarantor shall have failed to observe or perform any of its covenants specified in clauses (b) and (e) of “—Covenants of the Guarantor” above, in each case and such failure shall continue unremedied for at least 30 days after an authorized officer of either Alfa-Bank or the Guarantor obtains (or reasonably should have obtained) actual knowledge of such failure, or
- (v) Alfa-Bank or the Guarantor shall have failed to observe or perform any other covenant(s) specified in the Transaction Documents and such failure, alone or in the aggregate: (A) shall have already had a Material Adverse Effect or (B) could reasonably be expected to have a Material Adverse Effect,
- (c) Alfa-Bank shall have failed to make any payment, monetary transfer or deposit required to be made by it under the Transaction Documents (including pursuant to clause (k)(ii) of “—Covenants of Alfa-Bank” above) and, except with respect to payments of: (i) principal or interest due with respect to the Loans or (ii) any other payments due with respect to a Loan on the applicable Maturity Date (for each of which no grace period applies), such failure shall have continued unremedied for at least five Business Days after the date such payment, monetary transfer or deposit is required to be made,
- (d) subject to clause (m) of “—Representations and Warranties of Alfa-Bank” above: (i) the SPC shall fail to have a first priority security interest under New York law over all or any part of the Loan Collateral, (ii) to the extent available, the SPC shall fail to have a perfected security interest under New York law over all or any part of the Loan Collateral, or (iii) the pledge under the Pledge Agreement shall (with respect to all or any part of the Loan Collateral) cease to be enforceable against Alfa-Bank under Russian law,
- (e) as specified in the Series 2006-A Indenture Supplement, and subject to clause (i) of “—Representations and Warranties of the SPC,” the Indenture Trustee shall fail to have: (i) a first priority security interest under New York or Luxembourg law over all or any part of the Note Collateral or (ii) to the extent available, a perfected security interest under New York or Luxembourg law over all or any part of the Note Collateral,
- (f) any governmental authorization, license, consent, registration or approval required in or by the applicable laws of Russia, the

British Virgin Islands or (with respect to clause (i)) any other applicable jurisdiction: (i) to enable Alfa-Bank and/or the Guarantor lawfully to enter into and perform its obligations under the Transaction Documents to which it is a party, (ii) to enable Alfa-Bank to operate as a bank and/or generate Diversified Payment Rights and/or process Payment Orders, (iii) to enable the SPC to exercise the rights expressed to be granted to the SPC in the Loan Agreement and/or the Pledge Agreement and/or (iv) to ensure the legality, validity, enforceability and/or admissibility in evidence in Russia and/or the British Virgin Islands of the Loan Agreement and/or the Pledge Agreement shall cease to be in full force and effect in any respect, the effect of any of which: (A) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect or (B) shall have already had a Material Adverse Effect; *it being understood* in respect of each of the foregoing clauses that such clause does not cover notarizations, certified translations, registrations or any other normal-course formality for admissibility in evidence in Russia and/or the British Virgin Islands of the Transaction Documents (except those expressly covenanted to be obtained, made or caused by Alfa-Bank or the SPC),

- (g) for any Quarterly Reporting Period, less than 50% of Collections received during such Quarterly Reporting Period shall have been deposited by Payor Banks into the Collection Accounts at Designated Depository Banks that are Third-Party Depository Banks; *provided* that this test will: (i) take into account Collections received at a Depository Bank during such Quarterly Reporting Period if such Depository Bank is a Designated Depository Bank as of the close of business on the last Business Day of such Quarterly Reporting Period even though such Depository Bank was not a Designated Depository Bank during any portion of such Quarterly Reporting Period and to the extent that such payments were credited to the account(s) covered by the Account Agreement(s) with such Designated Depository Bank and (ii) exclude Collections credited to the Collection Account(s) at a bank during such Quarterly Reporting Period if such bank is no longer a Designated Depository Bank or its Account Agreement(s) cease(s) to cover such Collection Account(s) as of the close of business on the last Business Day of such Quarterly Reporting Period; *and provided further* that, for purposes of this paragraph, DDB Collections will not include any Collections through a Collection Account the Account Agreement with respect to which is, pursuant to its terms (including at the request of any of the parties thereto), to cease to be effective within 30 days after the last day of the applicable Quarterly Reporting Period,
- (h) Alfa-Bank (or its successor to the extent permitted by clause (c) of “—Covenants of Alfa-Bank” above) ceases to be duly authorized under the laws of Russia as a bank permitted to carry on a general commercial banking business or the business of generating Diversified Payment Rights and/or processing Payment Orders,

- (i) other than with respect to payments under the Transaction Documents: (i) Alfa-Bank, the Guarantor or any of their respective subsidiaries shall default (as principal or guarantor or other surety) in the payment of any principal of, interest on, or premium, guaranty fees or other fees payable with respect to any credit-enhancement for, any indebtedness (or any similar obligation, such as relating to any securitization), which indebtedness (or obligation) is outstanding in the principal amount of at least US\$20,000,000 in the aggregate (or its equivalent in any other currency), and such default shall have continued for more than any applicable period of grace, or (ii) any other event shall occur or condition shall exist in respect of any such indebtedness (or obligation) referred to in clause (i) that results in the applicable creditor's (or other controlling party's) acceleration of Alfa-Bank's, the Guarantor's or any of their respective subsidiaries' obligation to pay such indebtedness (or obligation) or (except with respect to subsidiaries of the Guarantor (other than Alfa-Bank) that are not Material Subsidiaries) would permit such acceleration,
- (j) with respect to Alfa-Bank or the Guarantor, either: (i) it shall commence a voluntary case, proceeding or other action: (A) under any applicable law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, suspension of payments or relief of debtors seeking to have an order for relief entered with respect to it or seeking to adjudicate it a bankrupt or insolvent or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, liquidator, administrator, custodian, conservator or other similar official of it or for any substantial part of its property, (ii) an involuntary case, proceeding or other action of a nature referred to in clause (i) (including the institution at the request of the Central Bank of financial rehabilitation (*finansovoye ozdorovlenie*), temporary administration (*vremennaya administratsiya*) or reorganization (*reorganizatsiya*) with respect to Alfa-Bank as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organizations" dated February 25, 1999 (as amended or restated from time to time)) shall be commenced against it that: (A) shall result in the entry of an order for relief or of an order granting or approving such adjudication or appointment referred to in clause (i) or (B) shall remain unstayed, undismissed, undischarged or unbonded for a period of at least 90 days after its actual knowledge of such action, (iii) an involuntary case, proceeding or other action shall be commenced against it that seeks issuance of a warrant of attachment, execution, distraint or similar process against any substantial part of its property that shall result in the entry of an order for any such relief and shall not have been vacated, discharged, stayed or bonded pending appeal within 90 days from the entry thereof, (iv) there shall be commenced against it any intervention proceedings to take control of it under any applicable bank

regulatory or insolvency laws or rules of any jurisdiction (including by the Central Bank), (v) there shall be commenced against it any extra-judicial liquidation proceedings under any applicable insolvency laws or rules of any jurisdiction, which proceedings could reasonably be expected to result in its liquidation under any applicable insolvency laws or rules of any jurisdiction, (vi) it shall admit in writing its inability to pay its debts as they become due, (vii) it shall make a general assignment for the benefit of its creditors or (viii) it shall take any corporate (or similar) action in furtherance of, or indicating its consent to, approval of or acquiescence in, any of the foregoing acts,

- (k) any court, other governmental authority or arbitrator shall enter against Alfa-Bank, the Guarantor or any of their respective subsidiaries: (i) a final non-payment judgment, decree or order or (ii) a final judgment, decree or order for the payment of money or a final and enforceable claim for unpaid taxes (*i.e.*, a non-discharged request to pay taxes for which the applicable time period for its performance has expired, or, if the amounts referred to therein, its applicability and/or validity has/have been contested by Alfa-Bank, the Guarantor or such subsidiary through appropriate proceedings, a final judgment (with no right to appeal) has been given against Alfa-Bank, the Guarantor or such subsidiary in such proceedings) in an amount that, when aggregated with the amount of all other unsatisfied final judgments, decrees or orders and final and enforceable claims for unpaid taxes against Alfa-Bank, the Guarantor and/or any of their respective subsidiaries, exceeds US\$20,000,000 (or its equivalent in any other currency), and
  - (A) any such event: (1) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect or (2) shall have already had a Material Adverse Effect, and
  - (B) either: (1) such judgment, decree, order or enforceable tax claim is not stayed or discharged within 60 days after entry thereof or (2) there shall be any period of at least 60 consecutive days during which a stay of enforcement of such judgment, decree, order or enforceable tax claim shall not be in effect,
- (l) during any Quarterly Reporting Period, any Designated Depository Bank shall set-off a claim against Alfa-Bank, the Guarantor or any of their respective subsidiaries against Collections and the aggregate amount of all unremedied set-off claims shall exceed US\$10,000,000 (or its equivalent in any other currency) for at least ten Business Days after an authorized officer of Alfa-Bank and/or the Guarantor obtains actual knowledge thereof,
- (m) either: (i) any of the Transaction Documents shall fail for any reason to be in full force and effect, which failure: (A) could reasonably be expected, alone or in the aggregate, to have a

Material Adverse Effect or (B) shall have already had a Material Adverse Effect, or (ii) any of Alfa-Bank, the Guarantor or, with respect to any Enhancement, the applicable Enhancer shall (in bad faith) so allege with respect to any of its obligations thereunder; *provided* that, with respect to clause (i) or any such allegation by an Enhancer pursuant to clause (ii), any such event with respect to a Transaction Document that relates only to one or more Loan(s) (such as any Enhancement for the corresponding Series) will be a Default with respect to such Loan(s) only,

- (n) any interference by any governmental authorities or banking regulator of Russia, the British Virgin Islands or Luxembourg (including a banking moratorium) shall occur in connection with, or any Russian, British Virgin Island or Luxembourg legislative, judicial, regulatory or other action by a governmental authority or banking regulator is taken that interferes with, the Transaction Documents or the conduct of the Payment Order business by Alfa-Bank (including the routing of Collections and/or causing any payment obligation that would otherwise be a Diversified Payment Right not to fall within the definition thereof), and such interference or other action: (i) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect or (ii) shall have already had a Material Adverse Effect,
- (o) any litigation, administrative proceeding, arbitration or other action (excluding an involuntary case, proceeding or other action of a nature referred to in clause (j)(ii), provisions for which actions are addressed in such clause) is instituted against Alfa-Bank or the Guarantor that: (i) shall remain undismitted, undischarged, unstayed or unbonded for a period of at least 60 days after Alfa-Bank's or the Guarantor's actual knowledge of such litigation, proceeding, arbitration, case or other action and (ii)(A) could reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect or (B) shall have already had a Material Adverse Effect,
- (p) any governmental authority (including the Central Bank or another banking authority) shall condemn, seize, compulsorily purchase, nationalize or expropriate all or a material part of the capital stock, property or business of Alfa-Bank or the Guarantor,
- (q) a Default Payment shall be payable by Alfa-Bank with respect to any Loan,
- (r) with respect to either or both Alfa-Bank and/or the Guarantor, its execution and delivery of the Transaction Documents to which it is a party, and/or its performance thereunder (including the pledge by Alfa-Bank of the Loan Collateral to the SPC), contravene or constitute a default under any contractual obligation, judgment, injunction, order, writ or decree binding upon any of its affiliates (other than any of its subsidiaries) or any of their respective properties and such: (i) could reasonably be expected, alone or in the aggregate, to

have a Material Adverse Effect or (ii) shall have already had a Material Adverse Effect,

- (s) as specified in the Loan Supplement for the Series 2006-A Loan, an Early Amortization Event for the Series 2006-A Loan of the type described in clause (a) of “—Early Amortization Events” above shall occur,
- (t) as specified in the Loan Supplement for the Series 2006-A Loan, a Change of Control shall occur unless (within 30 days after such Change of Control) the Rating Agency rating the Offered Notes shall have notified the Indenture Trustee in writing that such Change of Control will not result in (and has not resulted in) a withdrawal or reduction of its rating on the Offered Notes to below the lower of: (i) its then-current rating on the Offered Notes before such Change of Control was publicly announced and (ii) “Baa3”, or
- (u) for any Loan, any other event specified as a “Default” in the Loan Supplement for such Loan.

Notwithstanding the foregoing, an event referred to in clause (b) existing for a period of up to 30 days after the applicable grace period or in clause (c) for a period of up to ten Business Days after the applicable grace period will not constitute a Default if such delay or failure could not have been prevented by the exercise of reasonable diligence by Alfa-Bank or the Guarantor (as applicable) and such delay or failure was caused by an act of God, riot, an act of war, terrorism, epidemic, flood, weather, landslide, fire, earthquake or similar causes. The preceding sentence does not, however, relieve Alfa-Bank and the Guarantor from using commercially reasonable efforts to perform its obligations in a timely manner in accordance with the Transaction Documents.

Upon the occurrence of any Default: (a) included in the Loan Agreement, other than as described in clause (b)(i) (with respect to Alfa-Bank’s covenants described in clauses (b), (c), (f), (g) and (n) described in “—Covenants of Alfa-Bank” above and the Guarantor’s covenants described in clauses (a) and (g) of “—Covenants of the Guarantor” above), (h), (i) (if Alfa-Bank’s, the Guarantor’s or any of their respective subsidiaries’ obligation to pay the applicable indebtedness (or obligation) has been accelerated), (j), (p) or (q) above (the “*Loan Agreement Automatic Default Payment Triggers*”), the Indenture Trustee (pursuant to the Indenture, upon the instruction of the Controlling Party of any Series), by notice then given in writing to the SPC and Alfa-Bank, may require the SPC immediately to request a Default Payment from Alfa-Bank with respect to the corresponding Loan, and (b) contained in the Loan Supplement for any Loan, the Indenture Trustee (pursuant to the Indenture, upon the instruction of the Controlling Party of the Series corresponding to the applicable Loan), by notice then given in writing to the SPC and Alfa-Bank, may require the SPC immediately to request a Default Payment from Alfa-Bank with respect to such Loan. Any Loan Agreement Automatic Default Payment Trigger will automatically be deemed to have resulted in an immediate request from the SPC to Alfa-Bank for the payment of the Default Payment for all Loans (including the Series 2006-A Loan) and



(as provided in the Loan Supplement for the Series 2006-A Loan) any Default described in clause (s) or (t) above will automatically be deemed to have resulted in an immediate request from the SPC to Alfa-Bank for the payment of the Default Payment for such Loan. Upon a request (or deemed request) to Alfa-Bank for such payment, Alfa-Bank will promptly (but in any event no more than five Business Days thereafter) pay to the Indenture Trustee (for the benefit of the SPC) an amount equal to such Default Payment (which payment will be a payment of the applicable Loan); *provided* that if such date of payment is not a New York Business Day, then the Default Payment will be determined as if such date of payment were the next New York Business Day. In each case, if such payment is made by Alfa-Bank, then the SPC will pay an amount equal to the Prepayment Amount for the corresponding Series to the Indenture Trustee for further payment to the applicable Note Secured Parties in accordance with the applicable Indenture Supplement; *it being understood* that such proceeds will not be used by the SPC to make any other payments notwithstanding the allocations in “—Allocation of Amounts in the Concentration Accounts” above or otherwise; *provided* that, should a Default Payment be required to be paid with respect to more than one Loan and Alfa-Bank (or the Guarantor) has not paid all such amounts in full, all such payments made by Alfa-Bank (and/or the Guarantor) will first be allocated among the Loans with respect to which a Default Payment is required to be paid on a *pro rata* basis based upon the respective amounts of Default Payment then payable to each such Loan.

The “*Default Payment*” with respect to any Loan means, as of any date of payment, the Prepayment Amount for such Loan on such date. Such payment and the related mandatory prepayment of the applicable Series will occur on the dates specified in the Transaction Documents. If a Default Payment is not paid in full by the time required, then the SPC and (pursuant to the SPC’s pledge to it of the Note Collateral) the Indenture Trustee will both have a direct cause of action against Alfa-Bank to collect such amount.

The “*Prepayment Amount*” for each Loan means, as of any date of determination, an amount in the applicable currency equal to the sum of: (a) the Loan Balance of such Loan (or, in the case of a partial prepayment, the portion thereof to be prepaid), (b) all accrued and unpaid Interest and Additional Interest (if any) on such prepaid principal amount to but excluding the Prepayment Date, (c) the sum of all unpaid tax gross-ups payable by Alfa-Bank to the SPC under the Loan Agreement with respect to such Loan *plus* all unpaid Additional Amounts payable by the SPC with respect to the corresponding Series, (d) the Make-Whole Premium (if any) for such Loan (or, in the case of a partial prepayment, the portion thereof to be prepaid) to but excluding the Prepayment Date, (e) any unreimbursed amounts disbursed under any Enhancement for such Series (*plus* any applicable interest thereon) *plus* (whether or not otherwise then due under the Transaction Documents) such Series’ *pro rata* share (based upon the Note Balance on such Prepayment Date of each Series covered by such Enhancement) of any premium, fees or other amounts owing to any Enhancer for any Enhancement(s) relating to such Series, (f) any amounts payable by the SPC to a counterparty under any Hedging Agreement relating to such Series (including any amounts payable as a

result of the termination thereof due to the prepayment) and (g) all other amounts then due and payable to the SPC and the Note Secured Parties under the Transaction Documents in connection with such Loan and such Series (including any such amounts so identified in the applicable Loan Supplement to be included in the Prepayment Amount with respect to such Loan. Notwithstanding anything else herein to the contrary, if Alfa-Bank is required to pay a Prepayment Amount or Default Payment with respect to any Loan then it may request the Indenture Trustee (for the benefit of the SPC) to apply towards such payment the available funds (if any) in the Concentration Accounts and/or the applicable Loan Payment Account that are to be applied by the Indenture Trustee (for the benefit of the SPC) towards the payment of the components of such Prepayment Amount or Default Payment.

“*Material Subsidiary*” means, at any particular time, a subsidiary of the Guarantor: (a) whose total assets and/or liabilities exceed 5% of the consolidated IFRS-total assets or liabilities (as applicable) of the Guarantor or (b) whose net profit before taxation exceeds 5% of the consolidated IFRS net profit before taxation of the Guarantor (in each case, based upon the twelve calendar month period ending on the date of the most recent financial statements delivered by Alfa-Bank pursuant to clause (q) of “—Covenants of Alfa-Bank” above or, if none have yet been so delivered, the financial statements dated as of June 30, 2005).

“*Change of Control*” means that either: (a) any person or group (within the meaning of the United States Securities Exchange Act of 1934 and the rules of the United States Securities and Exchange Commission thereunder) either: (i) owns more than 50% of any series of the voting stock of Alfa-Bank and/or the Guarantor or (ii) otherwise exercises Control over Alfa-Bank and/or the Guarantor, in either case, other than shareholders holding such shares and/or exercising such Control as of the Borrowing Date of the Series 2006-A Loan and other than members of the Alfa Consortium, or (b) Alfa-Bank ceases to be consolidated with the Guarantor under IFRS. “*Control*” of a person means the power, directly or indirectly, to direct, determine, manage, control or cause the direction of the management, business, operations, activities, investments or policies of such person, whether through the ownership of any interest in such person, by contract or otherwise.

The “*Make-Whole Premium*” will: (a) with respect to the Series 2006-A Loan, mean US\$0, and (b) with respect to other Loan, have the meaning (if any) specified in the applicable Loan Supplement.

**Optional Prepayment** ..... So long as no Early Amortization Period exists with respect to any Loan (other than the Loan to be so prepaid (if to be prepaid in full) and other Loans that have an Early Amortization Period resulting only from a cross-trigger to an Early Amortization Event under the Loan to be so prepaid), at any time (or with respect to any Loan, as provided in the applicable Loan Supplement), Alfa-Bank or its designee may, by payment (by delivering such amount to the Indenture Trustee for the benefit of the SPC) to the SPC of the Prepayment Amount for each Loan (or a portion thereof) that it wishes to prepay, prepay any Loan (or a portion thereof) on a selected Prepayment Date; *it being understood* that such day must be a New York Business Day. Except with respect to the full prepayment of a Loan with respect to which an Early Amortization Event exists or would (with the expiration of any

applicable grace period, the delivery of notice or both) exist (for both of which no notice is required), Alfa-Bank or its designee will give the SPC and the Indenture Trustee an irrevocable notice of its intention to prepay all or any portion of a Loan not less than ten days nor more than 90 days before the proposed Prepayment Date relating thereto.

The SPC will use the proceeds of any such payment of a Prepayment Amount to prepay all or the applicable portion of the Series corresponding to such prepaid Loan and to make all other payments included in (or related to the payments included in) the Prepayment Amount; *it being understood* that: (a) such proceeds will not be used by the SPC to make any other payments notwithstanding the allocations in “—Allocation of Amounts in the Concentration Accounts” or otherwise and (b) if a partial prepayment of a Loan is made, then the SPC’s corresponding prepayment of the corresponding Series will be applied *pro rata* to the Notes of such Series. Any partial prepayment of any Loan pursuant to an optional prepayment will (with respect to any Loan, except as otherwise provided in the applicable Loan Supplement) result in a *pro rata* reduction in the Quarterly Amortization Amounts remaining to be paid for such Loan.

Following receipt by the SPC of the Prepayment Amount in connection with an optional prepayment of a Loan (in whole or in part), the Noteholders (or Note Owners) (and, if applicable, Enhancers) of the corresponding Series will be entitled to receive from the SPC an amount in the applicable currency equal to the sum of: (a) the Loan Balance of such Loan (or, in the case of a partial prepayment of such Loan, an amount equal to the portion thereof to be prepaid), (b) all accrued and unpaid Interest (if any) on such prepaid principal amount of such Loan to but excluding the Prepayment Date, (c) all unpaid Additional Amounts payable by the SPC with respect to such Series and (d) all other amounts (if any) then due and payable to such Noteholders (or Note Owners) (and, if applicable, Enhancers) under the Transaction Documents in connection with such Series and that is included within the calculation of such Prepayment Amount.

Upon its receipt from Alfa-Bank of any such Prepayment Amount, the SPC will immediately deliver such amounts to the Indenture Trustee. As promptly as possible (and, in any event, by no later than its next Business Day) after its receipt from (or on behalf of) Alfa-Bank and/or the SPC of the Prepayment Amount for any Loan (or portion thereof) (whether as a result of the payment of a Default Payment by Alfa-Bank as described in “—Defaults” above or an optional prepayment as described above), the Indenture Trustee (on behalf of the SPC) will use the proceeds of any such Prepayment Amount to redeem all or the applicable portion of the corresponding Series and to make all other payments included in the Prepayment Amount; *it being understood* that such payments to the applicable Noteholder(s) and other recipients thus may not occur until the Indenture Trustee’s Business Day after the Prepayment Date.

Should any Prepayment Amount for any Loan not be paid in full on the applicable Prepayment Date, then the SPC will: (a) first allocate any partial payment to each Loan for which a Prepayment Amount was payable on such Prepayment Date on a *pro rata* basis based upon the applicable Prepayment Amounts and (b) for each such Loan, use such

allocated amount to make all payments included in the Prepayment Amount in the order set forth in the Indenture Supplement for the corresponding Series. As set forth in the Series 2006-A Indenture Supplement, such allocations for a partial Prepayment Amount paid with respect to the Series 2006-A Loan will be made in the following order of priority (in each case, to the extent that such amounts were included in the calculation of such Prepayment Amount): (i) Indenture Trustee fees, (ii) the Interest payable on the Series 2006-A Loan, (iii) the tax gross-ups payable by Alfa-Bank to the SPC as described in “— Withholding Taxes” below, (iv) scheduled principal and scheduled but not paid when due principal on the Series 2006-A Loan, (v) any remaining principal scheduled to be paid on the Series 2006-A Loan thereafter, (vi) Optional Prepayment Premium on the Series 2006-A Loan, (vii) other amounts due under the Transaction Documents to parties other than Alfa-Bank, the SPC and any affiliates of either thereof and (viii) any amounts payable by the SPC to a counterparty under any Hedging Agreement relating to the Series 2006-A Notes.

The Loan Supplement for the Series 2006-A Loan will provide that the Optional Prepayment Premium will be included in the Prepayment Amount for such Loan if Alfa-Bank elects to prepay such Loan (or portions thereof) before the second anniversary of the Borrowing Date of such Loan.

The “*Optional Prepayment Premium*” in respect of the Series 2006-A Loan that may be payable will, as indicated in the applicable Loan Supplement, be an amount calculated by Alfa-Bank equal to the present value of a series of payments equal to the product of: (a) the Loan Balance of such Loan (or the portion thereof being prepaid) *multiplied* by (b) 1.60% (*i.e.*, the spread for such Loan), payable quarterly on each Payment Date in arrears from the applicable Prepayment Date through the second anniversary of the Borrowing Date of such Loan, and discounted at a rate equal to Three-Month LIBOR being used to calculate the Loan Interest Rate for such Loan on such Prepayment Date.

Other than an amount equal to any Optional Prepayment Premium incorporated into the Prepayment Amount in respect of the Series 2006-A Loan, no prepayment premium will be payable by Alfa-Bank to the SPC (and, thus, by the SPC to the Noteholders of the Offered Notes) in the event of any optional prepayment of the Series 2006-A Loan.

**Transfer Restrictions** ..... The Offered Notes will not be registered under the Securities Act or the securities laws of any jurisdiction and will be: (a) offered in the United States to QIBs in reliance upon Rule 144A, which QIBs are also Qualified Purchasers, and (b) offered outside the United States to non-U.S. persons in reliance upon Regulation S. The Offered Notes (and beneficial interests therein) will be subject to certain restrictions on transfer as specified in the Transaction Documents. See “Notice to U.S. Investors” and “Notice to Investors in the International Offering.”

**Form and Delivery** ..... Offered Notes offered and sold in the United States to QIBs will be represented by beneficial interests in a Rule 144A Note. Offered Notes offered and sold outside the United States to certain non-U.S. persons

pursuant to Regulation S will be represented by beneficial interests in a Regulation S Note. Each Note will be in registered form.

The Global Notes for the Offered Notes will be deposited on or about the Borrowing Date of the Series 2006-A Loan with the Indenture Trustee as custodian for, and registered in the name of, Cede & Co. as nominee of DTC.

**United States Tax Treatment** .....Mayer, Brown, Rowe & Maw LLP (“*U.S. Tax Counsel*”), is of the opinion that, subject to certain assumptions and qualifications, for United States federal income tax purposes: (a) the Offered Notes will be treated as debt and (b) the permitted activities of the SPC will not result in it being treated as engaged in the conduct of a trade or business in the United States. See “Taxation — Certain U.S. Federal Income Tax Consequences.”

**NOTICE PURSUANT TO IRS CIRCULAR 230:** THIS DISCUSSION IS NOT INTENDED OR WRITTEN BY THE SPC, ALFA-BANK, THEIR RESPECTIVE COUNSEL OR THE U.S. TAX COUNSEL TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THIS DISCUSSION IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING BY THE SPC OF THE OFFERED NOTES. EACH TAXPAYER SHOULD SEEK ADVICE BASED UPON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR CONCERNING THE POTENTIAL TAX CONSEQUENCES OF AN INVESTMENT IN THE OFFERED NOTES.

**Russian Tax Treatment** .....Deloitte & Touche RCS Ltd., Russian tax advisor to Alfa-Bank, is of the opinion that, subject to certain assumptions and qualifications (including the timely provision of proper documents and not falling under constraints set by Russian thin capitalization rules), no stamp or other issuance or transfer taxes or duties and no capital gains, income, withholding or other taxes (except for corporate or income tax imposed upon Alfa-Bank, if any) are payable to Russia or any governmental authority thereof: (a) in connection with the execution and/or delivery of the Transaction Documents or the enforcement of any thereof; *provided* that in the case of any such Transaction Documents being entered into evidence in a Russian court, Russian stamp tax may be required to be paid, (b) in connection with the pledge by Alfa-Bank of the Loan Collateral to the SPC, (c) by or on behalf of the Initial Purchasers in connection with the offering, sale and/or delivery of the Offered Notes (or beneficial interests therein) to the Initial Purchasers or by the Initial Purchasers to the initial purchasers therefrom, in each case so long as neither the Initial Purchasers nor such initial purchasers, as the case may be: (i) has an enterprise that is carried on through a permanent establishment in Russia and to which enterprise the investment in the Offered Notes is attributable and (ii) is a citizen of or individual resident in Russia or an entity organized pursuant to Russian law, (d) with respect to any principal, Interest, Additional Interest or other amounts paid by Alfa-Bank (including any interest on the Series 2006-A Loan) under the Transaction Documents so long as the SPC: (i) does not have an enterprise that is carried on through a permanent establishment in Russia and to which enterprise the Series 2006-A

Loan is attributable and (ii) is not a citizen of or individual resident in Russia or an entity organized pursuant to Russian law, or (e) with respect to any principal, interest or other amounts paid by the SPC (including any interest on the Offered Notes) under the Transaction Documents so long as no Noteholder of the Offered Notes: (i) has an enterprise that is carried on through a permanent establishment in Russia and to which enterprise the investment in the Offered Notes is attributable and (ii) is a citizen of or individual resident in Russia or an entity organized pursuant to Russian law. See “Taxation—Certain Russian Tax Consequences.”

**Luxembourg Tax Treatment** ..... Bonn Schmitt Steichen, special Luxembourg counsel to the SPC, is of the opinion that, subject to certain assumptions and qualifications, no stamp or other issuance or transfer taxes or duties and no capital gains, income, withholding or other taxes are payable to Luxembourg or any governmental authority thereof: (a) in connection with the execution and/or delivery of the Transaction Documents or the enforcement of any thereof, (b) by or on behalf of the Initial Purchasers in connection with the offering, sale and/or delivery of the Offered Notes (or beneficial interests therein) to the Initial Purchasers or by the Initial Purchasers to the purchasers therefrom or (c) with respect to any principal, interest, premium, fees or other amounts paid by the SPC (including any interest on the Offered Notes) under the Transaction Documents. The SPC is subject to Luxembourg profits tax, the payments of which are intended to be covered by Collections and/or the Additional Interest to be paid by Alfa-Bank to the SPC.

**British Virgin Islands Tax Treatment** ..... Harney, Westwood & Riegels, special British Virgin Islands counsel to the Guarantor, is of the opinion that, subject to certain assumptions and qualifications, no stamp or other issuance or transfer taxes or duties and no capital gains, income, withholding or other taxes are payable to the British Virgin Islands or any governmental authority thereof: (a) in connection with the execution and/or delivery of the Transaction Documents or the enforcement of any thereof, (b) by or on behalf of the Initial Purchasers in connection with the offering, sale and/or delivery of the Offered Notes (or beneficial interests therein) to the Initial Purchasers or by the Initial Purchasers to the initial purchasers therefrom or (c) with respect to any principal, interest, premium, fees or other amounts paid by the Guarantor under the Transaction Documents, except that the Offered Notes or any of the Transaction Documents may bear British Virgin Islands stamp duty if executed in or brought into the British Virgin Islands. See “Taxation—Certain British Virgin Islands Tax Consequences.”

**Withholding Taxes** ..... Subject to certain limited exceptions, all payments by the SPC in respect of the Offered Notes and all other payments to Note Secured Parties under the Transaction Documents, whether in respect of principal, interest, premiums, fees or otherwise, will be made without deduction or withholding for any current or future taxes, duties, assessments or governmental charges of whatever nature (collectively, “Taxes”) imposed, levied, collected, withheld or assessed by (or on behalf of) any taxing authority unless such Taxes are required by any applicable law to be deducted or withheld. If any such Taxes are required by applicable law to be deducted or withheld, then the SPC, subject to certain customary exceptions, will pay to the Indenture Trustee (for the benefit of the applicable recipient(s) of such payment)

such additional amounts (“*Additional Amounts*”) as may be necessary so that the recipient(s) thereof will receive the full amount otherwise payable in respect of such payments had no such Taxes (including any Taxes payable in respect of such *Additional Amounts*) been required to be so deducted or withheld.

Pursuant to the Loan Agreement, Alfa-Bank will: (a) with respect to any payments by it (or the Guarantor on its behalf) under the Loan Agreement and/or the Loan Supplements for which any Taxes are required to be deducted or withheld, increase such payments to such amount as may be necessary to ensure that the recipient of such payment shall receive the full amount otherwise payable in respect of such payments had no such Taxes (including any Taxes payable in respect of such increased amounts) been required to be so deducted or withheld, and (b) pay to the Indenture Trustee (for the benefit of the SPC) an amount equal to the *Additional Amounts* payable by the SPC promptly (and, in any event, within two Business Days) after its receipt of an invoice therefor from (or on behalf of) the SPC.

Notwithstanding anything herein to the contrary, the SPC will only pay any *Additional Amounts* to the extent that it receives funds for such purpose from Alfa-Bank in the manner described in the previous paragraph. See “Description of the Offered Notes and the Other Transactions Documents—Offered Notes and the Related Indenture Supplements—*Additional Amounts*.”

***Certain ERISA Considerations*** ..... Subject to the restrictions described herein, Benefit Plans (as defined herein) and other employee benefit plans will be permitted to purchase the Offered Notes (or beneficial interests therein). However, any Benefit Plans or other employee benefit plans contemplating a purchase of the Offered Notes (or beneficial interests therein) should consult with their counsel before making such a purchase. See “*Certain Employee Benefit Plan Considerations*.”

***Rating Agency*** ..... “*Rating Agency*” means, with respect to any Series, each rating agency rating such Series and so identified in the applicable Indenture Supplement. For the Offered Notes, the Rating Agency is Moody’s.

Pursuant to the Indenture, the SPC will agree to pay any monitoring fees of the Rating Agencies in respect of each Series; *it being understood* that: (a) the SPC will not request that any Rating Agency stop rating any Series rated by such Rating Agency without the prior consent of each of the Investors and Enhancers (if any) of such Series and (b) the SPC will only pay such amounts to the extent funds are received therefor from Alfa-Bank under the Loan Agreement.

***Required Ratings*** ..... It is a condition to the issuance of the Offered Notes that they be rated at least “Baa3” by Moody’s. The rating addresses the timely payment of interest on the Offered Notes on each Payment Date and the timely payment on the Offered Notes of an amount equal to the Quarterly Amortization Amounts for the Series 2006-A Loan on each Payment Date after the applicable Interest-Only Period. The rating does not address the likelihood of payment of *Additional Amounts* or any other amounts. A rating is not a recommendation to buy, sell or hold an Offered Note (or beneficial interests therein) and is subject to revision or withdrawal in the future by a Rating Agency.

**Listing** ..... The SPC has made an application to have the Offered Notes listed on the Irish Stock Exchange; *however* no assurance can be provided that such listing application will be accepted.

In the Loan Supplement for the Series 2006-A Loan, Alfa-Bank will agree that:

- (a) by the morning of the first day before each Interest Period, it will provide notice to the SPC of the Series 2006-A Loan Interest Rate for such Interest Period, the Payment Date for such Interest Period, the amount of Interest on the Series 2006-A Loan to be paid on such Payment Date and the Loan Balance of the Series 2006-A Loan outstanding during such Interest Period,
- (b) if full payment on the Series 2006-A Loan will not occur on the Series 2006-A Maturity Date, then it will provide notice of such non-payment to the SPC by no later than five Business Days before the Series 2006-A Maturity Date, and
- (c) it will provide notice to the SPC of the occurrence of a Default with respect to the Series 2006-A Loan within five Business Days of becoming aware thereof.

In the Indenture Supplement for the Offered Notes, the SPC will agree that, so long as the Offered Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, to the extent that the SPC receives the corresponding notice from Alfa-Bank pursuant to the previous paragraph:

- (a) the SPC will give notice to the Irish Stock Exchange and the applicable Noteholders by the morning of the first day of each Interest Period of the Series 2006-A Loan Interest Rate for such Interest Period, the Payment Date for such Interest Period, the amount of interest on the Offered Notes to be paid on such Payment Date and the Note Balance of the Offered Notes outstanding during such Interest Period,
- (b) if full payment on the Offered Notes will not occur on the Series 2006-A Maturity Date, then the SPC will provide notice of such non-payment to the applicable Noteholders and the Irish Stock Exchange on or before the Series 2006-A Maturity Date, and
- (c) the SPC will provide notice to the applicable Noteholders and the Irish Stock Exchange of the occurrence of a Default with respect to the Series 2006-A Loan within five Business Days of becoming aware thereof.

Any notice or communication by the SPC and/or the Indenture Trustee to the applicable Noteholders will be delivered by either: (a) publication of such notice in a leading daily newspaper having general circulation in Ireland or (b) sending an electronic notice to the Irish Stock Exchange for release on its Regulatory News Network (or successor), in each case not later than the latest date (if any), and not



earlier than the earliest date (if any), prescribed in the Indenture (or the Series 2006-A Indenture Supplement) for the giving of such notice or communication.

In the Indenture Supplement for the Offered Notes, the SPC will agree: (a) if the Offered Notes are accepted for listing on the Irish Stock Exchange, to use commercially reasonable efforts to maintain the listing of the Offered Notes on the Irish Stock Exchange, and (b) if the Offered Notes are at any time not listed on any internationally recognized exchange, to use commercially reasonable efforts to list the Offered Notes for trading on an internationally recognized exchange.

The SPC has appointed J.P. Morgan Bank (Ireland) PLC as the Listing Agent.

**Governing Law** ..... The Notes, the Indenture, the Indenture Supplements, the Loan Agreement, the Loan Supplements and the Pledge Agreement will be governed by and construed in accordance with the internal law of the State of New York. The Account Agreements will be governed by, and construed in accordance with, the internal law of the country/state where the account held by the applicable Designated Depository Bank is located. Certain matters relating to the SPC will be governed by Luxembourg law. All parties to the foregoing agreements (other than the Designated Depository Banks) will submit to the jurisdiction of specified courts in the City and State of New York in connection with the Transaction Documents; *it being understood* that the parties will agree to arbitration as described in “—Arbitration” below.

**Arbitration** ..... In lieu of the preceding submission to the jurisdiction of New York courts, any party (other than Alfa-Bank) to any Transaction Document to which Alfa-Bank is a party may elect (in its sole discretion) that any dispute arising out of or in connection with the Transaction Documents (other than disputes involving a Designated Depository Bank, the dispute resolution agreements with respect to which will be as agreed with the applicable Designated Depository Bank in its Account Agreement), including any question regarding their existence, validity or termination, will be referred to and finally resolved by arbitration under the International Arbitration Rules of the American Arbitration Association (the “AAA”) as such rules are in effect at the time of arbitration (such rules, the “AAA Rules”), which AAA Rules will be deemed to be incorporated by reference into the applicable Transaction Documents.

Notice of the request for arbitration will be served upon the party against whom the demand is made reasonably simultaneously with the time that such demand is filed with the AAA. The number of arbitrators will be three. Each of Alfa-Bank, on the one hand, and the other disputants (other than the Guarantor, unless the Guarantor is the only other disputant), on the other hand, will nominate one arbitrator, obtain its nominee’s acceptance of such appointment and (within 30 days of such parties’ receipt of notice of such arbitration) deliver written notice of such appointment to the AAA and the other party. If a party fails to make an appointment within such 30 days, then the AAA will make the appointment for such party. The seat, or legal place, of arbitration will be New York City, New York. The language to be used in the arbitral proceedings will be English. The arbitral panel will determine the rights

and obligations of the parties in accordance with the substantive laws of the applicable Transaction Document(s). The award will be in writing and state the reasons upon which it is based. Any monetary award will be made in the currency required to be paid under the applicable Transaction Document(s). The award may include interest from the date of any breach or violation of the applicable Transaction Document(s) as determined by the arbitral award until paid in full, at the interest rate established in the award. Interest may be compounded at the discretion of the arbitral panel.

## SUMMARY FINANCIAL INFORMATION

The consolidated income statement and balance sheet data of the Guarantor as of and for each of the years ended December 31, 2002, 2003 and 2004 and each of the six months ended June 30, 2004 and 2005 have been derived from Annual Financial Statements and the Interim Financial Statements of the Guarantor included in Appendix A. This information should be read in conjunction with the Annual Financial Statements and the Interim Financial Statements and the notes thereto as well as the sections entitled “Capitalization and Indebtedness of the Guarantor” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Selected financial ratios and other information, profitability, liquidity and capital adequacy data have been calculated based on consolidated financial information of the Guarantor with respect to the annual and interim dates and periods discussed below. As indicated above, IFRS differs in certain respects from U.S. GAAP. For a description of highlights of certain differences between IFRS and U.S. GAAP, see [Appendix B](#).

	For the years ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
<b>Income Statement Data:</b>			<i>(US\$ thousands)</i>		
<b>Net interest income</b> .....	<b>189,993</b>	<b>241,810</b>	<b>312,324</b>	<b>147,811</b>	<b>188,073</b>
Provision for loan impairment .....	(38,021)	(42,069)	(23,971)	(16,153)	(32,715)
<b>Net interest income after provision for loan impairment</b> .....	<b>151,972</b>	<b>199,741</b>	<b>288,353</b>	<b>131,658</b>	<b>155,358</b>
Fee and commission income .....	91,300	135,818	145,898	67,870	73,450
Fee and commission expense.....	(39,800)	(41,150)	(30,380)	(17,834)	(19,896)
Gains less losses arising from trading					
securities.....	19,742	18,987	63,804	79	18,895
Gains less losses arising from investments available for sale .....	43,684	31,054	34,009	344	463
Gains less losses arising from trading					
in foreign currencies.....	26,638	38,908	(3,468)	5,149	(5,281)
Foreign exchange translation gains less					
losses .....	854	(15,968)	(5,248)	2,708	26,181
Other provisions .....	(3,978)	(4,450)	(22,212)	(2,117)	7,067
Other operating income.....	46,150	58,419	51,073	13,414	12,917
<b>Operating income</b> .....	<b>336,562</b>	<b>421,359</b>	<b>521,829</b>	<b>201,271</b>	<b>269,154</b>
Operating expenses .....	(245,945)	(305,553)	(350,738)	(148,507)	(169,605)
Monetary gain .....	17,582	–	–	–	–
<b>Profit from operations</b> .....	<b>108,199</b>	<b>115,806</b>	<b>171,091</b>	<b>52,764</b>	<b>99,549</b>
Share of profit of associated	–	920	13,621	6,256	6,239
<b>Profit before income tax</b> .....	<b>108,199</b>	<b>116,726</b>	<b>184,712</b>	<b>59,020</b>	<b>105,788</b>
Income tax expense .....	(3,573)	(11,011)	(31,522)	(5,828)	(18,516)
<b>Profit after tax</b> .....	<b>104,626</b>	<b>105,715</b>	<b>153,190</b>	<b>53,192</b>	<b>87,272</b>

	As of December 31,			As of June 30,
	2002	2003	2004	2005
<b>Balance Sheet Data:</b>	<i>(US\$ thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents.....	382,234	923,191	997,278	1,177,318
Mandatory cash balances with central banks...	214,252	293,294	139,549	171,423
Trading securities.....	416,238	694,575	717,050	651,306
Due from other banks.....	211,342	131,621	570,642	605,274
Loans and advances to customers.....	2,440,366	3,466,306	4,100,089	4,887,921
Investments.....	95,776	65,443	60,933	130,032
Other assets and receivables.....	222,054	159,983	275,690	370,156
Premises and equipment and intangible assets.....	135,928	149,721	146,891	141,268
Deferred tax asset.....	-	-	16,587	16,251
<b>Total assets</b> .....	<b>4,118,190</b>	<b>5,884,134</b>	<b>7,024,709</b>	<b>8,150,949</b>
<b>Liabilities</b>				
Due to other banks.....	672,120	796,301	499,958	538,154
Customer accounts.....	1,997,416	3,400,406	4,492,072	4,690,080
Promissory notes issued.....	644,976	594,940	206,223	310,828
Other borrowed funds.....	212,684	323,917	706,955	1,250,039
Other liabilities and payables.....	146,011	201,517	380,568	555,545
Deferred tax liability.....	10,312	13,448	28,501	30,168
<b>Total liabilities</b> .....	<b>3,683,519</b>	<b>5,330,529</b>	<b>6,314,277</b>	<b>7,374,814</b>
Minority interest.....	3,485	6,635	2,875	2,132
Share capital.....	160,800	160,800	160,800	160,800
Fair value reserve for investments available for sale.....	62,657	22,798	-	614
Revaluation reserve for premises.....	6,267	5,195	4,123	3,587
Retained earnings and other reserves.....	201,462	358,177	542,634	609,002
<b>Total equity</b> .....	<b>434,671</b>	<b>553,605</b>	<b>710,432</b>	<b>776,135</b>
<b>Total liabilities and equity</b> .....	<b>4,118,190</b>	<b>5,884,134</b>	<b>7,024,709</b>	<b>8,150,949</b>

## SUMMARY FINANCIAL RATIOS AND OTHER INFORMATION

	As of and for the year ended December 31,		As of and for the six months ended June 30, 2005
	2003	2004	
<b>Profitability Ratios:</b>			
Net interest income as a % of average interest-earning assets .....	5.92	5.88	3.03
Adjusted net interest income as a % of average interest-earning assets <sup>(1)</sup> .....	4.50	5.33	2.92
Cost-to-income ratio <sup>(7)</sup> .....	65.20	60.30	56.34
Operating expenses as a % of total average assets.....	6.11	5.36	2.24
Return on average total assets <sup>(2)</sup> .....	2.11	2.33	1.15
Return on average shareholders' equity <sup>(3)</sup> .....	21.60	24.35	11.77
<b>Balance Sheet Ratios:</b>			
Deposits (Customer Accounts) to total assets .....	57.79%	63.95%	57.54%
Total net loans to total assets.....	58.91%	58.37%	59.97%
Total shareholders' equity to total assets .....	9.30%	10.07%	9.50%
Liquid assets as a percentage of total deposits (Customer Accounts) <sup>(4)</sup> .....	60.07	53.97	55.55
<b>Credit Quality:</b>			
Overdue loans to total gross loans.....	0.86%	0.77%	0.94%
Provisions for loan impairment to overdue loans .....	564.12%	600.22%	480.97%
<b>RUR/US\$ Exchange Rate:</b>			
Period end .....	29.45	27.75	28.67
Average per period .....	30.68	28.80	28.00
<b>Inflation rate %:</b>			
Consumer Price Index <sup>(5)</sup> .....	112.00	111.70	108.00
<b>Gross Domestic Product %:</b>			
Gross Domestic Product <sup>(6)</sup> (% change) .....	7.30	7.20	5.70

- (1) Adjusted net interest income is net interest income add/(less) net foreign exchange translation gains/(losses), less provision for possible loan losses and add/(less) gain/(loss) on net monetary position. The ratio for the six months ended June 30, 2005 was not annualized.
- (2) Represents net income (profit) (after minority interest) for the period divided by average total assets, the ratio for the six months ended June 30, 2005 was not annualized.
- (3) Represents net income (after minority interest) for the period divided by average shareholders' equity. Average shareholders' equity is computed by adding the shareholders' equity at the beginning of the period to that at the end of the period and dividing the total by two. The ratio for the six months ended June 30, 2005 was not annualized.
- (4) Liquid assets represent cash and cash equivalents, mandatory cash balances held with central banks, loans and advances to banks and financial assets held for trading.
- (5) As percentage to December of the previous year.
- (6) Percentage change in real GDP, year-over-year.
- (7) Operating expenses divided by operating income adjusted for provisions for loan impairment, other impairment provisions and share of profit of associated company.

## RISK FACTORS

*The following section does not describe all the risks of an investment in the Offered Notes. Before making any investment decision, prospective Investors should carefully read this Offering Circular in its entirety, including the risk factors set forth below. For additional information concerning the Russian, New York, Luxembourg and British Virgin Islands legal and regulatory environments of this transaction, see “Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law.”*

### **Risk Factors Relating to the Diversified Payment Rights**

#### *Payment Order Generation Risk*

The number (and value) of transactions resulting in the creation of Diversified Payment Rights will be a function of a number of factors, including exchange rates, the level of Russian exports and other economic, political and social factors. One of the primary components of the Diversified Payment Rights are export-related payments. In recent years, the export market for Russian products (particularly energy-related products) has grown significantly due to the increasing global demand for oil, gas and other commodities. However, there can be no assurance that the number or value of such transactions will not decline depending upon global economic circumstances, including fluctuations in market prices for Russian exports of oil and other commodities and increasing production costs in the Russian Federation. See “Russian Exports” for further detail.

One factor that may negatively affect the volume of Russian exports is that many nations, including the United States, impose certain quotas or tariffs on the importation of certain items. Once quotas have been satisfied in any given period, no additional imports of such items would be permitted. Although Russia has entered into certain bilateral and multilateral agreements that either eliminate or reduce such tariffs, there can be no assurance that such agreements will continue in effect, that such quotas or tariffs will not be imposed by nations to which Russian exports are sent, that existing quotas will not be decreased, that existing tariffs will not be increased (and thus make Russian exports relatively more costly and less competitive) or that other nations’ exporters will not fill such quotas more quickly (and thus reduce opportunities for Russian exports).

Adverse economic conditions in countries that import significant amounts of Russian products may, by decreasing the aggregate level of demand in general, have an adverse impact on Russian exports. The current economic situation in many developing nations also has, and may continue to have, a negative effect on Russian exports. Such nations, which may be less able to consume their own production and/or are more in need of foreign currency than more developed states, may attempt to increase their export levels, thus increasing competition among exporting nations and putting downward pressure on prices. Similarly, a devaluation of such countries’ currencies could make their exporters’ products relatively more competitive.

Other governmental variables that may negatively affect the volume of Russian exports include the fact that the Russian economy is heavily reliant on exports of mineral resources, largely oil, gas and refined products. For example, the Russian government may institute export quotas or increase export tariffs in order, for example, to combat the increase in domestic prices of crude natural resources and fuel. Such quotas or tariffs would be aimed at increasing the volume of energy resources that are refined and consumed domestically, with correspondingly lower volumes of energy exports, which may lead to a corresponding adverse affect in the volume of Diversified Payment Rights.

Furthermore, Russia exports a significant volume of its oil and gas through pipelines that traverse the territories of countries that formerly were members of the Warsaw Pact or republics of the Soviet Union. In addition to permitting the transport of Russian oil and gas, such countries usually purchase some portion of these resources. Russia’s respective relationships with such countries have experienced periodic tensions, including disputes over transit charges and prices paid for offtake of Russian oil and gas. Most recently, tensions with Ukraine in January 2006 resulted in a temporary decrease in the volume of Russian gas supplied to Austria and Italy, among other nations, through pipelines that cross Ukraine’s territory. Future decreases in the volume of oil or gas supplied through pipelines in the context of political or economic tensions with transit countries could result in a corresponding decrease in Russia’s export proceeds and hence in the volume of Diversified Payment Rights.

The volume of Diversified Payment Rights is dependent upon numerous other factors in addition to the export market for Russian goods and services. For example, certain Diversified Payment Rights have seasonal increases and declines (*e.g.*, those related to the export of agricultural goods); Diversified Payment Rights relating to transport are dependent upon the volume of foreign trade; and Diversified Payment Rights relating to foreign direct investment are affected by investors' perception of the risks and opportunities in Russia when compared to other investment alternatives (although it should be noted that the Diversified Payment Rights relating to the foreign direct investment is relatively low at the moment). While the diversity of the pool of Diversified Payment Rights acts to balance out some of this variability, these factors can have a negative impact upon the volume of the Diversified Payment Rights generated.

At the same time, a significant amount of the Diversified Payment Rights relates to the payments made to beneficiaries that are members of the Alfa Consortium. In 2005, flows to related parties represented approximately 34.4% of the top 200 total beneficiaries' flows, and flows to a major chemical producer represented 4.27% of the top 200 total beneficiaries' flows. Should any of these customers decide to use another bank for processing their payments, this change might contribute to a certain one-off decrease of the Diversified Payment Rights in relation to the flows addressed to these customers. However, the top beneficiaries of Alfa-Bank are not static and may be subject to frequent changes due to various other circumstances affecting their business and the competitiveness of Alfa-Bank generally in the banking market.

While the Debt Service Coverage Tests are intended to ensure that there are sufficient Diversified Payment Rights to pay debt service, there can be no assurance that an historical test will accurately predict future flows. For example, a decline in future Diversified Payment Rights may arise for various reasons, including (among other things) loss of a material customer, decline in foreign direct investment into Russia (which can come in large volumes over short periods and may not be repeated), a decrease in Alfa-Bank's encouragement of such flows (such as in providing discounted pricing or rebates to customers who generate Payment Orders) or a decline in the ability of Alfa-Bank to offer customers competitive conditions and prices for loans and other banking services. It should be noted that flows through Russian banks are potentially more risky than other flows as they may be subject to government interference (particularly the large portion of such flows that come from or are for the benefit of Sberbank and other government-related banks and corporations).

#### *Possible Discontinuation or Reduction of Diversified Payment Rights Business*

The capacity of Alfa-Bank's Diversified Payment Rights to support its payment obligations to the SPC (and hence the SPC's payment obligations on the Offered Notes) will depend upon Alfa-Bank's ability to continue to operate its Diversified Payment Rights business successfully. Although Alfa-Bank will agree in the Loan Agreement not to reduce or terminate such business, its continued ability to operate such business successfully may depend upon its financial condition, results of operations, relations with correspondent banks and other influences beyond its control (such as governmental regulation, competition, termination of its membership in SWIFT or the loss of its banking license).

Alfa-Bank has not made any guarantees that its generation of Diversified Payment Rights will be sufficient to support its payment obligations under the Transaction Documents (including on the Loans) at any time. As a result, any reduction by Alfa-Bank of its Diversified Payment Rights business would reduce the level of Diversified Payment Rights available to generate Collections used to pay such amounts. As Alfa-Bank's Diversified Payment Rights business provides a number of important benefits to Alfa-Bank, including being a significant source of foreign exchange and a core product for its customers, Alfa-Bank's management has no intention to terminate or otherwise limit its Diversified Payment Rights business and expects that it will continue to seek to increase this business. Should Alfa-Bank breach its obligations under the Loan Agreement to continue its Diversified Payment Rights business, a Default would occur under the Loan Agreement and Alfa-Bank would be liable to pay a Default Payment for the Series 2006-A Loan in an amount sufficient for the SPC to prepay the Offered Notes.

#### *Non-Payment*

While the obligations of Alfa-Bank (and the Guarantor) under the Loan Agreement are absolute, the SPC will principally expect to receive payment from the Diversified Payment Rights pledged to it by Alfa-Bank. As such, the SPC may be affected by any non-payment on the Diversified Payment Rights whether by reason of, *inter alia*,

the failure of a Payor to make payment or by the failure of a Designated Depository Bank to comply with the related Account Agreement. If Collections are not sufficient to support timely payments of Interest and principal on the Loans in the manner described herein, then the SPC and the Indenture Trustee will have to seek recourse from Alfa-Bank and/or the Guarantor for such payments. However, please also see “—Risk Factors Relating to Russia—Russian Bankruptcy Law” and “—Certain Other Risk Factors—British Virgin Islands Bankruptcy Law” for a discussion of insolvency law issues relating to Alfa-Bank and the Guarantor.

Unlike other financial assets that are commonly pledged or securitized where the creation of the right to payment precedes receipt of payment, Diversified Payment Rights are often created after the Payor Bank deposits payment (or causes another bank to deposit payment) into Alfa-Bank’s account before Alfa-Bank has accepted the corresponding Payment Order (in fact, these payments are often made concurrently with the sending of a Payment Order and thus before Alfa-Bank even has received the Payment Order). In addition to the nature of the asset itself, this transaction (as with similarly structured transactions premised on a future flow of assets) has been structured with a Debt Service Coverage Ratio whereby for any Interest Period the flow of Collections is expected to greatly exceed the scheduled payments due on the Loans during such Interest Period and on the Payment Date thereafter. Furthermore, this transaction allows for full recourse to Alfa-Bank for its obligations under the Transaction Documents, which recourse is backed by the Guaranty. For all of the foregoing reasons, the risk of Payor defaults on the Diversified Payment Rights is less relevant in this transaction than such risk is in other types of transactions where payment is due on a pre-existing financial asset and the flows from the existing pool of assets available to pay debt on any given payment date may not be sufficient to pay investors. However, in this transaction (and similarly structured future-flow transactions), although the amount of Collections in any given Interest Period is structured to be expected to exceed the payments scheduled to be paid by Alfa-Bank to the SPC (and, thus, by the SPC to Note Secured Parties) during such Interest Period and on the Payment Date thereafter, at any given point existing financial assets are anticipated to be much less than the aggregate amount of the Notes and other amounts payable by the SPC under the Transaction Documents. In contrast to existing asset securitizations, the SPC (and, thus, Investors) thus will be dependent upon Alfa-Bank’s continuing ability to generate Diversified Payment Rights in order for the SPC to make such payments from Collections. See “—Risk Factors Relating to the Offered Notes—Diversified Payment Rights Must be Generated in the Future in Order for the Offered Notes to be Paid.”

### *Competition*

The ability of Alfa-Bank to continue to generate Diversified Payment Rights at sufficient volume levels is dependent, in part, upon its continuing ability to attract and maintain customers (specifically, large corporate clients with large business operations and cash flows) and its ability to provide such customers with competitive levels of service in the processing of payments. However, in order to attract new clients, Alfa-Bank will also need to provide its customers simultaneously with attractive pre-export and other loan facilities and terms for placing deposits with Alfa-Bank, as well as competitive foreign exchange rates and a broad range of other banking products and payment outlets in Russia. Furthermore, as Alfa-Bank extends larger numbers of loans to increasing numbers of customers, flows constituting Diversified Payment Rights will eventually increase. This result will occur because customers will need to accumulate amounts sufficient to repay their respective loans in their Alfa-Bank accounts from which the loan repayments will be made. Payments into these accounts are typically made by means of various money transfers that contribute to the creation of Diversified Payment Rights. However, Alfa-Bank’s management believes that a countervailing trend is that longer loan terms for Russian customers may decrease the volume of Alfa-Bank’s Diversified Payment Rights because of a corresponding decrease in the number of transfers needed to accumulate amounts sufficient to repay these loans.

A number of Russian banks actively compete in this market in Russia. Sberbank, Vneshtorgbank, Gazprombank and MDM Bank are significant competitors in this business, with Sberbank in particular holding a considerable market share due to its historical importance to the Russian banking system and its extensive branch network. While Alfa-Bank’s management believes that Alfa-Bank’s payment order business represents less than 2% of the total Dollar- and Euro-denominated Payment Orders to Russian banks, there are no official Russian sources of information from which to obtain actual numbers. Alfa-Bank’s management believes that its market share reflects its role as one of the largest private banks in Russia, although one that is still noticeably smaller than Sberbank and other government-related banks. Though current competitors may make efforts to increase their share of the market, for example by reducing prices or developing additional products, and new competitors may attempt to enter the market, Alfa-Bank’s management believes that it is well positioned to continue to be a market leader in this area.



Alfa-Bank's management believes that its relationships, customer service, cost of funds and automated systems provide an important competitive advantage, as do the name recognition, reputation, infrastructure, necessary licenses and processes that Alfa-Bank has developed. For instance, Alfa-Bank has been extending internet services for payment processing including international payments (*e.g.*, MT100-category transactions, which do not include drafts or other documentation). As a result of these factors, it would be difficult and/or costly for a new entrant to replicate Alfa-Bank's business before the Maturity Date of the Series 2006-A Loan. Alfa-Bank also believes that its widespread Russian branch network gives it a broad distribution system, allowing it to reach most of the potential beneficiaries in Russia and thereby providing another significant competitive advantage. Notwithstanding Alfa-Bank's current competitive advantages, there can be no assurance that other competitors will not be successful in eroding Alfa-Bank's market share in the future.

In addition to Russian competitors, foreign banks may become greater competitors in the Diversified Payment Rights business by either increasing their existing presence in Russia or by acquiring an existing Russian bank. Alfa-Bank's management believes that, for any foreign bank to create a branch network in Russia that is sufficiently large to appeal to the majority of Russian exporters and other beneficiaries and thereby become a significant participant in the Diversified Payment Rights business, this would require a significant capital investment. In addition, Alfa-Bank's management believes that the purchase of a Russian bank by a foreign bank would not necessarily enable the newly-acquired Russian bank to develop a similar scope of products offered and market penetration in order to enable it to compete broadly with Alfa-Bank's Diversified Payment Rights business. The main reason that Alfa-Bank's management believes this is that, unless it acquires a large existing Russian bank (which would already be a competitor in this service), a foreign bank is likely to focus its efforts on developing relationships with large, multinational corporations and/or mass-market retail customers and would not likely expend the resources necessary to develop strong relationships with small and middle-market Russian exporters and other beneficiaries.

#### *Alternate Methods of Remitting Funds*

Sending Payment Orders via SWIFT MT100-category messages is currently the most common method for importers to cause payment to be made to Russian exporters and for other senders to cause payments to be made to other beneficiaries in Russia.

There are a number of alternatives that could be envisioned to replace correspondent bank communications via SWIFT in the future, such as the use of the internet/e-mail to send payment orders. However, these have not yet progressed to such a degree as to give the banking community comfort with respect to their security and cost. In any event, in order to anticipate these changes, the definition of Payment Orders includes SWIFT messages and current (*e.g.*, telex) and future alternatives to SWIFT messages.

The SWIFT system itself has recently instituted new types of messages that are more useful to its users (such as the MT102, MT102+, MT103 and MT103+ that have replaced the phased-out MT100). These new message types permit the sender to include more complete information, and in more logical formats, than the MT100. As with any software-based system, SWIFT is also constantly upgrading the software to improve security. None of this has any negative impact upon the Diversified Payment Rights themselves, resulting only in alterations in certain mechanical elements of how the related Payment Orders are transmitted and received. However, MT100-type messages may be changed in a way that would undermine the creation of the Diversified Payment Rights or the routing of collections.

Increases in the use of one or more alternative payment mechanisms that do not result in Payment Orders (*e.g.*, paper checks or the use of national central banks as clearinghouses) may result in a decline in the volume of Diversified Payment Rights. Nevertheless, Alfa-Bank's management believes that currently SWIFT MT100-category messages generally offer the most affordable, rapid and secure method of causing payments to be made to beneficiaries in Russia and this method is also the most appealing for sending and receiving banks due to its important contribution to the bilateral correspondent banking relationship. In order for any alternative system to become a significant competitor to SWIFT, it would need to offer at least the same security and cost benefits. Accordingly, in the view of Alfa-Bank's management, even if a viable alternative payment mechanism were to be introduced or market preferences were to trend to other existing alternatives, it would likely take many years for this to develop and/or to become so widely accepted or utilized as to alter significantly the volume of Diversified

Payment Rights, with the result that any material negative impact on payments to Investors would likely not result until after the Maturity Date for the Series 2006-A Loan.

### *Liquidity*

Alfa-Bank's customers and the Payors expect Alfa-Bank to comply with its obligations under the Payment Orders in a timely manner. Should Alfa-Bank face a time of illiquidity during which it is unable to make payments to the applicable beneficiaries, it is likely that these parties will discontinue using Alfa-Bank. Alfa-Bank has always had sufficient liquidity to make payments to the identified beneficiaries of Payment Orders and Alfa-Bank's management has every expectation that (even with the portion of Collections applied to satisfy Alfa-Bank's payment obligations under the Transaction Documents) it will continue to have more than sufficient liquidity to satisfy its obligations under the Payment Orders.

### *Diversion Risk*

If Alfa-Bank (either independently or at the direction of the Russian government) were to attempt to divert Collections (including funds deposited into the Collection Accounts) in a manner contrary to its obligations under the Transaction Documents, then payments to the SPC (and thus to Investors) could be delayed, reduced or not made. For example, with respect to export-related flows, Alfa-Bank has some ability to direct the exporters to whom it lends to have payments (such as payments from the exporters' own customers to the exporters) sent in a manner that would not result in the creation of a Diversified Payment Right or that would make it more difficult for the SPC to obtain the related Collection. However, the risk of diversion is mitigated by a number of legal, economic and practical factors, the foremost being the recourse to Alfa-Bank and the Guarantor.

Among the legal factors, the first is that any diversion attempt (or any violation of clause (d) in "Summary of Terms—Covenants of Alfa-Bank" above) would constitute a Default under the Loan Agreement and Alfa-Bank would be liable to pay the Default Payment for each Loan (including the Series 2006-A Loan).

Second, any such Default could trigger cross-defaults under debt and other contractual obligations of Alfa-Bank and/or its affiliates, thus increasing the disadvantages to Alfa-Bank of attempting such diversion.

Third, in the view of both White & Case LLP, Alfa-Bank's Russian counsel, and Baker & McKenzie - CIS Limited, Russian counsel to the Initial Purchasers, subject to certain qualifications and assumptions, by executing the Pledge Agreement Alfa-Bank will have effected a New York law-governed pledge of the Diversified Payment Rights to the SPC, which pledge and election of governing law should be recognizable under Russian law; *however*, the validity, enforceability and effectiveness of the pledge cannot be guaranteed and it is possible that such pledge will not be upheld in Russia, particularly should Alfa-Bank become subject to a temporary administration and/or become insolvent.

In addition, the parties to the Transaction Documents, including the Pledge Agreement, have chosen New York law to govern all aspects of the transaction (other than certain Account Agreements, which may be governed by the law of the jurisdiction in which the applicable Collection Account is maintained), and Alfa-Bank and the SPC will have consented to the jurisdiction of certain state and federal courts sitting in New York City and/or arbitration under the AAA Rules. As a result of the foregoing legal factors, the SPC and the Indenture Trustee would be entitled to seek legal relief in both New York and Russia (subject to applicable forum requirements) against any attempt to divert Diversified Payment Rights and the related Collections. Nonetheless, there can be no assurance that the SPC and/or the Indenture Trustee would be successful in the foregoing or other actions in all circumstances, particularly in the event that enforcement of a U.S. judgment against Alfa-Bank or its assets in Russia or a proceeding on the merits were necessary in Russia or New York in circumstances arising out of actions taken at the direction of a Russian governmental authority. See "Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law."

As an economic matter, any diversion attempt by Alfa-Bank, whether or not compelled by the Russian government, could engender negative publicity and possible disruption of Alfa-Bank's Diversified Payment Rights business, which could lead to loss of its market share in the Diversified Payment Rights business in Russia.

Alfa-Bank relies upon the Diversified Payment Rights flows as a stable, relatively low-cost source of foreign currency funding and as an important component of its offerings for its customers. Further, recent historical annual Collections are greatly in excess of anticipated aggregate annual debt service for the Series 2006-A Loan. Such excess Collections are released to Alfa-Bank by the Indenture Trustee (except during the existence of an Early Amortization Period, where most or even all of the available Collections may be used to accelerate principal payments on the Loans), thereby generally reducing any economic incentive to divert such Collections. Even if the level of Collections were to decline to the minimum levels required under the Transaction Documents (*e.g.*, the Debt Service Coverage Tests for the Series 2006-A Loan), the overcollateralization levels required thereby would still operate to reduce the economic incentive to divert such cash flows.

As concerns the more than 89% (for 2005) of Collections on the Diversified Payment Rights that were deposited with banks that are expected to be the initial Designated Depository Banks, diversion of Collections deposited into the Collection Accounts at such banks would be both difficult and impractical because the Indenture Trustee will have control over the Collection Accounts. Pursuant to the Account Agreements, the Designated Depository Banks can only take instructions from the Indenture Trustee with respect to the Collections in their respective Collection Accounts.

Alfa-Bank's management is unaware of any instance during the post-Soviet period in which the Russian government has sought to interfere with a cross-border structured bond, but in times of financial stress there can be no assurance that the Russian government will not elect to interfere (or attempt to interfere) with the Transaction Documents or divert (or attempt to divert) Collections. See "Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law." See also "Regulatory Environment—History of the Russian Banking Sector and Banking Statistics" in Appendix C.

In the event that, contrary to the terms of the Transaction Documents, payments received with respect to Diversified Payment Rights are diverted or otherwise routed to accounts other than the Collection Accounts or the Concentration Accounts, it is possible that the respective interests of the SPC and the Indenture Trustee therein could be unperfected. In such event, other creditors of Alfa-Bank (including the banks at which such amounts may have been deposited) may in certain circumstances be able to assert an interest in the proceeds of such payments that is equal or greater to that of the SPC or the Indenture Trustee (*e.g.*, the applicable Depository Bank's set-off rights).

#### *Currency of Diversified Payment Rights*

A strengthening of the Dollar against the Euro could result in a relative decline in the Dollar-value of Collections from which payments on the Series 2006-A Loan are to be made by Alfa-Bank (and vice versa). Alfa-Bank also generates Payment Orders in currencies other than Dollars and Euro. These form a relatively minor portion of the total Payment Orders that Alfa-Bank processes. While Alfa-Bank's management believes that Dollars and Euro will continue to be a material component of international payments, it cannot be guaranteed that the proportion of the flows in other currencies will not increase and that such will not result in reductions in the value of Diversified Payment Rights.

#### *Change in Currency Control Regulation Re: Repatriation of Export Proceeds*

With respect to export-related receipts, currency control regulations require that Russian exporters bring the related foreign currency payments into Russia and convert 10% of such payments into Rubles (subject to a limited number of exceptions envisaged in Federal Law No. 173-FZ "On Currency Regulation and Currency Control," dated December 10, 2003 (the "*Currency Control Law*") and to a recent announcement by the Central Bank of an upcoming decrease of the conversion level to 0%, which allows the Central Bank to increase the conversion level in the future). In order to comply with these provisions, an exporter must procure that the export proceeds have been deposited into its bank account opened with an authorized Russian bank (subject to a limited number of non-repatriation exceptions envisaged by the Currency Control Law).

If the provisions of the Currency Control Law were to be amended or otherwise revised or abolished such that Russian exporters would no longer be required to bring all, most or any of their export-related foreign currency payments into Russia, exporters may elect to retain a portion or all of such foreign currency payments outside Russia, and thus would not require the participation of a Russian bank in collecting the payments relating to their

export operations. While Alfa-Bank is not aware of any such changes that currently are being contemplated by the Russian government or legislators, any such change could have a negative effect on Alfa-Bank's generation of Diversified Payment Rights. Nevertheless, Alfa-Bank's management believes that even if the provisions of the repatriation of export proceeds were to be so amended or otherwise revised or abolished, exporters would still elect to bring a certain portion their export-related foreign currency earnings into Russia through the Russian banking system because of: (a) the need to finance their operating expenditures, (b) high real returns offered for their funds in Russia and (c) practical concerns relating to the traditional mechanics of export payments.

#### *Disaster Recovery*

Both natural and man-made disasters are risks inherent to the continued generation and servicing of Diversified Payment Rights. For example, earthquakes, floods, fires, other acts of nature, civil unrest, war, terrorist acts, strikes and computer system failures could significantly affect Alfa-Bank's ability to generate Diversified Payment Rights and/or service Payment Orders.

While Alfa-Bank's management believes that it has put in place sufficient disaster recovery plans (including access to a back-up computer system in a different location should the primary system fail or be unavailable), there can be no assurance that any future disaster will not adversely affect the generation and/or processing of Diversified Payment Rights and Payment Orders. Alfa-Bank's management believes that its disaster recovery plans meet international standards and are among the best in Russia, and expects to continue to monitor its disaster recovery programs carefully.

#### *Russian Flows*

Certain transactions within Russia are denominated and/or payable in Dollars, Euro and other internationally accepted currencies. As a result, some payments through the Russian banking system are also made in Dollars, Euro and these other currencies. For purposes of this Transaction, the term "Russian Flows" ("*Russian Flows*") refers, with respect to any period, to the aggregate Collections during such period with respect to which the initiating bank of the applicable Payment Order is a Russian National, including (without limitation) Collections with respect to which: (a) a Russian National is itself the Payor Bank and (b) a Russian National is not the Payor Bank but initiates a Payment Order through one or more other banks. To clarify, the term "Russian National" ("*Russian National*") means either: (a) a branch or other office of a bank or similar financial institution, which branch or other office is located in Russia, or (b) a Non-Russian Office of a Russian Bank. For the purpose of clarification, a Russian National does not include a non-Russian subsidiary or other non-Russian affiliate of a Russian Bank.

In a typical payment transaction, a Russian bank (whether through a branch or other office located inside or outside of Russia) will initiate a payment order that is either directly or ultimately sent to another Russian bank with an instruction to make a corresponding payment to the identified beneficiary. In its most direct form, this would include the Russian bank sending a Dollar-denominated MT103+ payment order to the other Russian bank directly. In order to "settle" such a payment order, the first Russian bank may then send a separate message (often an MT202 payment order) to a U.S. bank with a request that the indicated amount be withdrawn from its account with such U.S. bank and be transferred to the account of the second Russian bank at such U.S. bank or another U.S. bank. To complete the transaction, the U.S. bank will send a notice (but not a payment order) to the second Russian bank to inform it of this deposit into its account, at which point the second Russian bank will have received both the payment order from the first Russian bank and the corresponding evidence of credit to its account at the U.S. bank. These Russian Flows accounted for approximately 23.06% of aggregate Collections in 2005.

The Russian Flows are included within the Diversified Payment Rights because they result from Payment Orders received by Alfa-Bank for a payment to a third-party beneficiary of a Dollar or Euro amount. Since these Payment Orders are initiated by Russian banks, it is possible that the Russian government could either formally or informally cause Russian banks to start sending (or causing to be sent) these Payment Orders to a Russian bank other than Alfa-Bank and, as such, reduce or eliminate these flows from the total received by the SPC. To date there has been no known incidence of such sovereign interference from the post-Soviet Russian government.

In addition, these Russian Flows could be reduced significantly if there are alterations in the Russian economy, if prohibitive foreign exchange controls by the Russian government are imposed or if other events of general applicability occur that result in fewer Dollar and Euro payments being made between parties in Russia. It should be noted that, notwithstanding these possibilities, the value of the Russian Flows is given full credit for the purposes of determining compliance with the Debt Service Coverage Ratio and the Debt Service Coverage Test for the Series 2006-A Loan.

#### *Affiliate Flows*

Though generally shrinking on a percentage basis, Payment Orders for which affiliates of Alfa-Bank are the beneficiaries continue to be material. As these flows are thus subject to the possibility of being reduced either due to declines in the success and/or size of the Alfa Consortium (as defined below) or the decision of the Alfa Consortium to use another bank, this transaction includes Tested Collections in order to test separately flows for other customers.

#### **Risk Factors Relating to Alfa-Bank and the Alfa Banking Group**

Any claims against Alfa-Bank pursuant to the Transaction Documents (including for payments of any Default Payment, Prepayment Amount or Make-Whole Premium) would be secured only by the Loan Collateral and guaranteed by the Guarantor. The ability of Alfa-Bank to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows, which could be affected, *inter alia*, by the circumstances described below.

#### *Relationship with the Alfa Consortium*

In terms of both funding and revenues, the Alfa Banking Group historically has been reliant to a certain extent upon the larger consortium of companies within the larger financial-industrial conglomerate Alfa Group (the “*Alfa Consortium*”), although management has reduced this reliance significantly over recent years (see “Related Party Transactions”). The Alfa Banking Group has two primary types of exposure to the Alfa Consortium, namely the loans it makes to members of the Alfa Consortium and the guarantees and other credit-related commitments it assumes on behalf of other members of the Alfa Consortium. The vast majority of credit extended to members of the Alfa Consortium is made on an “arm’s length” basis and is no more favorable than what is offered to third parties.

The management’s stated objective is to continue to reduce its exposure to related parties and members of the Alfa Consortium (see “Description of the Alfa Banking Group—Strategy” and “Related Party Transactions”). The Alfa Banking Group’s management imposes internal limits on the Alfa Banking Group’s exposure to related parties, as provided in its credit policy, which is renewed on an annual or more frequent basis. Such internal limits include limiting total related party loans and credit-related commitments to 40% of the Alfa Banking Group’s shareholder capital.

While the Alfa Banking Group has a number of commercial relationships with members of the Alfa Consortium, the Alfa Banking Group is within the above-noted internal limits in terms of its exposure to related parties, including members of the Alfa Consortium. As of December 31, 2004, the Alfa Banking Group’s loan exposure to related parties represented 2.1% and 1.3% of gross loans to customers and total assets respectively, compared to 2.9% and 1.8% as of December 31, 2003 (2.3% and 1.4%, respectively, as of June 30, 2005).

The amount of customer accounts maintained by the Alfa Banking Group with respect to related parties totalled US\$1,199.0 million as of December 31, 2004, which was 26.7% of the total customer accounts of the Alfa Banking Group (US\$798.7 million and 17.0%, respectively, as of June 30, 2005). See Note 28 to the Interim Financial Statements and Note 26 to the Annual Financial Statements for a description of the Alfa Banking Group’s related party transactions.

Moreover, the Central Bank regulates Alfa-Bank’s exposure to certain related parties. See “Regulatory Environment” in [Appendix C](#).

### *Relationship with the Guarantor*

As of January 1, 2006, Alfa-Bank, through various special purpose entities, is a borrower under certain facility agreements in relation to short-term trade-related loans in the aggregate principal amount of US\$578,000,000. In addition, Alfa-Bank, through various special purpose entities, has raised funds through the issuance of three series of notes in the aggregate principal amount of US\$590,000,000 under its Euro Medium Term Note Program and also, as of January 1, 2006, has raised funds through the issuance of a number of series of notes in the aggregate principal amount of US\$267,000,000 and €16,000,000 under its Euro Commercial Paper Program (collectively, “*Alfa Bank Indebtedness*”). The Alfa-Bank Indebtedness is unconditionally guaranteed by the Guarantor. If Alfa-Bank ceases to be controlled (directly or indirectly) by the Guarantor, the Alfa-Bank Indebtedness may become due and payable to its respective creditors upon their request.

According to its Annual Financial Statements, the Alfa Banking Group’s profit after tax in the financial year 2004 was approximately US\$153,190 thousand. Alfa-Bank’s consolidated business activity represented approximately 70% of such profit after tax. The additional 30% was generated by Russian and foreign subsidiaries of the Alfa Banking Group such as Alfa Capital Holding Limited (Cyprus), Amsterdam Trade Bank (Netherlands), Alfa Bank Ukraine (CIS), Alfa Leasing (Russia), etc. It is possible that if the business or financial results of Alfa-Bank and/or one or more of such other businesses of the Guarantor were to deteriorate, the overall financial stability of the Guarantor would weaken and the rating of the Guarantor and/or the Offered Notes may be downgraded.

### *The Guarantor’s Financial Performance*

The Guarantor has other subsidiaries in addition to Alfa-Bank that are involved in various business operations, including investment banking. There is no assurance that the Guarantor’s other business operations will continue to be profitable. To the extent that the Guarantor’s subsidiaries, other than Alfa-Bank, generate losses, this may impede the Guarantor’s ability to fulfill its commitments under the Guarantee.

### *Competition*

The market for financial and banking services in Russia is highly competitive, with 1,215 banks (including Russian banks and Russian subsidiaries of foreign banks) operating in Russia as of October 1, 2005 according to the Central Bank. Alfa-Bank is one of a small number of Moscow-based banks that dominate the Russian banking industry, which also includes one of Alfa-Bank’s main competitors, Sberbank (“*Sberbank*”), which is majority owned by the Central Bank. Sberbank has the advantage of having inherited an extensive retail branch network from the past Soviet government. Alfa Banking Group faces strong competition in each of its market segments from Sberbank and other leading domestic banks and increasingly from foreign banks and financial institutions. Increased competition has led to falling margins, which is likely to reduce Alfa-Bank’s revenues and possibly impact adversely upon the financial performance of each of its business divisions.

Alfa-Bank aims to consolidate its position as one of the largest private banks in Russia. It plans to do this by increasing its market share in the corporate and retail sector in Russia by continuing to expand its range of corporate and personal banking services. It also plans to distinguish itself from other Russian banks by offering a full range of banking services to its customers. In the corporate sector, it aims to focus in particular on developing small and medium-sized corporate clients, diversifying its customer base and continuing to reduce its exposure to the Alfa Consortium. Alfa-Bank plans to continue to expand its branch network in Russia and invest in information technology (see “Description of the Alfa Banking Group—Strategy” and “Description of the Alfa Banking Group—Branch Network”). However, there is no certainty that, in an increasingly competitive environment, Alfa-Bank will succeed in achieving these strategies of target growth and expansion rates.

### *Loan Portfolio Concentrations*

The Alfa Banking Group’s funded loan portfolio shows relatively high industry and individual borrower concentrations. As of December 31, 2004, the manufacturing and construction sector and the energy- and oil-related sector accounted for 44% and 25%, respectively, of the Alfa Banking Group’s gross loans to customers (46% and

22%, respectively, as of June 30, 2005). Furthermore, as of such date, loans to the Alfa Banking Group's 10 largest borrowers amounted to US\$1,238.1 million representing 28.8% of the Alfa Banking Group's total gross loans to customers (US\$1,448.0 million and 28.3%, respectively, as of June 30, 2005), with loan exposure to the Alfa Banking Group's single largest borrower being US\$288.1 million, constituting 6.7% of total gross loans to customers (US\$309.4 million and 6.0%, respectively, as of June 30, 2005). To minimize the risk related to loan portfolio concentration, the Alfa Banking Group has taken measures to diversify its portfolio and to restrict its involvement with sectors and customers that could increase credit risk. Nevertheless, the concentrated nature of Russia's business and exports makes concentration somewhat unavoidable. The high degree of concentration could lead to material losses or have other impacts on the Alfa Banking Group and Alfa-Bank should such customers experience financial difficulties.

#### *Interest Rate, Liquidity and Exchange Rate Risks*

Like other banks, Alfa-Bank is exposed to risks resulting from mismatches during the repricing periods of its interest-bearing liabilities and interest-earning assets. While Alfa-Bank tries to minimize these risks by monitoring pricing on the basis of fluctuating interest rates on a large and representative portion of its assets and liabilities, significant interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa-Bank.

Alfa-Bank also monitors maturity mismatches between its assets and liabilities in order to minimize its liquidity risk. Although its management believes that Alfa-Bank's access to domestic and international interbank markets will continue to allow it to meet its short-term liquidity needs, maturity mismatches may have a material adverse effect on the business, financial condition, results of operations and/or prospects of Alfa-Bank (see "Asset and Liability Management").

Alfa-Bank trades currency on behalf of its customers and for its own account and maintains open currency positions that result in foreign exchange risk. Although Alfa-Bank is subject to limits on its open positions pursuant to Central Bank regulations and Alfa-Bank's own internal policies, future changes in currency exchange rates and the volatility of the Ruble may have a material adverse effect on the business, financial condition, results of operations and/or prospects of Alfa-Bank.

#### *Banking Reform*

On April 5, 2005, the Russian government and the Central Bank issued their joint "Strategy for the Development of the Banking Sector of the Russian Federation until 2008" (the "Strategy"). The Strategy replaces the five-year "Strategy for the Development of the Banking Sector in the Russian Federation" issued in December 2001 and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008) (see "Regulatory Environment" in [Appendix C](#)).

As part of the Russian banking reform, the "Law on the Insurance of Individuals' Bank Deposits in the Russian Federation" (the "*New Deposit Law*") came into force in December 2003 and requires mandatory insurance of deposits placed by individuals in Russian banks (the "*Deposit Insurance System*"). The New Deposit Law, with its ensuing Central Bank regulations (the "*New Deposit Regime*"), has introduced new requirements for banks in Russia wishing to participate in the Deposit Insurance System.

In particular, under the New Deposit Regime, banks are required to meet certain standards on the accuracy of their financial reports and to comply with the Central Bank prudential requirements and financial stability requirements. The adequacy of a bank's financial stability is assessed on, *inter alia*, certain transparency criteria, such as the transparency of a bank's shareholding structure, the transparency of the parties exercising a material influence (direct or indirect) on the management of a bank and the significance of the influence of off-shore entities on the management of a bank.

With the aim of ensuring that it satisfies the new transparency requirements, Alfa-Bank, following consultation with the Central Bank, replaced 11 of its shareholders with a single entity, OJSC AB Holding (OJSC AB Holding was registered in Russia on February 10, 2004). Further, Alfa Finance Holdings S.A. was replaced in its

capacity as the shareholder of the Alfa Banking Group with a newly-established company, ABH Holdings Corp., in June 2004. ABH Holdings Corp. was incorporated in the British Virgin Islands and is wholly-owned by individuals who currently are the ultimate beneficial owners of Alfa Finance Holdings S.A. Alfa Finance Holdings S.A. transferred its ownership of ABH Financial Limited (*i.e.*, the Guarantor) to ABH Holdings Corp. on June 21, 2004. See “Ownership” below.

All banks wishing to continue to accept individuals’ deposits in Russia and participate in the Deposit Insurance System were required to apply to the Central Bank prior to June 27, 2004 for a certificate confirming compliance with the New Deposit Regime. Alfa-Bank submitted its application to join the Deposit Insurance System on June 21, 2004 and was accepted into the Deposit Insurance System on December 15, 2004. As a member of the Deposit Insurance System, Alfa-Bank is required to comply with the relevant requirements on an on-going basis. Failure to meet these requirements in certain instances may lead to the expulsion of Alfa-Bank from the Deposit Insurance System and revocation of its license to accept deposits from individuals. This would cause Alfa-Bank to lose its individual client base and would have a significant adverse effect on its business (see “Regulatory Environment” in [Appendix C](#)).

The adoption of IFRS by all Russian banks and changes to banking regulation also could adversely impact the overall legal structure, including the tax structure, of Alfa-Bank. Alfa-Bank currently prepares its financial statements in accordance with RAR. Following the regulatory changes, Alfa-Bank also was required to report its financial statements in accordance with IFRS starting from the nine month period ending September 30, 2004. Since Alfa-Bank operates as a part of the Alfa Banking Group, and much of its equity is recorded on the accounts of its off-shore subsidiaries, no assurances can be given that, without any appropriate remedial action, Alfa-Bank’s capital adequacy, based upon IFRS financial statements, would satisfy the guidelines regarding solvency and capitalization adopted by the Basel Committee on Banking Regulations and the Supervision Practices of the Bank for International Settlements as provided in such Committee’s paper entitled “International Convergence of Capital Measurement and Capital Standards” dated July 1988, as updated through April 1998 (the “*BIS Guidelines*”).

Although such changes generally are viewed as beneficial reforms to the Russian banking system and are considered by the management of Alfa-Bank to be beneficial to it, it is uncertain whether such reforms might adversely impact Russian banks, including Alfa-Bank, and their approach to business. Without a clearer understanding of what legislative steps and structural changes are to be implemented as part of the Central Bank’s banking reform package, it is difficult to identify or estimate how such reforms might adversely impact Alfa-Bank and its business, financial condition, results of operations and/or prospects.

In April 2005, the Central Bank revised the system of mandatory economic ratios that Russian banks are required to observe. One of these ratios — current liquidity ratio N3 — now requires that the liquid assets of a bank (including any financial assets realizable or receivable within 30 days) should be no less than 50% of the aggregate amount of such bank’s liabilities to its customers on demand. Although this requirement is aimed at guarding against the lack of short-term liquidity in the Russian banking market, it also restricts the income-generating capacity of banks operating in Russia. This requirement may adversely affect Alfa-Bank’s income.

### *Banking License*

Currently, all banking and various related operations performed by banks in Russia require a banking license from the Central Bank. Alfa-Bank has obtained the required license in connection with its banking activities. The Central Bank is the only body that is authorized to suspend or revoke a banking license of a credit organization for breach of any applicable banking regulations or non-compliance with mandatory economic ratios and reserve requirements set out by the Central Bank. If the Central Bank were to suspend or revoke Alfa-Bank’s general banking license, then this would result in Alfa-Bank’s inability to perform any banking operations (including processing payments of its customers) and/or in a winding-up of its business (whether by way of bankruptcy proceedings or liquidation). Thus, if Alfa-Bank’s banking license were to be revoked, then no additional Diversified Payment Rights would be generated. However, Alfa-Bank has no grounds to believe that its license will be revoked for any reason. See also “Certain Legal Aspects Relating to the Diversified Payment Rights Under Russian, New York, Luxembourg and British Virgin Islands Law—Cancellation of Banking License.”



### *Capital Adequacy Guidelines*

The methods by which capital adequacy is calculated and the provision for loan impairment and other provisions are determined for Russian banks differ in some significant respects from the methods used in those countries that have adopted the BIS Guidelines. Alfa-Bank is required to comply with the capital adequacy requirements of the Central Bank. For the purposes of calculating Alfa-Bank's capital adequacy ratio in accordance with Central Bank requirements, Alfa-Bank's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the Central Bank currently is 10% for banks whose capital is €5 million or more, and 11% for banks whose capital is less than €5 million. If the capital adequacy ratio of a bank drops below 2%, then the Central Bank will revoke its banking license. Alfa-Bank's capital adequacy ratio calculated on the basis of the statutory RAR audited financial statements of Alfa-Bank adjusted for post-balance sheet events (as prescribed by the Instructions of the Central Bank of the Russian Federation No. 1530-U Procedures for the Compilation of Annual Report of a Credit Organization of December 17, 2004) amounted to 12.4% as of December 31, 2004 and 10.6% as of June 30, 2005. As of December 31, 2002 and December 31, 2003, the corresponding figures were 15.4% and 13.7% respectively. As an unregulated bank holding company, the Guarantor currently does not have an obligation, apart from contractual undertakings in connection with certain of its debt financings, to meet specific international or Russian regulatory capital ratios.

### *Changes in Customer Focus*

Alfa-Bank's strategy in the immediate future is, among other things, to: (a) focus on growing its medium-sized and smaller corporate client base and (b) grow its retail customer base significantly. In order to achieve this, Alfa-Bank is seeking to offer new lines of business, implement an aggressive branch network expansion program within Russia and, potentially, other regions of the CIS and, via the implementation of its Mercury retail, Mars corporate and related OMEGA IT projects, introduce widespread modernization of Alfa-Bank's information technology and management systems at all levels within its business divisions. Budgeted capital expenditures required in respect of the introduction of new lines of business, expansion of the branch network and modernization of the Alfa Banking Group's information technology are substantial. There is a risk that budgeted capital expenditures will be too low in order for Alfa-Bank to achieve its stated strategies. Further, there is a risk that, despite significant expenditures, Alfa-Bank might fail in sufficiently modernizing its systems and/or fail to attract additional small and medium-sized corporate clients and significant numbers of retail customers. This could have an adverse impact upon the business, financial condition, results of operations and prospects of Alfa-Bank.

In addition, although increased lending to small- and medium-sized corporate clients, as well as retail customers, diversifies Alfa-Bank's loan portfolio, it also may increase the credit risk exposure in the loan portfolio. Small- and medium-sized companies and retail customers typically have less financial strength and there often is less credit history available for such clients, and negative developments in the Russian economy could affect these borrowers more significantly than large companies. As a result, lending to these segments represents a relatively higher degree of risk than lending to other groups, which may result in higher levels of past-due amounts. This in turn could result in higher levels of provisions for loan impairment. Further, lending to these new target segments has required the implementation and application of credit policies and provisioning procedures that differ from those used for large corporate borrowers. The ability of Alfa-Bank to grow its customer base and expand its loan portfolio will depend upon continuing to implement successfully its credit policies and provisioning procedures, as well as capital growth, in order to maintain its capital adequacy requirements. Finally, this change in customer focus likely will result in an increase in the operating costs of Alfa-Bank given that working with small- and medium-sized corporate clients and retail customers generally is more costly than working with larger corporate customers.

As mentioned above, one of Alfa-Bank's key strategic initiatives has been its entry into the retail lending market. This market includes specialized products such as home mortgages and auto loans, in addition to more traditional products such as consumer loans, personal installment loans and credit card loans. While the retail lending market has historically been a small part of Alfa-Bank's business, amounting to only US\$60.0 million or 1.2% of its loan portfolio as of June 30, 2005, it plans to expand aggressively its retail lending business over the near- and medium-term. In early 2006, Alfa-Bank launched an auto loan program. On February 17, 2006, following completion of a pilot program, Alfa-Bank began offering mortgages to its retail clients. This strategy presents a number of risks.

Alfa-Bank has invested a large amount of capital into its retail banking services, including the roll out of new products and services, investment in IT and infrastructure and training and support for the retail bank sales force, and expects to invest a substantial amount more in the future. In the short-term, the retail banking unit is not anticipated to be profitable. These substantial capital outlays could have an adverse effect on Alfa-Bank's results of operations should its retail banking group fail to perform according to expectations. In addition, retail loans are generally subject to greater default rates than corporate loans, and Alfa-Bank expects that its increased focus on retail lending will cause it to increase its provisioning levels. Should the retail lending unit be unable to mitigate increased default rates, the financial condition of the unit may be jeopardized. Further, the retail lending sector is more susceptible to fraud than Alfa-Bank's commercial or investment banking business. Increased rates of fraud in Alfa-Bank's retail lending portfolio could further erode margins and could negatively effect its financial condition. Lastly, Alfa-Bank faces significant competition in the retail lending sector. A number of Russian and foreign lenders offer such services and have a much longer track record of successful retail lending operations. It may be difficult or financially prohibitive for Alfa-Bank to become a successful competitor in this market and capture significant market share. The failure of Alfa-Bank to respond appropriately to any of the risks set forth above could have an adverse impact upon its business, financial condition, results of operations and prospects.

#### *Enforcement of Security for the Loans Issued by Alfa-Bank*

As of December 31, 2005, the Alfa Banking Group had entered into security and/or guarantee arrangements in connection with 60% of the total amount of loans outstanding to its customers as of that date. See "Risk Management—Lending Policies and Procedures—Loan Collateral." Under Russian law, security arrangements (which include, *inter alia*, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation is terminated. Furthermore, foreclosure under Russian law generally requires a court order and a public sale of the collateral. In some cases, a court may delay such public sale for a period of up to one year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Such state registration may be difficult to obtain, especially for real property under construction. Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Additionally, the pledgeholder may not be able to levy execution upon a pledged property if such property is sold to a good faith purchaser who did not know about the pledge. Therefore, Alfa-Bank may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans.

In addition, downturns in the relevant markets or general deterioration of economic conditions in Russia may result in declines in the value of the collateral securing a number of Alfa-Bank's loans to levels below the outstanding principal balance on those loans. If collateral values decline, then they may not be sufficient to cover uncollectible amounts of Alfa-Bank's secured loans. A decline in the value of the collateral securing Alfa-Bank's loans or its inability to obtain additional collateral may, in some cases, require Alfa-Bank to reclassify the relevant loans, establish additional allowances for loan losses and increase reserve requirements. Also, failure to recover the expected value of collateral in the case of foreclosure may expose Alfa-Bank to losses that may adversely affect its financial condition and results of operations.

#### *Information Technology Projects*

The Alfa Banking Group has commenced the implementation of the GEMINI and OMEGA IT projects across its branch network, starting with branches in Moscow (see "Description of the Alfa Banking Group—Branch Network"). The implementation of the new IT systems will involve significant changes across a wide range of Alfa-Bank's operating activities and will require the retraining of a significant number of Alfa-Bank's employees. As is the case with many similar complex projects, it is possible that Alfa-Bank will experience delays, unexpected costs and technical difficulties in the implementation of this and related projects. During the year ended December 31, 2005, the Alfa Banking Group's investments and expenditures were approximately US\$33 million in information technology, compared with approximately US\$35 million and US\$17 million, for the years ended December 31, 2004 and 2003, respectively (see "Description of the Alfa Banking Group—IT Infrastructure").

### *Management of Rapid Growth*

Alfa-Bank has experienced rapid growth and development, particularly in the size of its overall loan portfolio and in its branch network, in a relatively short period of time and anticipates that it will continue to do so to meet its strategic objectives. Expansion of Alfa-Bank's branch network entails significant investment as well as increased operating costs. Alfa-Bank also may acquire regional banks as part of its domestic expansion. Overall growth in Alfa-Bank's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of Alfa-Bank's financial and information management control systems, the ability to integrate new branches or newly-acquired businesses with the existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. Failure to manage this growth could have a material adverse effect on the business, financial condition, results of operations and/or prospects of Alfa-Bank.

### *Liability for the Obligations of Subsidiaries*

The Russian Civil Code and the Federal Law on Joint-Stock Companies generally provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and only bear the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company bears joint and several liability for transactions concluded by the subsidiary in carrying out these decisions if: (a) this decision-making capability arises from prevailing participation in the charter capital of the subsidiary or it is provided in a contract between the companies or arises due to certain other reasons, and (b) the parent company gives obligatory directions to the subsidiary by virtue of provisions in the subsidiary's charter or an agreement between the parent company and the subsidiary.

In addition, the parent company is liable secondarily for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the parent company. This is the case when the parent company's ability to influence or determine decisions of the subsidiary arises from its right to give obligatory directions described above.

Other shareholders of the subsidiary may claim compensation for the subsidiary's losses from the parent company if it caused the subsidiary to take action(s) knowing that such action(s) would result in losses. Such liability may apply to Alfa-Bank with respect to its subsidiaries and may apply to the Guarantor to the extent that a Russian joint-stock company is its subsidiary.

### *Corporate Securities Market Risks*

Due, among other reasons, to the limited liquidity of the Russian corporate securities market and the relative lack of effective regulation, the prices of Russian corporate securities may be affected significantly by a relatively small amount of buying or selling activity of favorable or unfavorable press commentaries. Since regulation of insider trading and market-making is not developed fully in Russia, the prices of Russian corporate securities may be affected by practices that are not permitted in other markets. This may negatively affect the Alfa Banking Group's investment banking and trading activities in this market.

### *Banking Market Risks*

During the summer of 2004, the uncertainty in the Russian banking sector led to a reduction in interbank lending, which caused liquidity problems for many Russian banks, including Alfa-Bank, and resulted in a temporary reduction in Alfa-Bank's retail and corporate lending levels. It is impossible to predict whether such or similar liquidity problems will recur and how any such recurrence may affect the Russian banking sector in general and the Alfa Banking Group in particular.

### *Significant Reliance on Investment Banking Operations*

In recent years, the Alfa Banking Group has generated a significant portion of its operating profit from its investment banking activities. In 2004, investment banking activities accounted for 47.9% of the Alfa Banking Group's segment results (profit from operations before unallocated costs) as compared to 32.5% in 2003 (17.2% for the first six months of 2005). The income the Alfa Banking Group derives from its diversified investment banking activities, including equity brokerage, fixed income trading, investment banking and M&A advisory work, generally is subject to greater variation than the Alfa Banking Group's commercial banking operations and is highly susceptible to conditions in the global markets and international and Russian economic conditions. As a result, there can be no assurance that the financial results of the Alfa Banking Group's investment banking segment will not be materially lower than historical levels (even resulting in losses).

### *Retention of Management and Employees*

Alfa-Bank is dependent upon key members of its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, the personal connections and relationships of certain members of Alfa-Bank's senior management and the Alfa Banking Group's controlling shareholders are important to the conduct of Alfa Banking Group's business. No assurance can be given that those members of senior management will remain with Alfa-Bank or that such shareholders will continue to hold material interests in the Alfa Banking Group.

Alfa-Bank credits its success to recruiting high-caliber Western and Russian management and employees with qualifications and relevant experience derived from the West. However, its ability to continue to attract and retain such people in large part is dependent upon the continued growth of the Russian economy and the Russian banking system. Further volatility in the Russian economy or the banking system may adversely impact its ability to continue to recruit and retrain high-caliber staff at all levels.

In addition, the emergence of other Russian banks and foreign banks and financial institutions in Russia and the other regions in which Alfa-Bank operates not only represents an increase in competition for business but an increased competition in the specialized financial services employment markets. There is a risk that current Alfa-Bank employees will be recruited by other employers in coming years. The loss of managers or key staff of Alfa-Bank or the inability of Alfa-Bank to attract and retain other qualified personnel could have a material adverse effect on the business, financial condition, results of operations and prospects of Alfa-Bank.

### *Control by Principal Shareholder*

Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev are the Alfa Banking Group's controlling shareholders, indirectly holding or otherwise controlling approximately 36.1%, 23.0% and 17.9% respectively of its outstanding share capital and having the power to elect all of its directors and to determine the outcome of most matters to be decided by a vote of its shareholders. See "Ownership." Furthermore, although in the past the Alfa Banking Group's principal shareholders have supported the Alfa Banking Group by, among other things, providing equity capital, there can be no assurance that the principal shareholders will continue to provide financial support to it or that the principal shareholders may not have interests that differ from the Alfa Banking Group. As a result of their indirect ownership of a substantial percentage of the Alfa Banking Group's outstanding shares and their ability to appoint Alfa-Bank's Board of Directors, the Alfa Banking Group's controlling shareholders may prevent members of the Alfa Banking Group from making certain decisions or taking certain actions that would benefit them. Furthermore, should Alfa-Bank's shareholders become the subject of governmental investigations (including for unpaid taxes) or otherwise face financial hardship, then it is possible that such shareholders could be forced to cut off support for Alfa-Bank or the Alfa Banking Group or potentially could seek to dispose of their holdings in Alfa-Bank or the Alfa Banking Group, any of which could have a material adverse effect on Alfa-Bank.

### *Change of Control*

The Alfa Banking Group's controlling shareholder may elect: (a) to sell or transfer all or any portion of his holdings in the Alfa Banking Group and/or cause a change of control in the Alfa Banking Group and/or (b) to cause

the Alfa Banking Group to sell or transfer all or any portion of its holdings in Alfa-Bank and/or cause a change of control in Alfa-Bank. While in certain circumstances such change of control would trigger a redemption of the Series 2006-A Loan (see “Summary of Terms—Defaults”), it would be possible that one or more Loans (including the Series 2006-A Loan) would remain outstanding. Following such change of control, a new controlling shareholder of the Alfa Banking Group or Alfa-Bank might pursue new objectives for the Alfa Banking Group and/or Alfa-Bank that either may not be commensurate with the continuation or enhancement of the Diversified Payment Rights business as Alfa-Bank currently conducts it and/or Alfa-Bank’s and/or the Guarantor’s ability to perform their respective obligations under the Transaction Documents (including Alfa-Bank’s ability to generate sufficient Diversified Payment Rights to fulfill its obligations under the Transaction Documents).

### **Risk Factors Relating to Russia**

Any claims against Alfa-Bank and the Guarantor pursuant to the Transaction Documents (including claims for payment of any Default Payment, Prepayment Amount or Additional Amounts) would be secured by the Diversified Payment Rights, but would be unsecured claims to the extent that the Diversified Payment Rights were insufficient to pay such obligations. Any unsecured obligations would be payable from, among other sources, Alfa-Bank’s and the Guarantor’s funds and other assets in Russia. The ability of Alfa-Bank and/or the Guarantor to make any such payments from Russia will depend, among other factors, upon the Russian government not having imposed prohibitive foreign exchange controls, Alfa-Bank’s ability to obtain Dollars in Russia and its ability to secure any applicable necessary approvals from the relevant authorities, which could be affected by the circumstances described below. Furthermore, Alfa-Bank and the Guarantor predominantly are engaged in business in Russia and their results of operations and financial condition to a large extent are dependent upon the overall level of economic activity and political stability in Russia. Even though in recent years Russia has undergone significant political and economic reform that has increased stability and led to economic growth, Russia is generally considered by international investors to be an emerging market. In general, investing in the securities related to companies that have operations primarily in emerging markets like Russia involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the EU or other similar jurisdictions. For further information on the Russia bank regulatory environment, see [Appendix C](#).

#### *Political Considerations*

Russia has been undergoing a substantial political transformation from a centrally-controlled command economy under communist rule to a pluralist market-oriented democracy. A significant number of changes were undertaken during recent years but there can still be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population’s dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on Alfa-Bank and the Guarantor and their ability to meet their obligations under the Transaction Documents.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalization. However, due to the lack of experience in enforcing these provisions in the time that they have been in effect, and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any substantial assets of Alfa-Bank and/or the Guarantor, potentially without adequate compensation, would have a material adverse effect on Alfa-Bank and the Guarantor.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. The course of reform has in some respects been uneven and the composition of the Russian government (in particular, the prime minister and the other heads of federal ministries) has at times been highly unstable. Seven different prime ministers, for example, headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin, prime minister at that time, became the acting president and was subsequently elected president on March 26, 2000. Although political stability has improved significantly since Mr. Putin’s election, the various government institutions and the relations among them, as well as the Russian government’s policies and the political leaders who formulate and implement them, are subject to rapid change as was experienced with the December 2003 elections to the State Duma and the March 2004 Presidential elections. The latest State Duma elections in 2005 resulted in the

defeat of the opposition parties (the social-democratic Yabloko and the pro-business Union of Right Forces). The majority of the seats in the new State Duma were distributed between pro-presidential and nationalist parties (United Russia, Liberal Democrats and Motherland). Some experts believe that this allocation of the State Duma seats will result in a lack of strong opposition to the President and render impossible the blocking of any governmental initiatives by the State Duma. Alfa-Bank's and/or the Guarantor's business, financial condition, results of operations and prospects could be harmed and the value of investments related to Russia, including the Offered Notes, could be reduced if governmental instability recurs or if reform policies are reversed.

Russia is a federative state consisting of 88 constituent entities of different status (republics, krais, oblasts, cities of federal importance, autonomous districts and an autonomous region). The division of powers between the Russian Federation and its constituent entities is based upon a three-fold system of authority set out in the Constitution of the Russian Federation: the competence of the Russian Federation, the joint competence of the Russian Federation and its constituent entities, and the competence of the constituent entities. There has been a tendency for the Russian government to reduce the number and reconsider the composition of constituent entities. The distribution of powers between the Russian Federation and certain constituent entities has been further adjusted in bilateral agreements on the transfer of powers and treaties on the delineation of powers. The system of constituent entities is supplemented by seven federal districts (*federalny okrug*) that are supervised by representatives of the President. Tensions between the federal and local authorities are not unusual in Russia. There has been a move towards centralization of the country's governance by reducing the independence of local government. On December 11, 2004, legislation was amended to provide for Russia's 88 regional governors to be appointed by the President of the Russian Federation, rather than elected as was previously the case. This reform has provoked fears of further "usurpation of power" by the President and threats to democratic principles. Lack of consensus between local and regional authorities and the Russian Government may result in political instability. This lack of consensus may have negative economic effects on Alfa-Bank, which could have a material adverse effect on its ability to meet its financial obligations.

#### *Terrorism and Border Conflicts*

Ethnic, religious, historical and other divisions in Russia have, on occasion, given rise to tensions and, in certain cases, military conflict. In Chechnya (a constituent republic of the Russian Federation), federal armed forces have carried out several anti-terrorist operations since 1992 and a substantial number of internal troops remain there to maintain order. The escalation of violence may entail grave political consequences. In particular, the Federal Constitutional Law "On Emergency" of 2001 allows, under certain circumstances, the declaration of a state of emergency in the whole territory of Russia or in any part thereof, which may adversely impact its investment climate. In recent years Russia has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including suicide bombings and bombings of two domestic airline passenger flights. In addition, terrorists held hundreds of hostages at a school in Beslan in September 2004, and it is estimated that over 330 people were killed during the crisis, including over 170 children. Any future acts of terrorism or armed conflict in Russia or internationally could have an adverse effect on the financial and commodity markets, the Russian economy and the global economy in general and on Alfa-Bank's and/or the Guarantor's financial results in particular. In addition, future acts of terrorism or armed conflict in Russia could negatively affect the level of exports and investment in Russia, which could have an adverse effect upon the volume of Diversified Payment Rights generated by Alfa-Bank.

#### *Social Instability*

Crime and corruption could disrupt Alfa-Bank's ability to conduct business and could materially adversely affect its business, financial condition, results of operations or prospects.

The political and economic changes in the Russian Federation since the early 1990s have resulted in a reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organized criminal activity and corruption among officials in the Russian Federation and other countries of the former Soviet Union. Press reports also have described instances in which state officials have engaged in selective investigations and prosecutions to further the commercial interests of specific constituencies. Additionally, published reports indicate that a significant proportion of the Russian media regularly publishes biased articles in

return for payment. Alfa-Bank's business, financial condition, results of operations or prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in the Russian Federation, coupled with difficult economic conditions, the failure of state and some private enterprises to pay salaries in full and on a regular and timely basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest (particularly in urban areas) and increased support for a renewal of centralized authority, increased nationalism, restrictions on foreign involvement in the economy and increased violence. Any of these could restrict Alfa-Bank's operations and lead to a loss of revenue.

#### *International Relations*

Shifts in the foreign policy of the Russian government and changes in its key global relationships could adversely affect the Russian political and economic environment in general and, thus, Alfa-Bank's business, financial conditions, results of operations, prospects and/or flows of Diversified Payment Rights. Russia's exports are commodity-driven and are heavily oriented towards developed nations. Nevertheless, Russia's foreign policy interests have often diverged from the interests and goals of its main trading partners. There can be no assurance that Russia's political relationships with key trading partners will remain at the level where it currently stands. Any deterioration in relations with any one or more other nations could result in a lower volume of exports, a lower volume of inbound investment and other transfers and, thus, a lower volume of Diversified Payment Rights.

#### *Russian Macroeconomic Considerations*

Simultaneously with the enactment of political reforms, the Russian government has been attempting to implement policies of economic reform and stabilization. These reforms have included liberalizing prices, reducing defense expenditures and subsidies, privatizing state-owned enterprises and reforming natural monopolies, reforming the tax and bankruptcy systems and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

Despite the reform policies that have been implemented, until August 17, 1998 the Russian economy had been characterized by declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption, the penetration of organized crime into the economy and the impoverishment of a large portion of the Russian population.

The events and aftermath of August 17, 1998 — the Russian government's default on its short-term Ruble-denominated treasury bills and other Ruble-denominated securities, the abandonment by the Central Bank of the Russian Ruble currency band and its efforts to maintain the Ruble/Dollar rate within the currency band and the temporary moratorium on certain hard-currency payments to foreign counterparties — led to a severe devaluation of the Russian Ruble, a sharp increase in the rate of inflation, a significant deterioration of the country's banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds on the international capital markets.

Although economic conditions in Russia have improved significantly in a number of respects since the events of 1998 (see "Russian Exports"), the prospect still exists of widespread insolvency, substantial unemployment and deterioration of certain sectors of the Russian economy. Moreover, there is a lack of consensus as to the scope, content and pace of economic and political reform, both of which have been affected greatly by the recent high prices that Russia receives for its oil and gas exports. This windfall may substantially decrease if oil and gas prices fall materially. There can be no assurance that the recent positive trends experienced by the Russian economy, such as the increase in gross domestic product, a relatively stable Russian Ruble and the reduced rate of inflation, will continue or will not be abruptly reversed (including resulting in another crisis). Moreover, fluctuations in international oil and natural gas prices, fluctuations in the value of the Russian Ruble in real terms relative to the U.S. Dollar and the consequences of any changes in monetary policy and other factors could have a material adverse

effect on the operations of Alfa-Bank and/or the Guarantor and on Alfa-Bank's generation of Diversified Payment Rights.

#### *Government's Role in the Economy*

Although Russia's economy has undergone a substantial transformation from central planning and pervasive state ownership and control to more private ownership and market mechanisms, the role of the state in the Russian economy remains significant. In particular, the government controls or has material stakes in a significant number of natural monopolies and exporters, the Central Bank manages the Russian Ruble, which is not yet fully convertible, and a significant percentage of the population works for the state. The Russian government has attempted to manage the significant inflows of foreign currency into Russia due to high commodity prices by, among other steps, instituting a state stabilization fund to sterilize a portion of such inflows. The government has also used budget surpluses to make early repayments on Russia's external debt. The formation of the stabilization fund, the recent budget surpluses, the high and rising foreign currency reserves held by the Central Bank and decreases in overall volumes of Russia's external debt have had a positive effect on Russia's investment rating and economic outlook. However, there can be no assurance that these positive factors will continue in the future, or that current budget surpluses or assets of the stabilization fund will be sufficient to offset an abrupt or prolonged future economic deterioration.

#### *Effects of Yukos Investigation*

Since June 2003, representatives of the Russian government have been conducting investigations into Russia's second largest petroleum company, Yukos Oil Company ("Yukos"), and its subsidiaries, which culminated in the filing of charges of tax evasion against the company and in the arrest on criminal charges of some of the company's key shareholders (including Yukos' ex-Chief Executive Officer, Mikhail Khodorkovsky). On April 20, 2004, S&P downgraded Yukos' long-term debt rating from BB- to CCC amid concern that a Russian court order preventing the sale of most of Yukos' assets could potentially lead to the insolvency of Yukos or effective nationalization of its assets should it be required to repay tax indebtedness to the state. Despite Yukos' filing for Chapter 11 protection in the United States, 100% of the voting shares in Yuganskneftgaz (Yukos' main oil extracting subsidiary) were sold at an auction organized by the Russian Federal Property Fund to recover Yukos' debt to the tax authorities. S&P downgraded Yukos further to D in December 2004. In May 2005, Mikhail Khodorkovsky was sentenced to nine years in prison by a Russian district court. There has been considerable volatility in the Russian stock market against the backdrop of these events. According to some commentators, these events have called into question the security of property and contractual rights and the independence of the judiciary in Russia, and raise concerns about the revision of tax and mineral resources legislation, the re-examination of Russia's privatizations and the re-distribution of the assets involved. Some commentators have noted a negative impact of the Yukos affair on the size of investments in the Russian economy, especially in the oil sector. While Alfa-Bank and the Guarantor have no material ongoing business relationships with Yukos or its principal shareholders, there can be no assurance that any impact of the Yukos affair (and any similar event for any other company, including any member of the Alfa Consortium such as Alfa-Bank) on the Russian economy will not have an adverse effect on Alfa-Bank and/or the Guarantor or negatively affect the volume of Diversified Payment Rights related to foreign investment in Russia.

#### *Access to International Funds*

Russia in the past has received substantial financial assistance from several foreign governments and international organizations, including the International Monetary Fund. No assurance can be given that further financial assistance will be provided to Russia should it be needed.

Moreover, due to previous defaults on certain obligations and other factors, the Russian Government may be unable to raise funds on the international capital markets, which may lead to direct or indirect monetary financing of the budget, putting further pressure on inflation and the value of the Russian Ruble.

The considerable external debt of Russia, as well as the failure to obtain funding from foreign governments and international organizations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget in the absence of access to the international capital markets, could have a material



adverse effect on the Russian economy and thus have a material adverse effect on the operations of Alfa-Bank and/or the Guarantor.

However, the Russian government has been using recent budget surpluses to make substantial early repayments on Russia's external debt. Such early repayments, combined with the institution of the stabilization fund and the rising foreign currency reserves held by the Central Bank, have had a positive effect on Russia's investment rating and standing in international capital markets. Nevertheless, there can be no assurance that these positive factors will continue in the future.

#### *Exchange Rates, Exchange Controls*

Since 2000, the Russian Ruble has been stable relative to the Dollar, unlike in the period immediately following the crisis of August 1998, when the Russian Ruble experienced significant depreciation relative to the Dollar.

The ability of the Russian government and the Central Bank to maintain low volatility of the Russian Ruble will depend upon many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The Russian Ruble is not convertible outside Russia. A market exists within Russia for the conversion of Russian Rubles into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. Currently, 10% of foreign currency revenues from export sales must be converted into Russian Rubles, although the Central Bank has recently announced an upcoming decrease in the conversion level to 0%, which allows it to increase the conversion level in the future. See “—Risk Factors Relating to the Diversified Payment Rights—Change in Currency Control Regulation Re: Repatriation of Export Proceeds.” The relative stability of the exchange rate of the Russian Ruble against the Dollar since 2000 has mitigated the risks associated with a forced conversion, but no assurance can be given that such stability will continue. Moreover, the banking system in Russia is not as developed as its Western counterparts and considerable delays could occur in the transfer of funds within, and the remittance of funds out of, Russia.

While the current policy of the Russian government is to allow the repatriation by foreign investors of profits earned in Russian Rubles, there may be restrictions on such repatriation. The restrictions on its ability to convert its Russian Ruble revenues into foreign currencies, or to reconvert the Russian Rubles it obtains pursuant to the mandatory repatriation and conversion requirements, could have a material adverse effect on Alfa-Bank's and the Guarantor's business, financial condition and results of operations.

#### *Currency Control Legislation*

On December 10, 2003, President Putin signed the Currency Control Law “On Currency Regulation and Currency Control” to replace the former federal law “On Currency Regulation and Currency Control” of 1992. The Currency Control Law came into force on June 18, 2004. The Currency Control Law is generally aimed at the gradual liberalization of Russian currency control regulations, but at the same time it introduces new forms of currency control (such as the deposit of reserve amounts into non-interest bearing accounts at the Central Bank and the use of special accounts). In particular, Russian borrowers, including banks, may be required to reserve up to 20% of the amount of foreign currency loans received from foreign lenders for a period of up to one year, while Russian lenders may be required to reserve up to 100% of the amount of their foreign currency loans extended to foreign borrowers for a period of up to two months. At the same time, under the Currency Control Law, Russian banks may be required by the Central Bank to reserve at the Central Bank either up to 100% in Rubles of the total amount of their non-banking transactions for a period of up to 60 days, or up to 20% of the amount of such transactions for a period of up to one year. Under Directive No. 1425-U dated April 28, 2004, the Central Bank established a list of banking and non-banking transactions between authorized Russian banks that are exempt from all currency control restrictions and provided that other currency operations by authorized banks shall be subject to the general currency control regime applicable to Russian resident legal entities, unless otherwise determined by the Central Bank (see “Regulatory Environment” in [Appendix C](#)).

The reserve requirements are intended to give the Central Bank additional tools to combat asset-price and currency instability by curbing the inflow of short-term speculative funds into, and preventing the outflow of foreign currency funds from, Russia. The implementation of these new requirements may make certain foreign currency operations burdensome and financially unattractive for Russian banks and their clients. However, until the Russian Government and the Central Bank have enacted and implemented regulations imposing currency control restrictions on banks under the Currency Control Law, it is not clear whether and to what extent the Currency Control Law will affect Alfa-Bank's business and the businesses of its clients. There is a risk that the new regulation may hamper Alfa-Bank's ability to receive foreign funding and make loans to foreign borrowers as well as Alfa-Bank's ability to engage in securities operations.

### *Russian Banking System*

Russian companies face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, relatively high taxes and limited lending by the banking sector to the industrial sector, among other factors. Some Russian companies cannot make timely payments for goods or services and owe large amounts of overdue federal, regional and local taxes, as well as wages to employees, although this situation continues to improve. A re-emergence of liquidity problems that have disrupted the Russian banking sector in the past or deterioration of the Russian banking system could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects. To date, the Central Bank has not permitted foreign banks to open branches in Russia, requiring them to set up subsidiary banks instead. This position has effectively limited the amount of competition from foreign banks faced to date by Russian banks. Further, Russian banks have benefited from Russian currency control regulations, which to date have required most Russian corporate customers to bank domestically. However, such currency control regulations are slowly being loosened, and there can be no assurance that the Central Bank or the Russian government will continue to adhere to restrictions against foreign bank branches in Russia. The loosening of these restrictions may negatively affect Alfa-Bank's business, financial conditions, results of operations, prospects and/or flows of Diversified Payment Rights.

The Russian banking sector remains in a nascent state compared to that of its Western counterparts. It is unclear how legal and regulatory developments may affect the competitive banking landscape in Russia and whether it will significantly advantage certain banking activities. No assurance can be given that the regulatory environment in which the Alfa Banking Group operates in Russia will not change in a manner that has a material adverse effect on its ability to compete and thus on its business, financial condition, results of operations and/or prospects.

In 2004 the Russian banking sector experienced instability and a liquidity deficit resulting from the actions taken by the Central Bank and a crisis of confidence among Russian banking customers. During May-July 2004, the Central Bank revoked the banking licenses of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending system and to liquidity pressures for many banks in the Russian market. The withdrawal of the banking licenses of a number of Russian banks, coupled with the liquidity crisis and the wide media coverage of these events, caused panic among depositors, and even larger banks, such as Alfa-Bank, experienced depositor withdrawals. Although the Russian banking market has since stabilized to a significant degree, similar events in the future could undermine depositors' trust in the Russian banking system and create overall instability in the markets, which could have a negative effect on Alfa-Bank's financial condition, results of operations and/or prospects.

Alfa-Bank regularly enters into transactions with derivative instruments, including foreign currency options, and plans to continue to develop risk management tools by utilizing financial products or models. However, the Russian regulatory and legal framework relating to derivative instruments is still underdeveloped and court protection of such instruments is limited. Russian law neither specifically prohibits nor authorizes derivative transactions as such transactions are unregulated (although a few documents issued by Russian regulators refer to such transactions). There are some doubts as to the enforceability of certain derivative arrangements under Russian law, and this may negatively affect the Alfa Banking Group. Alfa-Bank derives significant income from equity derivative operations. The Russian authorities are considering a number of legislative changes such as the lifting of restrictions on foreign persons investing in the shares of certain Russian companies. The lifting of such restrictions could allow foreign persons to invest directly in these Russian companies and it is unclear what impact this might have on this market.

Alfa-Bank's investment banking activities might be negatively affected by such factors as limited liquidity in the Russian corporate securities market, a relatively small amount of buying or selling activities, unfavorable press coverage, market making and use of practices not permitted in more advanced securities markets.

#### *Legal risks*

Risks associated with the Russian legal system include, *inter alia*: (a) the untested nature of the independence of the judiciary and the level of its immunity from economic, political or nationalistic influences, (b) inconsistencies among laws, Presidential decrees and government and ministerial orders and resolutions, (c) the insufficient judicial or administrative guidance on interpreting the applicable laws, (d) a high degree of discretion on the part of governmental authorities, (e) conflicting local, regional and federal laws and regulations, (f) the relative inexperience of judges and courts in interpreting new legal norms and complex transactions and (g) the unpredictability of enforcement of foreign judgments and foreign arbitral awards.

The laws in Russia regulating ownership, bankruptcy and corporate governance of Russian companies are relatively new and, to some extent, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and anti-fraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to many fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have recently become effective. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in more developed legal systems. For example, although the bankruptcy law establishes a procedure to declare an entity bankrupt and liquidate its assets, relatively few entities have been declared bankrupt in Russia and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect Alfa-Bank's ability to enforce its rights, or to defend itself against claims by others in respect of Russian subsidiaries, and could affect enforcement in Russia of any rights against Alfa-Bank and/or the Guarantor under the Transaction Documents. Further, no assurance can be given that the development, implementation or application of legislation (including government resolutions or Presidential decrees) will not have a material adverse effect on the transactions effected by the Transaction Documents.

These uncertainties also extend to property rights. During Russia's transformation from a centrally-planned economy to a market economy, legislation has been enacted to protect private property against expropriation, de-privatization and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation, de-privatization or nationalization. Many Russian companies were privatized in the middle of the 1990s when privatization legislation was at times vague, inconsistent and conflicted with other applicable law. To the extent such conflicts exist, including conflicts between federal and local privatization legislation, most, if not all, privatizations are arguably deficient and therefore vulnerable to challenge at least on formal grounds. The statute of limitations for the invalidation of privatizations currently is three years. Expropriation or nationalization of Alfa-Bank and/or the Guarantor or any of their respective assets, potentially without adequate compensation, would have a material adverse effect on Alfa-Bank and/or the Guarantor.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may exercise broad authority to determine matters of significance. Such authority may be

exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violations committed.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is under-staffed and under-funded. Judges and courts are generally inexperienced in the areas of business and corporate law. Russia is a civil law jurisdiction and judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. Further, court decisions are not always enforced or followed by law enforcement agencies. There is no guarantee that recent proposed judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system.

#### *Changes in International Guidelines*

In June 2004, the Basle Committee on Banking Supervision published a report entitled “International Convergence of Capital Measurement and Capital Standards: a Revised Framework”, which sets out a new capital adequacy framework (commonly referred to as the “*Basle II Framework*”) to replace the Basel Capital Accord issued in 1988. The Basel Committee intends for the new framework to be available for implementation in member jurisdictions as of year-end 2006, although implementation of some aspects may be delayed and individual member countries will determine their own actual implementation schedules. The Basle Committee members have encouraged authorities in other jurisdictions to consider the readiness of their supervisory structures for the Basel II Framework and recommended that they proceed at their own pace, based upon their own priorities.

Among other changes implemented by the Basel II Framework, is the use, in certain cases, of external credit assessments for determining risk weightings. Although Russia has not yet adopted a schedule for the potential implementation of Basle II, there can be no assurance that if such guidelines were to be adopted that they would not require Alfa-Bank to require additional capital in order to maintain its asset base or cause Alfa-Bank’s cost of funds to increase.

#### *Sovereign Redirection*

In connection with any exchange controls that might be imposed, the Russian government might attempt to request or demand that: (a) foreign entities redirect their payments on behalf of Russian citizens to the Russian government or otherwise into Russia or (b) Russian exporters route all of their future export payments through a specific bank or otherwise (thus reducing the generation of Diversified Payment Rights by Alfa-Bank). In such an event, the Russian government might make such a request or demand upon Alfa-Bank, exporters or other customers of Alfa-Bank and/or the Depositary Banks and might attempt to redirect the payment of the amounts otherwise intended to be (or that would have been) deposited into a Concentration Account. Although each Designated Depositary Bank will be contractually obligated under an Account Agreement to pay such amounts into the applicable Concentration Account, there can be no assurance that any such person would not either comply with the sovereign’s request or freeze the funds pending final judicial instruction. Nevertheless, Alfa-Bank’s management strongly believes that such a request will not occur as it would likely seriously limit the ability of Russian exporters to export their goods and collect payments relating thereto, the ability of Russian nationals living abroad to remit funds and/or the ability of Russian institutions (including banks) to obtain foreign currency financing and otherwise obtain foreign currencies.

In addition, a portion of Alfa-Bank’s Diversified Payment Rights (23.06% of Applicable Collections during 2005) are Russian Flows. Alfa-Bank’s management believes, for the same reasons discussed in the preceding paragraph, that a similar request from the Russian government with respect to such payments would not occur. Nonetheless, if any such diversion attempt were to occur, then there could be a material negative impact upon the volume of Collections available to the SPC.

### *Corporate Disclosure*

A principal objective of the securities laws of the United States, the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. Alfa-Bank is subject to Russian law requirements, which oblige it to publish, *inter alia*, annual financial statements and information on material events relating to itself (such as major acquisitions and increases in charter capital). However, such information is published under Russian accounting standards and there is less publicly available information about Alfa-Bank when compared to the information regularly published by or about listed companies in the United States, the United Kingdom and certain other jurisdictions. In addition, unlike listed companies in the United States, which are required to publish quarterly financial statements under U.S. GAAP, the Guarantor only publishes semi-annual consolidated financial statements under IFRS, which differ in certain respects from U.S. GAAP. See “Accounting Practices” set forth in [Appendix B](#). Note that the most recent financial statements of the Alfa Banking Group, which includes Alfa-Bank, that are attached to this Offering Circular are as of June 30, 2005.

### *Reliability of Official Data*

Official statistics and other data published by Russian federal, regional and local governments and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which some of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced using different bases than those used in Western countries. Any discussion of matters relating to Russia herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of the available official and public information.

### *Taxation*

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others: income taxes, value added tax, property taxes, excise duties, profit tax and payroll-related taxes. Since tax legislation is subject to frequent change and some of the sections and provisions of the Tax Code of the Russian Federation related to the afore-mentioned taxes are comparatively new, implementation of these regulations is often unclear or nonexistent. Often, differing interpretations exist among various taxpayers subject to such taxes and the Federal Tax Service of the Russian Federation and its various tax inspectorates, creating uncertainties. There is little established precedent or consistent court practice in respect of these matters of law. In some instances, the Russian tax authorities have applied certain taxes retroactively although such application is in violation of Russian law. Furthermore, the Constitutional Court of the Russian Federation (the “*Constitutional Court*”) has recently issued a resolution on the application of certain provisions of the Tax Code of the Russian Federation whereby it effectively extended the statutory three-year limitation period for imposing a tax liability on a tax payer (although the role of the Constitutional Court of the Russian Federation is not to create legislation, but rather to review laws for their compliance with the Constitution of the Russian Federation). Specifically, the Constitutional Court has resolved that failure of tax authorities to comply with such limitation period may be excused if this failure resulted from taxpayers preventing tax authorities from conducting tax audits (*i.e.*, creating delays, providing incorrect documents) and to evade tax audits. In addition to the usual tax burden imposed upon Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses. This uncertainty could possibly expose members of the Alfa Banking Group to significant fines and penalties and to enforcement measures despite their best efforts at compliance, and could result in a greater than expected tax burden.

In addition, transfer-pricing legislation became effective in Russia on January 1, 1999. This legislation allows the tax authorities to make transfer-pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, including all transactions involving the trading of securities and derivatives, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20% within a short period of time. To date, there has been no formal guidance (although some court practice is already available) as to how these rules will be applied. If the tax authorities begin to impose significant additional tax liabilities as a result of transfer-pricing adjustments, it could have a material adverse effect on the Alfa Banking Group. Although the Russian tax authority has not brought an action against Alfa-Bank, transfer-pricing issues are inherent where related party transactions are

significant. Additionally, despite the Russian government taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's tax collection system remains largely ineffective and non-interest budget expenses remain relatively high. Due to these facts, there is a risk that the recent trend towards lower taxes will not continue or even that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Alfa Banking Group's business, financial condition and results of operations.

If required by law, payments under the Offered Notes will be made after deducting any applicable withholding taxes or other deductions. However, the SPC would then be obligated to gross up payments in respect thereof in the manner described in "Summary of Terms—Withholding Taxes" above.

Current Russian tax legislation is principally based upon the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by RAR. Accordingly, there are opportunities for Russian banks, including Alfa-Bank, to structure income and expenses in order to reduce the overall effective tax rate. Alfa-Bank's results of operations have historically benefited significantly from the use of on-shore and off-shore transactional structures. Alfa-Bank believes that it has complied and continues to comply with all applicable tax legislation and its management believes that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Moreover, Alfa-Bank is subject to an annual tax inspection for each fiscal year and was found to be in compliance with all taxing rules and regulations in all material respects. Accordingly, no provision for a potential tax liability with regard to these transactions has been recorded in the consolidated financial statements of the Guarantor. However, because Russian tax legislation is subject to varying interpretation and inconsistent enforcement at federal, regional and local levels, sometimes retroactively, there can be no assurance that such mechanisms and restructuring of taxable income will not be challenged.

While certain reductions in the rates, such as for profit tax, have been effected by the Russian government, it is expected that Russian tax legislation will become more sophisticated and introduce additional revenue-raising measures for the federal budget. Although it is unclear how these provisions will operate, the introduction of these provisions may affect Alfa-Bank's and/or the Guarantor's overall tax efficiency and may result in significant additional taxes becoming payable. Although Alfa-Bank and the Guarantor will continue to undertake to minimize such exposures with effective tax planning, Alfa-Bank cannot offer any assurances that the effective tax burden will not increase while the Series 2006-A Loan is outstanding. Additional tax exposure could cause Alfa-Bank's and/or the Guarantor's financial results to suffer. The Alfa Banking Group's effective tax rate for the years ended December 31, 2003 and December 31, 2004 was 9.4% and 17.1%, respectively, based upon its profit before tax as recorded in its IFRS financial statements and for the six months ended June 30, 2004 and 2005 was 9.9% and 17.5%, respectively.

#### *Accounting Standards*

The Annual Financial Statements and Interim Financial Statements contained herein may differ significantly from those reported based upon U.S. GAAP. See "Accounting Practices" set forth in [Appendix B](#) for a description of highlights of certain differences between IFRS and U.S. GAAP.

#### *Regulations Related to Money Laundering*

Russia is a member country of the Financial Action Task Force on Money Laundering ("FATF") and Egmond Group and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Russia, all banks and their employees are obliged to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money laundering. The Federal Law No. 115-FZ "On Counteraction of the legalization (laundering) of the proceeds of crime and the financing of terrorism" dated August 7, 2004 (the "Anti-Money Laundering Law") and implementing legislation set forth the framework for this requirement and other anti-money laundering procedures.

Minimum standards and duties according to the Russian Anti-Money Laundering Law include: customer identification, record keeping, suspicious activity reporting, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported on a daily basis to the Central Bank for further reporting to the Russian State Committee for Financial Monitoring (State Financial Intelligence Unit).

To ensure that Alfa-Bank is not unwittingly used as an intermediary in money laundering process and other related criminal activities, an anti-money laundering program, which is to be undertaken by all employees, has been implemented. This program includes: written policies and procedures, assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training.

### *Emerging Market Risks*

Emerging markets such as Russia are subject to greater risks than more developed markets and financial turmoil in any emerging market could disrupt business as well as cause the price of the Offered Notes to suffer. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in stock markets and prices for debt securities of all emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging economies could dampen capital flows to Russia and adversely affect the Russian economy. There can be no assurance that investors' interest in Russia will not be negatively affected by events in other emerging markets or the global economy in general.

### **Risk Factors Relating to the Offered Notes**

#### *Diversified Payment Rights Must be Generated in the Future in Order for the Series 2006-A Loan (and, thus, the Offered Notes) to be Paid from Collections*

Since cash flows from Collections are the primary source of funds to repay the Series 2006-A Loan, the SPC's repayment of the Offered Notes will principally rely upon the ability of Alfa-Bank to continue to generate Diversified Payment Rights. If the Diversified Payment Rights are not generated and collected in sufficient quantity, then the SPC would not have sufficient resources to make all required payments under the Transaction Documents (including on the Offered Notes) except to the extent that Alfa-Bank and/or the Guarantor comply with their obligations under the Loan Agreement to make a separate payment under the Loans.

This expectation that a future flow of Diversified Payment Rights be generated in order for the SPC to have adequate Collections from which to pay the Offered Notes is in contrast to asset-backed securitizations in which rights to assets owned by the relevant special purpose issuer and in existence as of the closing date — or, in the case of revolving asset securitizations, as of the closing date and at each point in time thereafter — are structured, at any given time, to exceed the amount of the aggregate debt then outstanding. Thus, in those securitizations, in order for the amount of collateral to fall below the amount of issued debt (with investors suffering losses as a result) there typically must be defaults on, or dilution of the anticipated value of, the existing collateral. In addition, in a revolving asset securitization that begins with an asset pool that exceeds issued debt, failure to reinvest in new assets at an adequate level will typically trigger a prepayment to investors. In contrast, in this transaction and similarly structured future flow transactions, in the event Alfa-Bank does not generate sufficient Diversified Payment Rights in the future, the SPC will not have sufficient assets from which to pay the Offered Notes except to the extent that Alfa-Bank and/or the Guarantor comply with their obligations under the Loan Agreement to make a separate payment under the Series 2006-A Loan. Pursuant to the Loan Agreement, Alfa-Bank will have acknowledged its pledge to the SPC of all of the Diversified Payment Rights then existing or thereafter created through and including the date on which all payment obligations of the SPC and Alfa-Bank under the Transaction Documents (including under any Enhancement Agreement) have been paid in full (including, if applicable, from any Default Payment and any payment of a Prepayment Amount by Alfa-Bank with respect to any Loan), such pledge being effected by the execution and delivery on the Closing Date by Alfa-Bank of the Pledge Agreement. In addition, numerous economic incentives exist for Alfa-Bank to continue to generate Diversified Payment Rights, including the profitability of its Diversified Payment Rights business, the importance of the services giving rise to the Diversified Payment Rights to customers of Alfa-Bank who also engage in other profitable transactions with Alfa-Bank and the fact that, absent an Early Amortization Period with respect to any Loan, the transaction is structured in the anticipation that Alfa-Bank will receive the great majority of Collections from Diversified Payment Rights on a subordinated basis.

### *Legal Framework for the Generation of Diversified Payment Rights*

Monetary flows to Alfa-Bank constituting the Diversified Payment Rights result from the Payment Orders sent to Alfa-Bank by Payor Banks via SWIFT and other messages. Performance of payments thus submitted to Alfa-Bank through SWIFT do not require Alfa-Bank to enter into separate framework agreements with the SWIFT member banks with respect to acceptance and performance of the Payment Orders. See “Alfa-Bank’s Diversified Payment Rights Business—Flow of Payments—The SWIFT System.”

Based upon Russian conflict-of-laws rules, strong arguments exist in support of a view that Russian law should apply to govern the relations between Alfa-Bank and Payor Banks with respect to the performance of the Payment Orders. Although there is no clear statutory provision for the creation of the Diversified Payment Rights, upon the receipt by Alfa-Bank of a Payment Order from a Payor Bank (especially where the Diversified Payment Rights include the right of claim for payment of the monetary coverage before making a payment under the Payment Order), Russian counsel believes that there are well-founded arguments that, from a Russian law perspective, such Diversified Payment Rights would be created contractually upon the acceptance by a given Payor Bank (which constitutes an acceptance of an offer to enter into a contract for the purposes of Russian law) of Alfa-Bank’s offer contained in the notice sent to such Payor Bank pursuant to clause (l)(ii) of “Summary of Terms—Covenants of Alfa-Bank.” Such notice would, *inter alia*, expressly state that the acceptance of a Payment Order by Alfa-Bank creates a monetary claim against the Payor Bank that requires the Payor Bank unconditionally to make a payment of the amount indicated in such Payment Order to Alfa-Bank. However, neither the legal nature of the Diversified Payment Rights (including the grounds of their creation), nor the application of Russian law to determine such grounds or the rights and obligations arising between Alfa-Bank and a Payor Bank, have yet been tested in Russian courts. Thus, the outcome of any potential dispute requiring a Russian court to consider these issues cannot be predicted with certainty.

### *Transferability of the Diversified Payment Rights Governed by Russian Law*

The Pledge Agreement, pursuant to which a pledge (security interest) is created in respect of, *inter alia*, Diversified Payment Rights, is governed by the laws of the State of New York. However, as noted above in “— Legal Framework for the Generation of Diversified Payment Rights,” strong arguments exist in favor of a view that the Diversified Payment Rights (as well as obligations from which these rights arise) would be governed by Russian law. Thus, certain Russian law provisions are likely to apply to the transactions involving Diversified Payment Rights.

Russian law expressly permits the pledge of future property rights (such as Diversified Payment Rights). However, the Russian Civil Code also states that a pledge of rights under Russian law may be established “unless the assignment of such rights is prohibited by law.” Pursuant to Article 1216(2) of the Civil Code, the assignability of a property right is to be determined pursuant to the legislation governing the obligation from which such right arose. Russian legislation neither specifically permits nor prohibits assigning future receivables (except for specifically permitting such assignment in the context of factoring arrangements). In some instances, Russian courts have limited the assignment of future receivables if such receivables cannot be sufficiently identified at the moment of their assignment. Furthermore, Russian courts have ruled on a number of occasions that assignment is permitted only if the rights assigned: (a) arose before the assignment and are due, (b) are uncontested and not conditional upon any counter-performance by the assignor and (c) are assigned in full rather than in part. It should be noted, however, that Russian courts have not been consistent in their application of these criteria when reviewing the validity of assignment agreements. A number of Russian legal commentators have challenged the validity and appropriateness of the aforementioned criteria for a valid assignment because they are not expressly provided for within the Russian Civil Code. There are also a number of cases where Russian courts have upheld assignments that did not satisfy the above criteria.

There is no assurance, however, as to the approach that Russian courts may adopt with respect to the Pledge Agreement, and therefore, the possibility cannot be excluded that a Russian court would deem that the Diversified Payment Rights pledged under the Pledge Agreement are not sufficiently identified for the purpose of assignment, or else that they may not be lawfully assigned (thus throwing doubt on the ability validly to pledge such rights under Russian law).



### *Mingling of Collections on Diversified Payment Rights with other Amounts*

Due both to the inability of the Designated Depository Banks to segregate Collections relating to Diversified Payment Rights from funds relating to other purposes and the fact that payment orders often lack complete routing information (such as account numbers), the Account Agreements generally provide for all payments to Alfa-Bank to be deposited into the applicable Collection Account unless the applicable payment order specifically identifies another Alfa-Bank account as the account to receive payment. While this is intended to maximize the deposit of Collections on Diversified Payment Rights into the Collection Accounts, funds related to other transactions will likely also be deposited into the Collection Accounts. The resulting mingling of pledged Collections with funds from other transactions that are unpledged may create some difficulty in identifying Diversified Payment Right-related Collections. While the SPC will have a pledge over such other funds through Alfa-Bank's pledge to the SPC of all of its right, title and interest in the Collection Accounts (including all amounts credited thereto or carried therein), Alfa-Bank may (as described in "Summary of Terms—Trapped Unpledged Flows" below) have the right to request the return of such amounts. The mingling of these two types of payment may complicate this return process as well as the parties' ability to identify clearly which amounts are Collections on Diversified Payment Rights.

### *Limited Security for Repayment and Limited Recourse Obligations*

The Offered Notes will be limited recourse obligations of the SPC, with recourse being limited to the Note Collateral. The Offered Notes will not be an obligation or responsibility of, or guaranteed by, any other person or entity – including Alfa-Bank and the Guarantor. None of the members, officers, directors or incorporators of the SPC, Alfa-Bank, the Guarantor, the Indenture Trustee, any of their respective affiliates or any other person or entity will be obligated to make payments under the Transaction Documents. The SPC will have no material assets available for payments on the Offered Notes other than the assets comprising the Note Collateral, including its claims on Alfa-Bank and the Guarantor under the Loan Agreement and the Pledge Agreement. There can be no assurance that the distributions on the Note Collateral will be sufficient to make payments on the Offered Notes. After the Note Collateral has been fully realized and exhausted, the Indenture will provide that all sums due but still unpaid in respect of the SPC's obligations under the Offered Notes and the other Transaction Documents will be extinguished.

Alfa-Bank's management expects that the volume of Diversified Payment Rights will be sufficient to make the scheduled payments of principal and Interest on the Series 2006-A Loan (and thus to enable the SPC to make such payments on the Offered Notes). In 2005, the total volume of Collections generated by Alfa-Bank totalled US\$14.3 billion. However, there can be no assurance that a significant decline in the volume of Diversified Payment Rights will not result in a shortfall in the amounts available to pay principal and Interest owing in respect of the Series 2006-A Loan (and thus the Offered Notes). If such a shortfall were to occur, then the SPC would be able to call upon Alfa-Bank or the Guarantor for payment.

Furthermore, contractual undertakings and commitments directed towards protecting against the insolvency or bankruptcy of the SPC, in particular by limiting the recourse and remedies of the other Transaction Parties to and against the SPC, and the contractual subordination of certain claims against the SPC, would be of doubtful validity were they to be governed by Russian law or applied in the context of the insolvency or bankruptcy of a Russian person.

### *Unsecured Claims Against Alfa-Bank and the Guarantor*

Except for the Loan Collateral, any claims against Alfa-Bank and the Guarantor pursuant to the Transaction Documents (including claims for payments of any Default Payment or Prepayment Amount) will be unsecured claims against Alfa-Bank (and, potentially, the claims of the SPC against Alfa-Bank, which are secured by the Bank Collateral, may not be upheld as secured claims by Russian courts as described in "—Assignability of the Diversified Payment Rights Governed by Russian Law") and the Guarantor. See "Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law."

### *Offered Notes Ratings*

It is a condition to the issuance of the Offered Notes that they be rated at least “Baa3” by Moody’s. The ratings of the Offered Notes address the likelihood of timely payment of interest on each Payment Date and the timely payment of scheduled principal for the Offered Notes on each Payment Date after any applicable Interest-Only Period. A rating is not a recommendation to buy, sell or hold Offered Notes (or beneficial interests therein) inasmuch as such rating does not comment on the market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that it will not be lowered or withdrawn by a Rating Agency if, in its judgment, circumstances so warrant. A rating on the Offered Notes does not address the possibility of the occurrence of a Default or any other Early Amortization Event or the likelihood of payment by Alfa-Bank or the Guarantor of any Default Payment, Prepayment Amount or any other unscheduled payments under the Transaction Documents.

### *Limited Liquidity; Absence of Trading Market*

The Offered Notes constitute a new issue of securities for which there is no existing market, and there can be no assurance regarding the future development of a market for the Offered Notes, the ability of the Investors in the Offered Notes to sell their Offered Notes (or beneficial interests therein) or the price at which such Offered Notes (or beneficial interests therein) may be sold. An application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Offered Notes to be admitted to its “Official List” and permit trading on its regulated market; *however*, no assurance can be given that such application will be accepted. The Initial Purchasers are not obligated to facilitate trading in the Offered Notes (or beneficial interests therein) and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Initial Purchasers do not facilitate trading in the Offered Notes (or beneficial interests therein) for any reason, there can be no assurance that another firm or person will do so. In addition, trading or resale of the Offered Notes (or beneficial interests therein) may be negatively affected by other factors described in this Offering Circular arising from this transaction or the market for securities of Russian issuers generally.

### *Restrictions on Transfer*

The Offered Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state’s or other jurisdiction’s (including Russia’s or Luxembourg’s) securities laws or (b) with the SEC or any other applicable state’s or other jurisdiction’s (including Russia’s or Luxembourg’s) regulatory authorities. The offering of the Offered Notes (and beneficial interests therein) will be made pursuant to exemptions from the registration provisions of the Securities Act and from other securities registration laws of the United States. Accordingly, reoffers, resales, pledges and other transfers of the Offered Notes (and beneficial interests therein) are subject to the restrictions described under “Notice to U.S. Investors” and “Notice to Investors in the International Offering” and may be subject to other restrictions. Each Investor is advised to consult legal counsel in connection with any such reoffer, resale, pledge or other transfer.

Because transfers of interests in the Global Notes can be effected only through book entries at DTC, including through book entries at Clearstream and Euroclear in the case of the Regulation S Note, for the accounts of their respective participants, the liquidity of any secondary market for Global Notes may be reduced to the extent that some investors are unwilling to hold Offered Notes in book-entry form in the name of a participant in DTC, Clearstream or Euroclear, as applicable. The ability to pledge interests in the Global Notes may be limited due to the lack of a physical certificate. Beneficial owners of Global Notes may, in certain cases, experience delay in the receipt of payments of principal and Interest since the Indenture Trustee will forward such payments to DTC (with respect to the Regulation S Note, for further delivery to Clearstream or Euroclear, as applicable). Those clearing agencies will then forward payment to their respective customers, who (if not themselves the beneficial owners) will thereafter forward payments to the beneficial owners of the Global Notes. In the event of the insolvency of DTC, Clearstream, Euroclear or any of their respective participants in whose name interests in the Global Notes (or beneficial interests therein) are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on Global Notes may be impaired.

### *Choice of Law*

Given that the Transaction Documents are governed by New York, German and Dutch law, it is important to note that under Article 1210 of the Russian Civil Code (the “*Civil Code*”), Russian persons, including Alfa-Bank, are permitted to choose foreign law as the governing law of their agreements with foreign persons. It should be noted, however, that recognition and application of foreign law in Russia may be limited on the following grounds:

- (a) Article 1191 of the Civil Code provides for the procedure of establishing the meaning and content of foreign law by the Russian courts under which the meaning and content of foreign law must be established in accordance with the official interpretation, application practices and legal doctrine in the relevant foreign state. To ascertain the meaning of a provision of foreign law, a Russian court may seek clarification from the Russian Ministry of Justice or other Russian and foreign agencies and organizations and/or engage experts. Alternatively, the court is authorized to impose the onus of proof in relation to the meaning of such provision on the parties to a commercial dispute. If, notwithstanding these procedures, it proves impossible to establish the meaning and content of relevant foreign law within a reasonable timeframe, the Russian court may apply Russian law.
- (b) Article 1192 of the Civil Code provides that “mandatory provisions” of Russian legislation apply regardless of the choice of law if: (i) the relevant provision of Russian law states so expressly or (ii) such provision is of “special significance.” It is not clear which mandatory rules may be treated as being of “special significance” and, therefore, in the absence of any official guidance Russian courts have wide discretion in interpreting this concept.
- (c) Article 1193 of the Civil Code provides that application of foreign law in Russia may be limited on public policy grounds, in particular where the consequences of such application would be contrary to “legal order (public order)” of Russia. The meaning of the term “legal order (public order)” is not clearly defined in Russian legislation or by Russian court practice. The Civil Code establishes, however, that “a provision of a foreign governing law” may be disapplied only in “exceptional circumstances” where the consequences of its application would be in “obvious contradiction” to fundamental principles of the Russian legal order. The Civil Code further provides that application of foreign law cannot be refused solely on the basis of differences between Russia’s “legal, political or economic system” and that of the relevant foreign state.
- (d) Article 1210(5) of the Civil Code also provides that where the facts indicate that, as at the time of the choice of law by the parties, the agreement was “in reality connected with only one country,” the choice of law of another country cannot prejudice the effect of mandatory provisions of the law of the country with which such agreement is actually connected.

As the Transaction Documents are governed by foreign law, the above rules would apply should any legal proceeding related to the Transaction Documents be reviewed by a Russian court. There can be no guaranty that a Russian court would be able to ascertain the meaning and content of the relevant foreign laws, that it would apply such foreign laws in the same manner as would a court of the relevant jurisdiction, that a Russian court would not find that some “mandatory provision” of Russian law should apply to the transactions effected thereby or that a Russian court would not find that the application of such laws would not be contrary to the “legal order (public order)” of Russia.

### *Foreign Judgments or Arbitral Awards*

The Russian Federation is not a party to multilateral or bilateral treaties with most Western jurisdictions (including the United States) for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, the Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and the Transaction Documents contain a provision allowing for the arbitration of disputes against Alfa-Bank. A foreign arbitral award obtained in a state that is party to that Convention should be recognized and enforced by a Russian court subject to the qualifications provided for in

the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Certain mandatory provisions of Russian law may apply to the enforcement of the Transaction Documents against Alfa-Bank. Specifically, notwithstanding the fact that the obligations of Alfa-Bank under the Transaction Documents are denominated in a foreign currency, the SPC (or the Indenture Trustee) may in practice receive Russian Rubles upon enforcement of a judgment or arbitral award against Alfa-Bank in Russia, which they will be able to convert into foreign currency at the relevant exchange rate and repatriate outside Russia (subject to a potential application of the currency control requirements for the use of special accounts and mandatory reserves in connection with such conversion). Also, anti-monopoly requirements may apply in the context of the acquisition of the Bank Collateral as a result of the enforcement by the SPC (or the Indenture Trustee) of the Pledge Agreement. Depending on the value of the assets so acquired (and the assets of Alfa-Bank) anti-monopoly laws may require either a prior consent for, or a subsequent notification to the anti-monopoly authority of, such acquisition. Non-compliance with the above rules may result in the imposition of an administrative fine. Additionally, Russian federal anti-monopoly authorities may challenge the transaction if it leads to decreased competition.

#### *Applicability of Russian Law*

As noted above, the courts of the Russian Federation should, as a general rule, apply the relevant non-Russian law chosen by the parties to the Transaction Documents. Therefore (for example) the validity of the Pledge Agreement should be a matter of the laws of the State of New York. However, any bankruptcy proceedings of Alfa-Bank would be governed by Russian law.

In the absence of definitive judicial or other official guidance on this matter, there is some risk that Russian courts (whether or not during bankruptcy proceedings) may regard the provisions of Russian law on invalidity of transactions as “mandatory provisions of special significance” or otherwise seek to apply Russian law due to the limitations on the application of foreign law. However, subject to the applicable laws defining the competence of the forum, the SPC and/or Indenture Trustee may still enforce claims under the Transaction Documents outside Russia where the Collection Accounts and the Concentration Accounts are held. In doing so, the courts of New York, Germany and The Netherlands (for example) may themselves choose not to be bound by the result under Russian laws in this issue.

If the courts of Russia were to apply Russian law to the Pledge Agreement (or to analyze the ability of the Diversified Payment Rights to be pledged and/or assigned), there is some risk that the Pledge Agreement may be successfully challenged in Russia. In particular, the courts of Russia have on a number of occasions declared assignments of, or security in, “future rights” similar in nature to the Diversified Payment Rights invalid and have also treated certain Russian law-governed assignments of rights (where the parties were found to have structured other types of transactions as assignments) as sham transactions. Furthermore, given that there are no public records related to the Pledge Agreement under Russian law, there is a possibility of a conflicting sale/pledge of the Diversified Payment Rights and a risk of priority battles between different assignees/pledgees.

#### *Russian Bankruptcy Law*

Russian bankruptcy law often differs from comparable law in the United States or Western European countries and is subject to varying interpretations. There is little precedent to predict how claims against Alfa-Bank under the Transaction Documents would be resolved in the case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Offered Notes.

Bankruptcy of any Russian entity is governed by the law “On Insolvency (Bankruptcy)” of October 26, 2002 (the “*Bankruptcy Law*”). In addition to the Bankruptcy Law, the bankruptcy of banks, such as Alfa-Bank, is regulated by the law “On Insolvency (Bankruptcy) of Credit Organizations” of February 25, 1999, as amended (the “*Bank Insolvency Law*”). Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the Central Bank of its banking license.

Following revocation of the bank's license, *inter alia*, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations until the liquidator or the competition manager (as described below) is appointed (which would effectively preclude Alfa-Bank from generating Diversified Payment Rights). See “—Risk Factors Relating to Alfa-Bank and the Alfa Banking Group—Banking License” and “Certain Legal Aspects Relating to the Diversified Payment Rights Under Russian, New York, Luxembourg and British Virgin Islands Law—Insolvency of Alfa-Bank.” Bankruptcy proceedings may be initiated against a Russian bank provided that its business has “signs” of insolvency, as described in the Bank Insolvency Law (*i.e.*, the overall amount of outstanding obligations is not less than 1,000 times the statutory minimum wage amount (currently 100,000 Russian Rubles or approximately US\$3,584) and the bank has failed to satisfy the creditors' claims upon the revocation of its banking license, its total assets do not cover all of its outstanding obligations).

Russian banks, including Alfa-Bank, are subject only to the “competition management”<sup>2</sup> procedure within bankruptcy proceedings. “Competition management” (*konkursnoye proizvodstvo*) is a bankruptcy procedure that is introduced for the purpose of satisfying creditors' claims on a proportionate basis out of assets sales after a debtor has been declared bankrupt. A “competition manager” is appointed to manage the estate to effect such ends. Thus, in case of the Alfa-Bank's insolvency, its assets (including the remaining property rights) would be subject to a sale for the purposes of satisfying the claims of its creditors.

Prior to the initiation of bankruptcy proceedings (and, accordingly, prior to the revocation of their banking license), Russian banks may be subject to bankruptcy prevention measures (financial rehabilitation, appointment of the temporary administration, reorganization).

Under Russian bankruptcy laws, various grounds exist to invalidate transactions to which a bank is a party when the bank in question is subject to Russian bankruptcy proceedings, including a bankruptcy prevention proceeding known as temporary administration. Examples of such transactions include those entered into with an “interested party” (as defined in the Bankruptcy Law) if the transactions at issue resulted or may result in losses to the creditors of the bank, transactions entered into within six months preceding the initiation of bankruptcy proceedings and resulting in a preference and transactions entered into within three years of the appointment of a temporary administration or the declaration of bankruptcy. In this latter case, if the terms of the transaction were materially worse than comparable situations or the transaction was terminated between the bank and the parties controlling the bank, then the transaction may be invalidated. See “Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law.”

During the term of appointment of the temporary administrator or liquidation of a Russian bank in bankruptcy proceedings, the temporary administrator appointed by the Central Bank or a bankruptcy manager (liquidator) may unilaterally refuse, on behalf of the bank, to perform the bank's transactions that were not performed by the parties (in full or in part) if: (a) the execution of such transactions may result in losses for the debtor compared with analogous transactions or (b) in relation to rehabilitation only, with the goal of preventing the bankruptcy of the bank and restoring its solvency. A refusal to perform such a transaction results in a termination of the relevant agreement. It is not clear whether a temporary administrator or a bankruptcy manager of a Russian bank may refuse to perform an agreement creating a pledge of such bank's property. However, it may be argued that by enacting these provisions the Russian legislature intended to excuse the refusal to perform the debtor's current and future obligations that arise under executory contracts and prevent restoration of the debtor's solvency (or cause exceptional losses), rather than to unwind the parts of transactions that have been performed by the debtor before such refusal to continue performance becomes effective (and, in particular, to terminate pledges that were created as encumbrances of the debtor's property before such refusal).

In the event of Alfa-Bank's bankruptcy, the claims of its creditors (including the claims of the SPC and/or the Indenture Trustee under the Pledge Agreement) to recover any amounts from Alfa-Bank may not be satisfied outside the bankruptcy proceedings. The recovering parties would be subject to specific requirements of Russian bankruptcy legislation with respect to presenting and confirming their claims. Should any such event occur, then Alfa-Bank's obligations under the Transaction Documents would be so affected.

Russian law is not clear on whether a New York law-governed security interest created under the Pledge Agreement would be treated as a pledge in the bankruptcy proceedings of Alfa-Bank. It may be argued that to be

deemed a pledge for the purpose of such proceedings, the security interest should comply with all Russian law requirements for a pledge. Thus, there is a possibility that the claims of the SPC (and the Indenture Trustee, as appropriate) would be deemed to be unsecured claims in Russian bankruptcy proceedings. See “Certain Legal Aspects Relating to the Diversified Payment Rights Under Russian, New York, Luxembourg and British Virgin Islands Law—Insolvency of Alfa-Bank” for more information on Russian bankruptcy law.

### *Moratorium*

In certain situations (described below), the Central Bank may, without the revocation of the respective banking license:

- (a) prohibit the performance by the bank of certain banking operations envisaged by the relevant banking license for up to six months if the bank has failed to: (i) comply with the Russian federal laws, other normative acts and/or Central Bank regulations or (ii) provide full and accurate information,
- (b) prohibit the performance by the bank of certain banking operations envisaged by the relevant banking license for up to one year if the bank fails to comply with the request of the Central Bank to rectify the violations described in clause (a) or if such violations (or other operations or transactions of the bank) have resulted in an actual threat to the interests of the bank’s creditors (depositors), and
- (c) introduce a moratorium on the performance of obligations of the bank for up to three months provided that: (i) the bank fails to satisfy monetary claims of its creditors(s) and/or fails to pay mandatory payments within seven days after their due date due to absence or insufficiency of funds in its correspondent account and (ii) the authority of the bank’s management has been suspended. The main consequences of the introduction of such a moratorium would be:
  - fines and other financial sanctions cease to accrue and other remedies for non-performance or improper performance by the bank of its obligations are not applied,
  - any execution under foreclosure or other documents that are subject to execution without counter-acceptance by the debtor is prohibited, and
  - the execution of writs of execution is suspended (subject to certain exemptions such as writs of execution for compensation of harm to health).

A moratorium may affect Alfa-Bank’s performance of its obligations under the Transaction Documents, including its ability to repay the Loan to the SPC.

### **Certain Other Risk Factors**

#### *The SPC’s Financial Reporting to Investors*

The SPC does not intend to provide to any Investor in the Offered Notes any financial information, including any that has been examined and reported upon, with an opinion expressed, by an independent public accountant. Although the SPC will be the issuer of the Offered Notes, it does not prepare (and is not required by any local requirement or requirement of any trading market to prepare) financial statements and thus will not deliver any (including under Rule 144A(d)(4) under the Securities Act) other than to forward financial statements of the Guarantor delivered to it pursuant to the Transaction Documents. However, Alfa-Bank will prepare periodic reports relating to the amount of Collections received during the preceding Monthly Reporting Period or Quarterly Reporting Period, as the case may be, and certain other information will be sent to the Indenture Trustee for delivery to the Noteholders.

### *Alfa-Bank's and the Guarantor's Financial Reporting to Investors*

Alfa-Bank and the Guarantor currently are not required (and may not be required in the future) to prepare quarterly financial statements by applicable Russian or British Virgin Islands regulations or any applicable principal trading markets and thus may not be required to deliver any quarterly financial information. As such, for purposes of any resales by Investors under Rule 144A, the financial statements available for purposes of Rule 144A(d)(4) will be the most currently available semi-annual financial information, which in this case is as of June 30, 2005. In addition, although the Guarantor has an obligation to provide financial information (See “Summary of Terms—Covenants of Alfa-Bank” and “Summary of Terms—Covenants of the Guarantor”), at times this financial information may be up to ten months old because its obligations under the Loan Agreement to deliver financial statements are restricted to semi-annual financial statements to be provided within 120 days of the end of the reporting period. Accordingly, there can be no guaranty that the next financial statements (expected to become available in early April 2006) will not reflect changes that might alter an Investor’s view on making an investment in the Offered Notes.

### *Issuance of Additional Series and Additional Offered Notes by the SPC*

The SPC may issue additional Series in any currency as specified under “Description of the Offered Notes and the Other Transaction Documents—Indenture—Issuance of Additional Series by the SPC.” The terms of any such additional Series will not be subject to the prior review or consent of the Investors in the Offered Notes; *however*, the issuance of any additional Series by the SPC may not change the terms of the Offered Notes and is subject to the satisfaction of certain conditions precedent, including that the Rating Agency of the Offered Notes confirms that such issuance will not result in a withdrawal or reduction of its rating of the Offered Notes to below the level described in “Summary of Terms—Issuance of Additional Series by the SPC.” There can be no assurance, however, that the principal terms of any additional Series issued by the SPC or any variations in exchange rates among the currencies in which Senior Series are denominated might not have an impact upon the timing and amount of payments received on the Offered Notes because holders of any such additional Senior Series and the Offered Notes would share the Note Collateral on a *pari passu* basis.

Subject to the specified conditions, the SPC may issue additional Series 2006-A Notes as set forth under “Description of the Offered Notes and the Other Transaction Documents—Indenture—Issuance of Additional Notes of the Same Series as the Offered Notes.” The sale of such additional Notes will not be subject to the prior review or consent of the Investors in the Offered Notes.

### *Taxation*

For a discussion of certain Russian, U.S., Luxembourg and British Virgin Islands tax considerations with respect to purchasing, holding or disposing of the Offered Notes (or beneficial interests therein), see “Taxation.” See “Certain Legal Aspects Relating to the Diversified Payment Rights under Russian, New York, Luxembourg and British Virgin Islands Law—Insolvency of Alfa-Bank” for more information on Russian bankruptcy law.

## THE SPC

The SPC, a special purpose company issuing the Offered Notes, was incorporated under the laws of Luxembourg on February 17, 2006, and is not owned by Alfa-Bank or the Guarantor. The registered office of the SPC is: 7 Val Ste Croix, L-1371, Luxembourg, with telephone number +(352) 22 11 90. The registration number for the SPC is B 114424. So long as the guidelines of the Irish Stock Exchange so require, the Articles of Association of the SPC will be available for inspection through the Irish Listing and Paying Agent, with whom the Articles of Association will be deposited in both electronic and hardcopy form, for the life of the Prospectus.

### Capitalization

The subscribed share capital of the SPC is €31,000 divided into 310 ordinary voting shares of €100 each, all of which have been issued. All of the issued ordinary voting shares (the “*Shares*”) are fully-paid and are held by Stichting Ferebas, 155 shares, and Stichting Gelanor, 155 shares, who may only dispose or otherwise deal with the Shares with the approval of the Indenture Trustee for so long as there are Notes outstanding. Stichting Ferebas and Stichting Gelanor are Dutch foundations with registered offices at Amsteldijk 166, 1079 LH Amsterdam and are registered with the trade register of the Chamber of Commerce in Amsterdam.

On the Series 2006-A Borrowing Date, the capitalization of the SPC, after giving effect to the issuance of the Offered Notes, will be as follows:

<i>Equity:</i>	Issued and fully paid 310 ordinary shares of €100 each.....	€31,000
<i>Debt:</i>	Series 2006-A Notes.....	\$350,000,000

### Business

The SPC has no subsidiaries and has no employees. The SPC was incorporated for the sole purpose of entering into the transactions contemplated hereby. The only business of the SPC is and will be as set forth in “Summary of Terms—Issuer” above.

The SPC will have no material assets other than the proceeds of the issuance of its Shares, any transaction fees earned, the security interest in the Loan Collateral and rights under the Transaction Documents and Hedging Agreements and, after the Series 2006-A Borrowing Date, is not expected to have any material liabilities other than those directly related to the issuance of the Offered Notes, any additional Series, or the other Transaction Documents and Hedging Agreements.

For so long as the Offered Notes are outstanding, the constitutional documents of the SPC will be available upon request at its specified offices. As the SPC is newly incorporated, it does not have any historical financial data available. However, as a matter of Luxembourg law, the SPC will produce annual accounts going forward. Finally, from the date of its incorporation and as of the date of this Offering Circular, there have been no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the SPC is aware.

### Management

The SPC is managed by its Board of Directors, who are appointed by the shareholders. The current directors (the “*Directors*”) of the SPC are: Alexis Kamarowsky, Federigo Cannizzaro di Belmontino and Jean-Marc Debaty. The business address for the Directors is 7 Val Ste Croix, L-1371, Luxembourg.

The principal activities performed by the Directors outside of their services to the SPC are as follows:

- (a) Alexis Kamarowsky is the managing director of Luxembourg International Consulting S.A. and a director of Structured Finance Management (Luxembourg) S.A.,



(b) Federigo Cannizzaro di Belmontino is the deputy managing director of Luxembourg International Consulting S.A. and a director of Structured Finance Management (Luxembourg) S.A.; and

(c) Jean-Marc Debaty is a certified public accountant and the controller at Luxembourg International Consulting S.A.

Pursuant to a corporate services agreement (the “*Corporate Services Agreement*”), to be dated on or about the Closing Date, between Structural Finance Management (Luxembourg) S.A., as the corporate services provider (“*SFM*”), Luxembourg International Consulting S.A., as the domiciliation agent (“*Interconsult*”) and the SPC, the SPC has appointed SFM as its corporate services provider who in turn has instructed Interconsult to perform various management functions on behalf of the SPC, including providing the registered address of the SPC and certain clerical, administrative and other services for the SPC. In addition, directors, officers and employees of SFM and Interconsult form the SPC’s board of directors. SFM is entitled to certain fees and the reimbursement of expenses as provided in the Corporate Services Agreement. Should the services of SFM and/or Interconsult be terminated, the appointment of either be revoked or should either resign, the terms of the Corporate Services Agreement provide for the appointment of a successor corporate services provider and/or domiciliation agent. Both SFM and Interconsult are incorporated in Luxembourg and their registered office is: 7 Val Ste Croix, L-1371, Luxembourg.

### **Separate Company**

As noted above, the SPC is not owned by Alfa-Bank or the Guarantor; *however*, it was created for the sole purpose of facilitating the transactions contemplated hereby. As such, its activities are constrained by the restrictions contained in the Transaction Documents, which restrictions generally may not be amended without the consent of Alfa-Bank, and contained in the SPC’s Articles of Association. Similarly, many of its activities (such as issuing additional Series, entering into Hedging Agreements and making an optional prepayment of a Series) are done solely upon the request of Alfa-Bank. As a result, under IFRS, the SPC should be consolidated with the Alfa-Bank Group for accounting purposes. Notwithstanding such consolidation for accounting purposes, the assets of the SPC will not be part of Alfa-Bank’s bankruptcy estate under Russian law.

## RUSSIAN EXPORTS

A large portion of the Diversified Payment Rights historically has related to Russian exports, and Alfa-Bank's management expects that this trend will continue. Natural resources dominate Russia's top revenue-generating export categories, with oil, natural gas and related products being Russia's main export. The end of 2005 marked Russia's seventh straight year of GDP growth. Russia has averaged annual GDP growth of 6.4% since the financial crisis of 1998 through 2005 (though economic growth slowed in 2005 to 5.9% from 7.2% in 2004). Although high oil prices and a relatively inexpensive Ruble have been important factors in this economic rebound, since 2000 an increasing role has been also played by investors and consumers. Real fixed capital investments have averaged gains of more than 10.0% from 2000 through 2005, while real personal incomes have increased over 12.0% on average during such period. Russia also has improved its international financial position since the 1998 financial crisis. The CIA Factbook reports that Russia's foreign debt fell dramatically from 90% of GDP at the end of 1998 to around 36.0% at the end of 2005. During the same period, strong oil export earnings have allowed Russia to increase its foreign reserves from only US\$12 billion to approximately US\$182 billion according to the Central Bank.

Increasing business and investor confidence in Russia's economic prospects seems a result of these economic achievements and of a renewed government effort to advance structural reforms. Some serious problems persist, however. In particular, as oil, natural gas, metals and timber account for over 80% of Russian exports, the CIA Factbook surmises that the country remains vulnerable to swings in world prices. Unfortunately, Russia's manufacturing base is largely dilapidated and will eventually have to be replaced or modernized if the country is to achieve well-balanced, broad-based economic growth and it is uncertain if the significant profits currently being earned as a result of high commodity prices will be used for such modernization.

The following table presents the diversity of Russia's exports:

### COMPOSITION OF EXPORTS, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
	<i>(US\$ millions)</i>						
<b>Total exports (f.o.b.) (including Belarus).....</b>	<b>71,313</b>	<b>72,885</b>	<b>103,093</b>	<b>99,970</b>	<b>106,712</b>	<b>133,656</b>	<b>181,634</b>
Total exports (f.o.b.) <sup>1/</sup> (excluding Belarus).....	66,643	69,119	97,525	94,532	100,789	126,054	170,491
Food, beverage, and agricultural products.....	1,187	764	1,299	1,460	2,177	2,690	2,479
Stone and ore.....	821	579	712	550	583	725	1,089
Fuel products .....	27,649	30,601	52,142	51,746	56,006	72,864	99,302
Oil and oil products .....	13,619	18,828	34,361	32,775	38,585	50,748	74,197
Crude .....	9,456	13,469	23,644	23,625	27,445	36,833	55,088
Oil products .....	4,162	5,359	10,717	9,151	11,140	13,916	19,109
Gas .....	12,696	10,850	16,118	17,243	15,359	19,312	20,916
Coal .....	622	432	1,136	1,204	1,151	1,722	2,755
Other .....	712	492	528	524	912	1,082	1,434
Chemicals (including pharmaceuticals and rubber) ..	5,588	5,677	6,801	6,899	6,781	8,393	10,873
Leather .....	372	187	237	175	187	233	251
Wood and paper products .....	3,406	3,594	4,276	4,237	4,692	5,356	6,737
Textiles and clothing .....	726	694	655	600	654	671	697
Gems and precious metals .....	4,308	4,343	4,881	4,097	4,757	5,196	6,394
Metals .....	14,708	14,147	16,682	13,929	14,347	17,441	28,598
Machines, equipment and instruments .....	7,317	7,257	8,394	9,671	9,179	10,777	12,267
Other, including ceramics and glass .....	562	1,275	1,442	1,260	1,427	1,709	1,804
<b>Total exports (f.o.b.)<sup>1/</sup> (excluding Belarus)</b>							
	<i>(As a percent of total exports)</i>						
Food, beverage, and agricultural products.....	1.8	1.1	1.3	1.5	2.2	2.1	1.5
Stone and ore .....	1.2	0.8	0.7	0.6	0.6	0.6	0.6
Fuel products .....	41.5	44.3	53.4	54.7	55.6	57.8	58.2
Oil and oil products .....	20.4	27.2	35.3	34.6	38.3	40.3	43.5
Crude .....	14.2	19.5	24.3	25.0	27.2	29.2	32.3
Oil products .....	6.2	7.8	11.0	9.7	11.1	11.0	11.2
Gas .....	19.1	15.7	16.5	18.2	15.2	15.3	12.3
Coal .....	0.9	0.6	1.2	1.3	1.1	1.4	1.6
Other .....	1.1	0.7	0.5	0.6	0.9	0.9	0.8
Chemicals (including pharmaceuticals and rubber) .....	8.4	8.2	7.0	7.3	6.7	6.7	6.4
Leather .....	0.6	0.3	0.2	0.2	0.2	0.2	0.1
Wood and paper products .....	5.1	5.2	4.4	4.5	4.7	4.2	4.0
Textiles and clothing .....	1.1	1.0	0.7	0.6	0.6	0.5	0.4
Gems and precious metals .....	6.5	6.3	5.0	4.3	4.7	4.1	3.8
Metals .....	22.1	20.5	17.1	14.7	14.2	13.8	16.8
Machines, equipment and instruments .....	11.0	10.5	8.6	10.2	9.1	8.5	7.2
Other, including ceramics and glass .....	0.8	1.8	1.5	1.3	1.4	1.4	1.1

<sup>1/</sup> Excludes shuttle trade and certain other adjustments.

Source: IMF Country Report No. 05/378, Russian Federation: Statistical Appendix (October 2005).

Russia's export markets are highly diversified. The largest export markets for Russian products are The Netherlands and Germany. The following table presents Russia's exports to all its trading partners, both within and outside the Commonwealth of Independent States:

## The Russian Federation's Exports by Primary Countries of Destination

	1998	1999	2000	2001	2002	2003	2004
	<i>(in actual prices: US\$ millions)</i>						
<b>Total exports</b> .....	<b>71,313</b>	<b>72,885</b>	<b>103,093</b>	<b>99,970</b>	<b>106,712</b>	<b>133,656</b>	<b>181,634</b>
<b>CIS</b> .....	13,699	10,707	13,824	14,617	15,711	20,667	29,475
Belarus .....	4,670	3,767	5,572	5,348	5,922	7,602	11,143
Kazakhstan .....	1,893	1,222	2,246	2,778	2,403	3,281	4,658
Ukraine .....	5,560	4,792	5,024	5,282	5,885	7,598	10,769
Other .....	1,576	926	982	1,209	1,501	2,187	2,905
<b>Non-CIS</b> .....	57,614	62,178	89,269	85,353	91,001	112,998	152,159
<b>Europe</b> .....	37,810	40,490	59,660	56,092	59,662	72,524	98,502
Czech Republic .....	1,396	1,323	1,745	1,669	1,511	1,941	2,280
Finland .....	2,071	2,414	3,105	3,113	2,935	4,319	5,825
France .....	1,456	1,211	1,903	2,250	2,659	3,491	4,425
Germany .....	5,719	6,205	9,231	9,194	8,060	10,420	13,300
Hungary .....	1,487	1,547	2,405	2,379	2,167	2,821	3,241
Ireland .....	643	658	288	117	260	943	678
Italy .....	3,219	3,755	7,254	7,401	7,441	8,514	12,086
Netherlands .....	3,959	3,673	4,349	4,695	7,529	8,674	15,272
Poland .....	2,180	2,606	4,452	4,200	3,720	4,619	5,699
Slovak Republic .....	1,372	1,426	2,121	2,205	2,032	2,297	2,423
Switzerland .....	3,118	3,351	3,857	2,309	5,360	5,814	7,744
UK .....	2,960	2,886	4,670	4,217	3,803	4,919	5,641
Other .....	8,230	9,435	14,280	12,342	12,185	13,770	19,886
<b>Asia</b> .....	9,556	10,972	16,948	17,035	19,078	27,093	36,078
China .....	3,169	3,527	5,248	5,596	6,837	8,258	10,107
Japan .....	2,176	2,125	2,766	2,427	1,803	2,421	3,420
Other .....	4,211	5,320	8,934	9,012	10,438	16,414	22,551
<b>Western Hemisphere</b> .....	7,350	7,705	9,158	8,207	7,454	8,043	10,264
US .....	5,100	4,709	4,644	4,198	3,989	4,216	6,590
Other .....	2,250	2,996	4,514	4,009	3,466	3,826	3,674
<b>Middle East and Africa</b> .....	2,789	2,770	3,459	3,966	4,717	5,216	7,145
<b>Other</b> .....	110	242	44	53	90	94	170

*(As a percent of total exports)*

<b>Exports to:</b>							
<b>CIS</b> .....	19.2	14.7	13.4	14.7	14.6	15.5	16.2
Belarus .....	6.5	5.2	5.4	5.3	5.5	5.7	6.1
Kazakhstan .....	2.7	1.7	2.2	2.8	2.3	2.5	2.6
Ukraine .....	7.8	6.6	4.9	5.3	5.5	5.7	5.9
Other .....	2.2	1.3	1.0	1.2	1.4	1.6	2.6
<b>Non-CIS</b> .....	80.8	85.3	86.6	85.4	85.3	84.5	83.8
<b>Europe</b> .....	53.0	55.6	57.9	56.1	55.9	54.3	54.2
Czech Republic .....	2.0	1.8	1.7	1.7	1.4	1.5	1.3
Finland .....	2.9	3.3	3.0	3.1	2.8	3.2	3.2
France .....	2.0	1.7	1.8	2.3	2.5	2.6	2.4
Germany .....	8.0	8.5	9.0	9.2	7.6	7.8	7.3
Hungary .....	2.1	2.1	2.3	2.3	2.0	2.1	1.8
Ireland .....	0.9	0.9	0.3	0.1	0.2	0.7	0.4
Italy .....	4.5	5.2	7.0	7.4	7.0	6.4	6.7
Netherlands .....	5.5	5.0	4.2	4.7	7.1	6.5	8.4
Poland .....	3.1	3.6	4.3	4.2	3.5	3.5	3.1
Slovak Republic .....	1.9	2.0	2.1	2.2	1.9	1.7	1.3
Switzerland .....	4.4	4.6	3.7	2.3	5.0	4.3	4.3
UK .....	4.2	4.0	4.5	4.2	3.6	3.7	3.1
Other .....	11.5	12.9	13.9	12.3	11.4	10.3	10.9
<b>Asia</b> .....	13.4	15.0	16.4	17.0	17.9	20.3	19.9
China .....	4.4	4.8	5.1	5.6	6.4	6.2	5.6
Japan .....	3.1	2.9	2.7	2.4	1.7	1.8	1.9
Other .....	5.9	7.3	8.6	9.0	9.8	12.3	12.4
<b>Western Hemisphere</b> .....	10.3	10.6	8.9	8.2	7.0	6.0	5.7
US .....	7.2	6.5	4.5	4.2	3.7	3.2	3.6
Other .....	3.1	4.1	4.4	4.0	3.2	2.9	2.0
<b>Middle East and Africa</b> .....	3.9	3.8	3.3	4.0	4.4	3.9	3.9
<b>Other</b> .....	0.4	0.3	0.1	0.1	0.1	0.1	0.1

Source: IMF Country Report No. 05/378, Russian Federation: Statistical Appendix (October 2005).

According to the Central Bank, between January and September 2005, The Netherlands accounted for 10.5% of the total volume of Russian exports, Germany accounted for 8.4%, Italy represented 7.7%, China accounted for 5.2%, Switzerland represented 4.3%, the United States accounted for 2.7%, Finland represented 3.3%, Great Britain represented 3.4% and Japan accounted for 1.5%.

Furthermore, according to the Central Bank, between January and September 2005, the CIS countries that accounted for the largest share of the total volume of Russian exports were Belarus, Ukraine and Kazakhstan, at 4.0%, 5.4% and 2.7%, respectively.

## ALFA-BANK'S DIVERSIFIED PAYMENT RIGHTS BUSINESS

### The Diversified Payment Rights

#### *General*

The Diversified Payment Rights pledged by Alfa-Bank to the SPC relate to Dollar- and Euro-denominated Payment Orders received by Alfa-Bank. Alfa-Bank generates Diversified Payment Rights by acting as a recipient of payments executed pursuant to Payment Orders, which arise through a variety of transactions, including from foreign direct investment, individual remittances, Russian Flows and merchants inside Russia (“*Exporters*”) exporting goods or services to their customers outside of Russia (each an “*Importer*”). Payment Orders are sent (or delivered) by a Payor to any office of Alfa-Bank (including to any of its branches or other offices in Russia or elsewhere).

Russian banks are the recipients of payment flows from a variety of sources, both international and domestic. A large portion of these payments are initiated by the foreign payor via a bank in its jurisdiction, which bank either: (a) if it has a correspondent bank in Russia, may cause an equivalent payment to be made to the Russian beneficiary through such correspondent bank, or (b) otherwise, remits an equivalent payment to another bank (generally in the same foreign jurisdiction) that does have a correspondent bank in Russia, which bank then causes an equivalent payment to be made to the Russian beneficiary through such correspondent bank.

Payments made under the Diversified Payment Rights typically are governed by: (a) the conventions applicable to members of the SWIFT system, which conventions are not binding governmental regulations but each member of SWIFT has agreed to be bound by such conventions, and (b) the laws of the jurisdiction(s) of one or both parties to a payment order transaction. For example, Article 4A of the New York Uniform Commercial Code provides that the governing law of a payment order from a New York bank to a foreign bank would (absent the parties’ agreement otherwise) be governed by the law of the recipient’s jurisdiction (*e.g.*, under U.S. law, Russian law would govern Payment Orders received by Alfa-Bank from a New York bank).

Because the activity of processing Payment Orders is a basic banking business in Russia, all major Russian banks, including all subsidiaries of foreign banks in Russia, offer this service. For Alfa-Bank, it is not only an integral banking product and service, but also a business that offers significant benefits such as the ability to: (a) further strengthen correspondent banking relationships and obtain favorable terms on other banking products and businesses from its correspondent banks, (b) attract new clients in those cases where Payment Orders are the initial contact the client has with Alfa-Bank, (c) earn fee income with minimal corresponding risk, (d) provide high-quality clearing services to its clientele in Russia and (e) generate foreign currency.

Furthermore, by virtue of Russian currency control regulations, the vast majority of export and other foreign trade flows (as well as other types of foreign currency flows received by Russian resident entities and individuals) is required to be repatriated into Russia and to be credited to the bank accounts of such residents opened with Russian authorized banks, such as Alfa-Bank, thus encouraging a significant flow of Diversified Payment Rights. With respect to export-related receipts, currency control regulations require that Russian exporters convert 10% of such payments into Russian Rubles (subject to a limited number of exceptions envisaged in the Currency Control Law and a recent announcement by the Central Bank of an upcoming decrease of the conversion level to 0%, which allows the Central Bank to increase the conversion level in the future).

Certain payment rights relating to Payment Orders received by Alfa-Bank with respect to which payment to Alfa-Bank is to be made within Russia (including a Payment Order from a Customer Payor who instructs that the related payment to Alfa-Bank be made through a debit to such Customer Payor’s account maintained in Russia with Alfa-Bank) are not included within Diversified Payment Rights. Furthermore, “Diversified Payment Rights” will not include any right, title or interest of Alfa-Bank in, to or under any payments to be received in connection with Western Union Payments, Credit Card Payments or Check Payments whether or not they would otherwise be considered a Diversified Payment Right.

While all Diversified Payment Rights will be pledged to the SPC on the Closing Date, certain adjustments (as described below) have been made to the flows for purposes of calculating certain Debt Service Coverage Tests for the Series 2006-A Loan with respect to Payment Orders the beneficiary of which is an affiliate of Alfa-Bank.

### *Russian Flows*

Due to the significant use of Dollars and Euro in day-to-day commercial and consumer transactions, the Payment Order business in Russia has seen a significant increase in Payment Orders sent or delivered by Russian financial institutions in favor of other Russian financial institutions, but settled outside Russia (*i.e.*, Russian Flows). In the case of Alfa-Bank, its management estimates that the proportion of Russian Flows to Collections stood at approximately US\$3,253 million, or 23.06% of Collections in 2005. It should be noted that no Debt Service Coverage Tests for the Series 2006-A Loan discount the Russian Flows for the purposes of determining compliance with such tests and, as noted in “Risk Factors—Risk Factors Relating to the Diversified Payment Rights—Russian Flows” above, the Russian Flows may be subject to greater interference by the Russian government.

Although there is no available information for Russian Flows for 2001 and 2002, Alfa-Bank believes that between 2001 and 2004, there was some variability in Russian Flows, with a peak in 2004 reaching US\$4,046 million or 33.3% of Collections. The relatively higher proportion of Russian Flows in 2004 can primarily be attributed to the “mini-banking crisis” in Russia. In the summer of 2004, a number of Russian private banks (including Alfa-Bank) experienced a liquidity deficit, which is referred to as the “mini-banking crisis.” State-owned banks did not face such a problem. As a result of the “mini-banking crisis,” Alfa-Bank was forced to temporarily increase its interest deposit and lending rates. The results were somewhat greater repayments of loans by Alfa-Bank’s customers (which were often paid out of customer accounts with Russian state-owned banks). Also in 2004, corporate customer accounts that had decreased in value somewhat during the “mini-banking crisis” began to recover due to transfers from other Russian banks that kept their deposit rates relatively low throughout the “mini-banking crisis,” which attributed to an increase in Russian Flows. For more details on the variation in Russian Flows, see the tables below entitled “Breakdown of Diversified Payment Rights by Type of Flows” and “Country of Payor Bank by Value of Collections.”

The following table shows Alfa-Bank’s annual Diversified Payment Right flows, as per the definitions above, since 2001.

**Breakdown of Diversified Payment Rights by Type of Flows**  
(in U.S. Dollar Equivalents)<sup>(1)(2)(3)</sup>

	2001	2002	2003	2004	2005
Russian Flows.....	N/A	N/A	3,146,757,444	4,046,147,168	3,252,793,837
Non-Russian Originated Flows.....	N/A	N/A	9,295,063,187	8,088,262,626	10,850,009,595
<b>Total Collections .....</b>	<b>6,745,131,847</b>	<b>8,006,555,935</b>	<b>12,441,820,631</b>	<b>12,134,409,794</b>	<b>14,102,803,431</b>
<b>Total DDB Collections.....</b>	<b>N/A</b>	<b>N/A</b>	<b>11,476,885,963</b>	<b>10,971,973,509</b>	<b>12,686,286,581</b>

<sup>(1)</sup> This table was primarily calculated on the basis of “field 52” in the SWIFT messages received by Alfa-Bank, which field contains the SWIFT code of the bank that initiated the payment. However, not all SWIFT messages received by Alfa-Bank contain this information (*e.g.*, field 52 may be empty or may contain the name of the bank that initiated the payment, the name of its country, etc. rather than its SWIFT code). As such, for any SWIFT messages for which SWIFT code was not available in “field 52,” Alfa-Bank used the country of the Payor Bank. While Alfa-Bank believes that there should be a very high degree of similarity, there can be no certainty that such two calculations methodologies would not result in different results.

<sup>(2)</sup> Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (*e.g.*, the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank’s management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.

<sup>(3)</sup> Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

The following table illustrates the calculation of Collections and Tested Collections.

<b>Collections</b>	Payments or other proceeds received by (or on behalf of) Alfa-Bank (whether through deposit into a Collection Account or otherwise) in respect of the Diversified Payment Rights
<b>DDB Collections</b>	Collections received in Collection Accounts <i>Minus:</i> Collections received other than in the Collection Accounts at Third-Party Depository Banks <i>Equals:</i> DDB Collections
<b>Affiliate Transaction Collections</b>	Collections relating to Payment Orders that instruct Alfa-Bank to make a payment to a Payee that is an affiliate of Alfa-Bank
<b>Tested Collections</b>	DDB Collections <i>Minus:</i> Affiliate Transaction Collections <i>Equals:</i> Tested Collections

In this section and unless otherwise indicated, all references to “flows” will refer to Collections and all references to Collections for periods before the Closing Date will assume that the transaction was in effect during such periods.

To illustrate the strength of Alfa-Bank’s Payment Order business, the tables below show average monthly, average quarterly and total annual amounts of Collections and number of Payment Orders resulting in Diversified Payment Rights handled by Alfa-Bank for the indicated periods, during which time such Payment Orders have grown in both value and numbers.

**Value of Payment Orders Resulting in Diversified Payment Rights  
(in U.S. Dollar Equivalents)<sup>(1)(2)</sup>**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Average Monthly .....	562,094,321	667,212,995	1,036,818,386	1,011,200,816	1,175,233,619
Average Quarterly .....	1,686,282,962	2,001,638,984	3,110,455,158	3,033,602,449	3,525,700,858
<b>Total Annual Collections .....</b>	<b><u>6,745,131,847</u></b>	<b><u>8,006,555,935</u></b>	<b><u>12,441,820,631</u></b>	<b><u>12,134,409,794</u></b>	<b><u>14,102,803,431</u></b>

<sup>(1)</sup> Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (e.g., the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank’s management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.

<sup>(2)</sup> Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

**Number of Payment Orders Resulting in Diversified Payment Rights<sup>(1)</sup>**

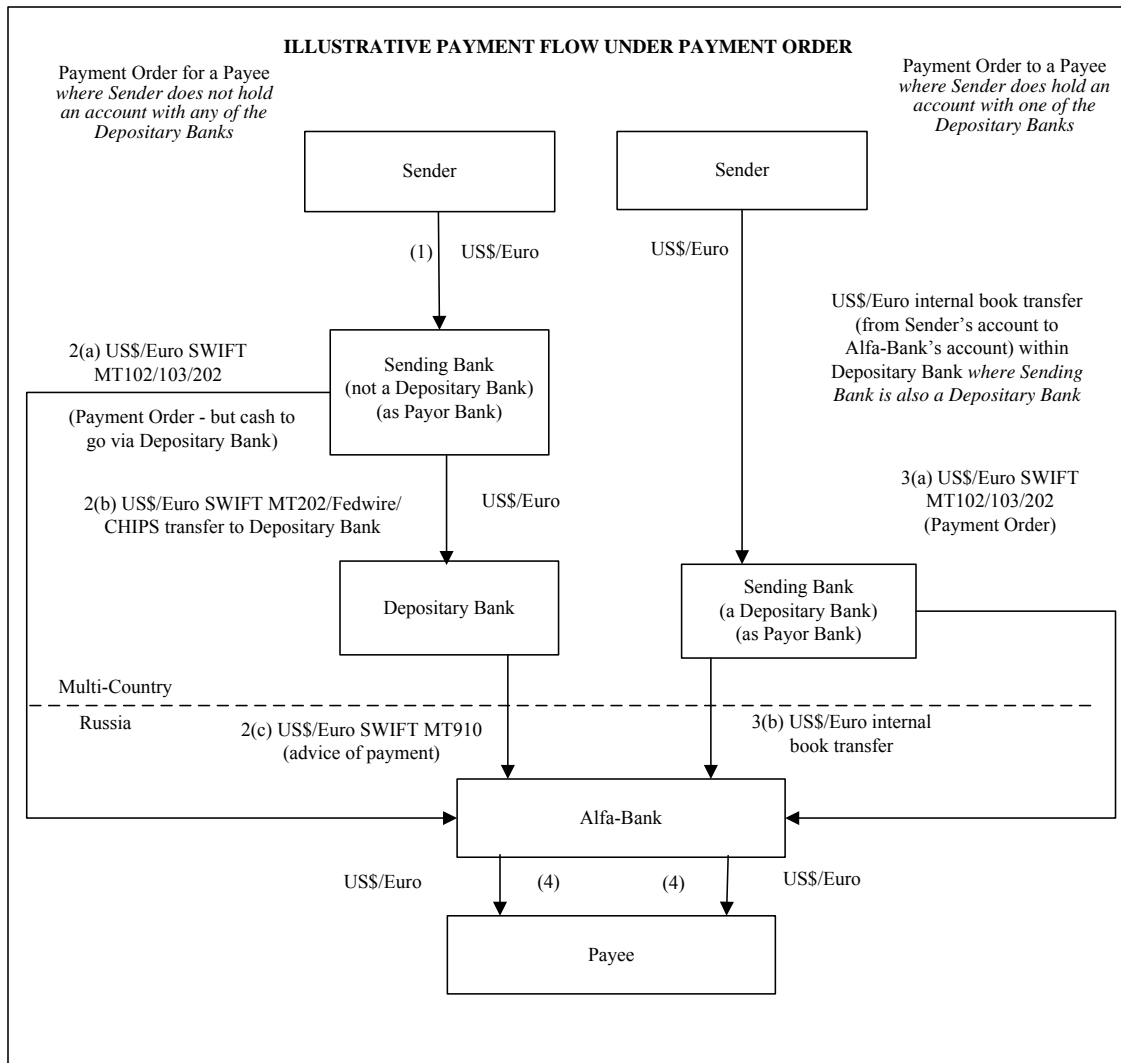
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Average Monthly .....	4,455	6,608	7,533	6,978	6,865
Average Quarterly .....	13,365	19,825	22,599	20,934	20,594
<b>Total Number of Payment Orders .....</b>	<b><u>53,460</u></b>	<b><u>79,299</u></b>	<b><u>90,397</u></b>	<b><u>83,735</u></b>	<b><u>82,375</u></b>

<sup>(1)</sup> Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (e.g., the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank’s management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.



*Flow of Payments*

On a simplified basis, a common type of Payment Order for Alfa-Bank from which Diversified Payment Rights arise is described in the following diagram:



Where:

- A “sender” is the individual, government or company that initiates the payment order.
- A “payee” is the identified payee in the relevant Payment Order (*i.e.*, the individual, government or company (generally in Russia) to whom the payment is ultimately to be made).
- A “sending bank” is the financial institution (generally a Payor Bank) that initially receives instructions from the Sender to initiate the payment order process.

1. The sender decides to make an electronic transfer of funds to a payee in Russia, and to make this payment through Alfa-Bank. The sender presents a payment request to its bank. The sending bank will debit the

sender's account (or otherwise receive payment from the sender) for the amount of such payment (along with any related fees).

2. If the sending bank *is not* a Depositary Bank then:

2(a): it will send a Payment Order directly to Alfa-Bank in Russia (or any of its branches or offices in Russia) (generally by means of a SWIFT MT102/103/202 message) or request the relevant Depositary Bank itself to send a Payment Order to Alfa-Bank (generally by means of a SWIFT MT102/103/202 message),

2(b): it will also transfer an equivalent amount of funds (other than fees retained by the sending bank) to the account of the relevant Depositary Bank (generally by means of a Fedwire or CHIPS (in the United States) or SWIFT MT202 message), and

2(c): the relevant Depositary Bank will advise Alfa-Bank of payment received from the sending bank (generally by means of a SWIFT MT910 message).

3. If the sending bank *is* a Depositary Bank then:

3(a): it will send its own Payment Order to Alfa-Bank (generally by means of a SWIFT MT102/103/202 message), and

3(b): it will then credit the amount debited from the sender's account (at the Depositary Bank) to Alfa-Bank's account at the Depositary Bank (such credit can be made by internal book transfer).

4. Each SWIFT MT102/103/202 message will instruct Alfa-Bank to make a payment in a corresponding amount to the payee. Each SWIFT MT102/103/202 message also informs Alfa-Bank at which Depositary Bank the funds will be or have been deposited.

It is important to emphasize that the above is simply one form of Alfa-Bank's Payment Orders; *however*, Payment Orders can (among other things) also: (a) be generated by Customer Payors, (b) be transferred to a beneficiary outside Russia, (c) be Russian Flows or (d) be originated by means other than SWIFT messages (such as telex or the internet).

#### *Depositary Banks*

The Collections on Diversified Payment Rights are remitted through one of Alfa-Bank's Depositary Banks (including its non-Russian offices). Alfa-Bank receives Collections on Diversified Payment Rights at 21 Depositary Banks. The banks that are expected to be the initial Designated Depositary Banks (which banks have been chosen by Alfa-Bank due to their existing relationship with Alfa-Bank, their credit quality, their experience with Payment Orders and other criteria) are:

##### United States

JPMorgan Chase Bank, N.A.

Deutsche Bank Trust Company Americas

HSBC Bank USA, N.A.

The Bank of New York

Pursuant to the Account Agreements, the Designated Depositary Banks are obligated to deposit all funds received (or paid) by them in respect of any Diversified Payment Rights into a Collection Account maintained with such bank. Such funds in the Collection Accounts are then transferred to the Dollar Concentration Account (in the case of Dollar amounts) or the Euro Concentration Account (in the case of Euro amounts) until the Required Amount for the next Payment Date (or Early Amortization Payment Date, if applicable) is on deposit (in the aggregate) in the Concentration Accounts, the Deposit Account and the Loan Payment Accounts (or already sent to the SPC pursuant to clause (xiv) of "Summary of Terms—Allocation of Amounts in the Concentration Accounts")

above) and instruct each Designated Depository Bank pursuant to its Account Agreement to commence transferring any additional funds in its Collection Account until the 14th day of the next March, June, September or December (as applicable) (or if such day is not a business day for the applicable Designated Depository Bank, its next business day) (or to the extent provided otherwise in the applicable Account Agreement) to Alfa-Bank's own account at such Designated Depository Bank.

An "Account Agreement" means an agreement among Alfa-Bank, the SPC, the Indenture Trustee and a Designated Depository Bank pursuant to which: (a) Alfa-Bank's existing deposit account at such Designated Depository Bank is identified as a Collection Account, (b) such Designated Depository Bank agrees to establish a new deposit (*nostro*) account in the name of and for the benefit of Alfa-Bank, to be identified by a new account number, for the receipt of flows not part of this transaction, (c) except as otherwise provided herein, such Designated Depository Bank agrees to make daily deposits from its Collection Account to the applicable Concentration Account, and (d) such Designated Depository Bank agrees that the Indenture Trustee's instructions will control with respect to the related Collection Account. As Alfa-Bank is not yet able, as a matter of its operations protocol, to provide distinct SWIFT identification codes for the Collection Account (referenced in (a) above) and the new *nostro* account (referenced in (b) above), each of the Designated Depository Banks will agree in the Account Agreements to identify the incoming flows by the destination account number. To the extent that a flow cannot be identified by the destination account number, each Designated Depository Bank will agree to use its best efforts to credit such unidentified flow to the Collection Account.

Payments on the Diversified Payment Rights are made to Alfa-Bank through various banking organizations throughout the world. The following tables present Alfa-Bank's Diversified Payment Rights business by Designated Depository Bank for 2005:

**Diversified Payment Rights by Depository Bank  
(January 1 to December 31, 2005)  
(in U.S. Dollar Equivalents)**

	Country	Bank Ratings <sup>(1)</sup>		Country Ratings <sup>(1)</sup>		DPRs (US\$) <sup>(2)</sup>	%
		S&P	Moody's	S&P	Moody's		
JPMorgan Chase Bank, New York.....	U.S.	AA-	Aa3	AAA	Aaa	9,750,625,436	69.14%
Deutsche Bank Trust Co. Americas, New York.....	U.S.	A+	A1	AAA	Aaa	1,718,057,446	12.18%
HSBC Bank USA, New York.....	U.S.	AA-	Aa2	AAA	Aaa	643,582,162	4.56%
Bank of New York, New York.....	U.S.	AA-	Aa3	AAA	Aaa	574,021,537	4.07%
Amsterdam Trade Bank N.V. ....	The Netherlands	NR <sup>(3)</sup>	NR	AAA	Aaa	563,531,173	4.00%
Commerzbank, Frankfurt AM Main.....	Germany	A-	A2	AAA	Aaa	399,425,041	2.83%
Raiffeisen Zentralbank Oesterreich, Vienna .....	Austria	NR	A1	AAA	Aaa	237,819,470	1.69%
Wachovia Bank NY International Branch, New York.....	U.S.	NR	NR	AAA	Aaa	160,905,858	1.14%
Ost-West Handelsbank, Frankfurt am Main .....	Germany	NR	NR	AAA	Aaa	22,399,397	0.16%
Eurobank, Paris.....	France	NR	NR	AAA	Aaa	7,962,935	0.06%
<b>Top 10 Depository Banks</b> .....						<b>14,078,330,455</b>	<b>99.83%</b>
Others.....						24,472,976	0.17%
<b>Collections</b> .....						<b>14,102,803,431</b>	<b>100.00%</b>

- (1) Ratings represent the ratings on each bank's unsecured senior debt or equivalent and each country's unsupported sovereign foreign currency debt obligations from S&P as of February 1, 2006 and Moody's as of February 1, 2006.
- (2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.
- (3) NR means "Not Rated."

The Designated Depository Banks and their related volumes of Diversified Payment Rights for recent periods are as follows:

**Designated Depository Banks' Historical Diversified Payment Right Collections**  
(in U.S. Dollar Equivalents)<sup>(1)(2)</sup>

<b>Designated Depository Bank</b>	<b>2001</b>	<b>%</b>	<b>2002</b>	<b>%</b>	<b>2003</b>	<b>%</b>	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
JPMorgan Chase Bank, New York .....	N/A	N/A	N/A	N/A	8,211,692,999	66.00%	8,786,333,231	72.41%	9,750,625,436	69.14%
Deutsche Bank Trust Co. Americas, New York .....	N/A	N/A	N/A	N/A	2,002,930,308	16.10%	1,394,668,145	11.49%	1,718,057,446	12.18%
HSBC Bank USA, New York .....	N/A	N/A	N/A	N/A	1,211,305,538	9.74%	777,013,423	6.40%	643,582,162	4.56%
Bank of New York, New York .....	N/A	N/A	N/A	N/A	50,957,118	0.41%	13,958,708	0.12%	574,021,537	4.07%
<b>Total – Designated Depository Banks .....</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>11,476,885,963</b>	<b>92.24%</b>	<b>10,971,973,509</b>	<b>90.42%</b>	<b>12,686,286,581</b>	<b>89.96%</b>
Others .....	N/A	N/A	N/A	N/A	964,934,668	7.76%	1,162,436,285	9.58%	1,416,516,850	10.04%
<b>Total Annual Collections .....</b>	<b>6,745,131,847</b>	<b>100.00%</b>	<b>8,006,555,935</b>	<b>100.00%</b>	<b>12,441,820,631</b>	<b>100.00%</b>	<b>12,134,409,794</b>	<b>100.00%</b>	<b>14,102,803,431</b>	<b>100.00%</b>

(1) Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (e.g., the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank's management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.

(2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

## **MT102/102+/103/103+, SWIFT and Correspondent Banks**

### *The SWIFT System*

Alfa-Bank maintained correspondent banking relationships with approximately 1,068 banks around the world through the SWIFT system as of March 1, 2006. Alfa-Bank selects correspondent banks based upon the business volume between Russia and the country in which the bank is located, the foreign bank's location, market participation and the actual or potential lines of credit available to Russia by such bank. There is no signed contract necessary to establish a correspondent banking relationship, which may be established merely by a communication between two banks via SWIFT in which the correspondent relationship is requested by the sender or initiator of such communication and the SWIFT "authentication keys" (which permit the two banks to send information to each other through the SWIFT network in a secure manner) of each bank are exchanged. Changes in Alfa-Bank's correspondent bank group are generally additions to support the strategic decisions of Alfa-Bank's local and international business. It is uncommon to formally end a correspondent bank relationship, although this can occur (among other reasons) if a bank files for bankruptcy or reorganization or is involved in a merger or acquisition.

Within the international banking system, banks generally use the SWIFT electronic (inter-bank) transfer messaging system, which is an international, standardized, high-speed telecommunications network, to send and receive messages related to financial transactions. SWIFT was established in 1973 by 239 banks from 15 countries and Alfa-Bank became a SWIFT member in 1994 and was among one of the first Russian banks to become a SWIFT member. SWIFT's yearly traffic reached 2.5 billion FIN messages in 2005, and average daily traffic regularly exceeds 10 million messages. FIN is SWIFT's core store-and-forward messaging service permitting around 7,600 financial institutions in approximately 200 countries to exchange financial data securely, cost effectively and reliably.

In general, SWIFT is the preferred message communication method among international correspondent banks due to the speed, reliability, low cost and security it provides. Using SWIFT, a message can be transmitted and delivered to the receiver within 30 seconds from the time of dispatch and the paperless communication enables the receiving bank to process the information immediately and, as the SWIFT message formats are standardized and the information can be easily read by computers, automatically. Alfa-Bank's computer system receives data directly from the SWIFT system. The standardized message structure minimizes security problems resulting from faulty transmission lines, misinterpretation and/or forgery. With respect to security, only member banks have access to the SWIFT network through the use of secure log-on keys. More importantly, the cost to a bank of processing a SWIFT message is generally much lower than the cost of a telex or other available means of sending a payment order. The average cost to a bank for sending a SWIFT message is €0.30.

### *Communications between SWIFT Member Banks*

Access to the SWIFT network is limited to SWIFT member banks. The codes of all banks (each bank has a unique code, or address, to which messages to it are sent) participating in the SWIFT system can be found in a directory (the SWIFT Bank Identifier Code ("BIC") Directory or International Bank Identifier Code Directory) issued periodically by SWIFT.

Any bank that is a member of SWIFT can send information-only messages to any other SWIFT member bank, whether or not the two banks are correspondent banks (*i.e.*, whether or not they have exchanged "authentication keys" as described above). Messages sent between two banks that have not yet exchanged SWIFT authentication keys are known as "unauthenticated messages," are merely informational and do not cause any financial transaction to occur.

The primary aspect of a correspondent banking relationship is the ability to exchange specific types of messages known as "authenticated messages" that lead to the performance of financial transactions. Authenticated messages can be sent between two banks only after the banks have previously exchanged their SWIFT authentication keys. Examples of authenticated messages are MT102, MT102+, MT103, MT103+ and MT202, each of which is a payment order that contains information requesting that a payment be made (or be caused to be made) by the recipient to the identified beneficiary. If a bank tries to send an authenticated message to another bank with

which it has not exchanged authentication keys, then the SWIFT system will automatically indicate to the sender that such message cannot be transferred.

#### *SWIFT Message Types*

MT102, MT102+, MT103 and MT103+ messages (collectively referred to as an “*MT102/103*”) are the standard message types for payment orders relating to payments from senders to beneficiaries who are individuals and companies (other than financial institutions) through various banks. An MT202 message is used where the beneficiary is a financial institution. Each is used to extend an offer for a contract between the two banks whereby the receiving institution would (as a service to the sending bank) agree to pay (or cause to be paid) the beneficiary. The current MT102/103 message types are:

<b>Message</b>	<b>Nature and Status</b>
<b>MT102</b>	The MT102 is principally a set of bulked customer transfers that meet certain criteria ( <i>e.g.</i> , common correspondent banks, common currency or common value date).
<b>MT102+</b>	This message type is based upon the MT102 core, with standard requirements designed to improve straight-through processing, to reduce processing cost and to enable reduced fees for cross-border transactions.
<b>MT103</b>	The MT103 is a customer transfer wherein either the sending party or the beneficiary (or both) is not a financial institution. The MT103 is a more structured version of the now discontinued MT100 messages. It allows for indication of both the original ordered amount and the inter-bank settled amount, full transparency of charges, the ordering customer’s account as well as extra space for extended payment information. In addition, the sender can indicate the agreed service level.
<b>MT103+</b>	This message type is based upon the MT103 core, with standard requirements designed to improve straight-through processing, to reduce processing cost and to enable reduced fees for cross-border transactions.

#### *Pricing and Profitability*

Alfa-Bank treats its Payment Order business as a cost center by consolidating expenses related to the processing of a transaction and then billing the cost of each transaction to its individual branches. This allows the branches a degree of flexibility when pricing their transactions for strategic relationship clients (for example, a branch may waive transaction fees for processing a Payment Order, but charge a higher rate for another type of transaction). This process covers the cost of the Payment Order transaction and encourages branches to maximize transaction charges.

In determining the appropriate commission rate, each customer’s level of business with Alfa-Bank is carefully measured and Alfa-Bank often offers better prices to particular customers from which high income is generated on other banking products (such as loans, guarantees, deposits or investment banking services). Alfa-Bank’s management believes that this flexible mechanism enables it to better serve its customers and remain competitive in the marketplace.

Generally, Alfa-Bank charges 0.05% of the amount transferred, which is subject to a minimum of US\$50 and a maximum of US\$150 (as mentioned above, the branches, or Alfa-Bank’s central office, depending on where the customer is being served, have the ability to change these fees). Overall, during 2005, Alfa-Bank’s management estimates that Alfa-Bank on average processed approximately 350 Payment Orders each business day.

On the expense side, the cost per SWIFT message is €0.30 and is typically paid by the institution that sends the SWIFT message. Alfa-Bank’s direct internal cost related to processing each Payment Order is approximately US\$10 per Payment Order.

As of March 1, 2006, Alfa-Bank maintained a staff of 11 full-time employees dedicated to the processing of Payment Orders. Training consists of seminars, courses and special presentations. This staff is fully dedicated to processing electronic remittances and does not focus on other activities, such as cross-selling Alfa-Bank’s products or generating additional business from the customer base.

### *Market Share and Competitive Strengths*

SWIFT does not report the total volume of payment orders sent to Russian banks via SWIFT so there is no formal publication of rankings for Alfa-Bank's market share of payment orders. As precise data on payment orders in Russia are unavailable, market share figures described in this Offering Circular are Alfa-Bank's estimates based upon its business, the total amount of Russian exports and similar factors.

### **Operational Procedures**

#### *Computer Systems*

Alfa-Bank's management believes that Alfa-Bank has the technological capabilities to service the requirements of its customers and management, including in connection with the processing of Payment Orders. Over the course of 2004-2005, Alfa-Bank has upgraded its servers and installed new SWIFT software that Alfa-Bank believes meets global standards. This area of Alfa-Bank is regularly reviewed and is considered of great importance to the future prospects of Alfa-Bank. See "Description of the Alfa Banking Group—IT Infrastructure" below for further details.

Alfa-Bank also believes that it has in place appropriate data disaster recovery systems to protect its SWIFT-based Payment Order business in case the main server were to malfunction or be damaged. Alfa-Bank maintains two backup data centers for its SWIFT message processing that are linked to the main Alfa-Bank servers. As well, there is a third backup center in Moscow for use in case of an emergency with independent SWIFT terminals that are not linked to the main Alfa-Bank servers. In addition, in the case of a power outage, Alfa-Bank maintains its own generator and independent supplier of electricity. In fact, in July 2005, Moscow experienced a widespread loss of electricity for an entire day; *however*, to Alfa-Bank's knowledge, it was the only bank in Moscow to continue operations due to its backup electricity arrangements. Thus, Alfa-Bank believes that its current disaster recovery system may be better than the systems of most other banks in Russia, as demonstrated during its response to the blackout. Nonetheless, Alfa-Bank's IT department is working on an even more robust backup center; *however*, given the cost (approximately US\$13 million), it may take time to implement. In addition, in July 2005, Alfa-Bank received an award from Cnews Analytics, an independent Russian research group focused on information technology and telecommunications, naming it the #1 Information Technology Bank in Russia. Alfa-Bank's information technology department believes that the bank's management provides an adequate level of funding to continually maintain and improve its information technology systems.

### **Historical Volumes**

#### *Growth of Diversified Payment Rights Business*

Alfa-Bank, a SWIFT member since 1994, has consistently experienced growth in the volume of Payment Orders processed as reflected in the tables below. Between 2001 and 2005, the total number of Payment Orders related to Diversified Payment Rights increased by 54.1% and during the same time frame the Dollar value of such Payment Orders processed increased by 109.1%.

Alfa-Bank's Diversified Payment Rights business shares a similarity with Russia's export industry as Alfa-Bank's Diversified Payment Rights include those that relate to exports to various countries, of which the most common have historically been Russia and the CIS, Switzerland and The Netherlands. Diversified Payment Right volumes also tend to reflect Russian economic growth patterns. For example, in 2003, total Collections increased significantly by 55% from 2002 levels primarily as a result of two factors: first, due to continuing economic recovery that was export-driven, which in turn was driven by higher oil and other commodity prices; and second, due to the robust growth of Alfa-Bank's loan portfolio. Although Alfa-Bank's management believes that the country breakdown of Payment Orders reflects export relations with Russia, the country breakdown by Payor Bank does not necessarily reflect this trend because many Russian exports are quoted and paid in U.S. Dollars. See the table entitled "Country of Payor Bank by Value of Collections" below. The following table illustrates the growth in Alfa-Bank's total Collections for the periods indicated.

**Monthly Collections on Diversified Payment Rights  
(in U.S. Dollar Equivalents)<sup>(1)(2)</sup>**

	<b>2001</b>	<b>%</b>	<b>2002</b>	<b>%</b>	<b>2003</b>	<b>%</b>	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
January.....	390,411,615	5.8%	531,952,906	6.6%	784,575,600	6.3%	746,382,105	6.2%	547,518,949	3.9%
February.....	617,436,390	9.2%	615,478,474	7.7%	693,441,285	5.6%	753,468,709	6.2%	925,497,555	6.6%
March.....	671,850,118	10.0%	633,361,637	7.9%	751,966,458	6.0%	948,456,513	7.8%	1,418,215,339	10.1%
April.....	457,056,505	6.8%	740,411,583	9.2%	1,739,809,494	14.0%	865,357,182	7.1%	1,235,029,001	8.8%
May.....	460,156,315	6.8%	631,397,052	7.9%	818,256,755	6.6%	728,981,244	6.0%	920,769,823	6.5%
June.....	495,289,876	7.3%	644,298,415	8.0%	870,463,345	7.0%	1,581,542,456	13.0%	1,506,195,025	10.7%
July.....	406,333,619	6.0%	646,157,442	8.1%	1,146,199,053	9.2%	621,416,480	5.1%	1,010,040,564	7.2%
August.....	581,790,185	8.6%	563,046,683	7.0%	1,096,071,094	8.8%	1,039,478,259	8.6%	1,115,044,071	7.9%
September.....	591,613,584	8.8%	580,672,497	7.3%	809,688,894	6.5%	1,673,808,967	13.8%	1,200,732,954	8.5%
October.....	542,733,406	8.0%	669,643,598	8.4%	1,417,222,234	11.4%	780,285,726	6.4%	1,024,234,668	7.3%
November.....	562,839,863	8.3%	733,965,600	9.2%	835,848,371	6.7%	1,145,405,815	9.4%	1,052,338,498	7.5%
December.....	967,620,371	14.3%	1,016,170,048	12.7%	1,478,278,050	11.9%	1,249,826,337	10.3%	2,147,186,984	15.2%
<b>Total Annual Collections.....</b>	<b>6,745,131,847</b>	<b>100.0%</b>	<b>8,006,555,935</b>	<b>100.0%</b>	<b>12,441,820,631</b>	<b>100.0%</b>	<b>12,134,409,794</b>	<b>100.0%</b>	<b>14,102,803,431</b>	<b>100.0%</b>

- (1) Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (e.g., the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank's management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.
- (2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.



### *Seasonality*

Alfa-Bank's Diversified Payment Right flows are subject to some seasonality (as described in "Risk Factors Relating to the Diversified Payment Rights"), and year-end volumes do tend to be somewhat higher than the yearly average. Alfa-Bank believes that such increases are a typical year-end phenomenon, whereby companies wish to have all trades settled for the end of the financial year. Moreover, the greater number of public holidays in the first half of the calendar year tends to result in a decrease in payments as compared to the second half of the calendar year. Finally, the trend of greater volume growth in the second half of the year also adds to the discrepancy of flows between the first and second halves of the year.

### **Geographical Concentration**

Alfa-Bank's portfolio of flows is largely originated (*i.e.*, the location of Payor Banks) in key Western countries, the United States, the United Kingdom, The Netherlands, Germany and Switzerland being the largest, and from CIS countries, with more than 90% of Collections in 2005 derived from countries rated both "Aaa" by Moody's and "AAA" by S&P.

While the portion of Collections initiated by Russian banks stood at approximately 23.06% of Collections in 2005, the share of Collections received by Alfa-Bank from Russian Payor Banks was relatively smaller, constituting 7.35% of Collections in 2005. Remittances are an integral part of an economy by their nature and, as such, Russian remittances have grown in parallel with the expansion of Russia's trading and banking activities as well as the overall growing economy, which partially is Euro and U.S. Dollar-based. However, this proportion of Russian Flows is not expected by Alfa-Bank's management to increase significantly in the future. With respect to flows from Ukraine and Belarus, Alfa-Bank's management estimates that the proportion of Ukrainian and Belarussian flows to total Collections is significantly less than the maximum DDB Collections to be tested for such flows under the Debt Service Coverage Ratio, which is 20% of total DDB Collections for Ukrainian and Belarussian Collections in the aggregate or, with respect to either such country, 15% of total DDB Collections.

Diversified Payment Rights flows showed modest sensitivity to the "mini-banking crisis" in the summer of 2004. In July 2004, while Alfa-Bank faced a run on deposits, the Diversified Payment Rights amounted to 5.1% of the total annual volume. Alfa-Bank's management believes that as a result of the "mini-banking crisis" some corporate clients transferred their current accounts to the largest state-owned banks (Sberbank and VTB), which explains the recent increase of both banks' share of total Diversified Payment Rights initiated by Russian banks. Diversified Payment Rights flows are not affected by Russian Ruble exchange rate trends because export prices are denominated in freely convertible currencies. For instance, in 2003, the Russian Ruble appreciated by 7% in nominal terms against the U.S. Dollar while Alfa-Bank's Diversified Payment Rights business increased by more than 50%.

The following table sets forth the countries of the Payor Banks sending Payment Orders that generated Diversified Payment Rights during the indicated periods; *it being understood* that the following table reflects only the jurisdiction of the Payor Bank and not the sender, who could be in any other jurisdiction and merely is a customer of a bank (or a customer of a correspondent bank of a bank) in the indicated country (*e.g.*, an Italian corporation with a German bank account).

**Country of Payor Bank by Value of Collections**  
**(in U.S. Dollar Equivalents)<sup>(1)(2)</sup>**

Country	2001	%	2002	%	2003	%	2004	%	2005	%
United States .....	N/A	N/A	N/A	N/A	8,999,262,892	72.33%	7,400,892,236	60.99%	8,622,298,260	61.14%
United Kingdom	N/A	N/A	N/A	N/A	324,245,014	2.61%	420,573,753	3.47%	1,369,387,673	9.71%
Russian Federation.....	N/A	N/A	N/A	N/A	772,691,663	6.21%	1,032,116,573	8.51%	1,036,462,872	7.35%
Switzerland .....	N/A	N/A	N/A	N/A	985,108,120	7.92%	1,176,752,726	9.70%	904,951,366	6.42%
Netherlands .....	N/A	N/A	N/A	N/A	373,871,645	3.00%	636,660,744	5.25%	807,360,649	5.72%
Germany.....	N/A	N/A	N/A	N/A	256,468,253	2.06%	495,988,790	4.09%	595,688,872	4.22%
Austria.....	N/A	N/A	N/A	N/A	207,228,693	1.67%	147,729,962	1.22%	307,108,463	2.18%
Lithuania .....	N/A	N/A	N/A	N/A	65,640,542	0.53%	72,082,690	0.59%	113,214,940	0.80%
Finland .....	N/A	N/A	N/A	N/A	9,918,066	0.08%	3,953,159	0.03%	78,666,096	0.56%
Estonia.....	N/A	N/A	N/A	N/A	121,286,383	0.97%	204,963,388	1.69%	65,210,116	0.46%
Latvia .....	N/A	N/A	N/A	N/A	32,535,372	0.26%	133,608,371	1.10%	47,774,800	0.34%
Cyprus .....	N/A	N/A	N/A	N/A	80,319,026	0.65%	56,485,055	0.47%	25,432,062	0.18%
Italy .....	N/A	N/A	N/A	N/A	7,453,771	0.06%	7,527,946	0.06%	14,345,533	0.10%
Sweden.....	N/A	N/A	N/A	N/A	41,085,373	0.33%	58,624,810	0.48%	13,373,980	0.09%
Ukraine.....	N/A	N/A	N/A	N/A	1,510,433	0.01%	16,279,673	0.13%	12,992,554	0.09%
Others .....	N/A	N/A	N/A	N/A	163,195,385	1.31%	270,169,918	2.23%	88,535,195	0.63%
<b>Total Annual Collections.....</b>	<b>6,745,131,847</b>	<b>100.00%</b>	<b>8,006,555,935</b>	<b>100.00%</b>	<b>12,441,820,631</b>	<b>100.00%</b>	<b>12,134,409,794</b>	<b>100.00%</b>	<b>14,102,803,431</b>	<b>100.00%</b>

(1) Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (e.g., the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank's management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.

(2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

## Currency

Consistent with Russia's export portfolio, Alfa-Bank's Payment Orders are denominated in various currencies, the most common of which have historically been U.S. Dollars and Euro (or its predecessor currencies).

### Currency Breakdown of Collections on Diversified Payment Rights and Other Currency Payment Orders (in U.S. Dollar Equivalents)<sup>(1)(2)</sup>

	2001	%	2002	%	2003	%	2004	%	2005	%
Euro Currencies .....	124,186,208	1.84%	291,430,070	3.58%	399,253,200	3.20%	539,846,711	4.42%	583,336,801	4.10%
U.S. Dollars.....	6,620,945,639	98.05%	7,715,125,866	94.87%	12,042,567,431	96.58%	11,594,563,083	94.93%	13,519,466,630	94.96%
<b>Total Annual Collections.....</b>	<b>6,745,131,847</b>	<b>99.89%</b>	<b>8,006,555,935</b>	<b>98.46%</b>	<b>12,441,820,631</b>	<b>99.78%</b>	<b>12,134,409,794</b>	<b>99.35%</b>	<b>14,102,803,431</b>	<b>99.05%</b>
Other Currencies.....	7,236,659	0.11%	125,402,083	1.54%	27,638,548	0.22%	79,295,419	0.65%	134,921,597	0.95%
<b>Total Hard Currency Collections.....</b>	<b>6,752,368,506</b>	<b>100.00%</b>	<b>8,131,958,018</b>	<b>100.00%</b>	<b>12,469,459,179</b>	<b>100.00%</b>	<b>12,213,705,213</b>	<b>100.00%</b>	<b>14,237,725,029</b>	<b>100.00%</b>

- (1) Data for 2001 and 2002 are an approximation only as (a) it may contain some non-Diversified Payment Rights Payment Orders and (b) may exclude other Diversified Payment Rights Payment Orders (*e.g.*, the data for 2001 and 2002 may contain some Payment Orders that came from banks with which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled inside Russia. On the other hand, the table may fail to contain some Payment Orders that came from banks for which Alfa-Bank has a loro account and for which Payment Orders were subsequently settled outside Russia). Alfa-Bank's management believes that the actual numbers for 2001 and 2002 will differ from the numbers used in this table by less than 5%.
- (2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

## **Factors Affecting the Volume of Diversified Payment Rights**

The volume of Diversified Payment Rights generated is a function of (among other things) the level of Russian exports, Alfa-Bank's pre-export finance and other lending business (which can vary for many reasons), foreign direct investment, Alfa-Bank's correspondent bank network and Alfa-Bank's on-going efforts to generate Payment Order transactions through its retail, corporate and commercial banking activities, such as expanding its branch network, expanding regionally and growing its mid-size corporate market.

### *Exports*

Exports from Russia have grown quickly since 2001, increasing from approximately US\$102 billion in 2001 to approximately US\$183 billion in 2004 according to statistics published by the Central Bank. Alfa-Bank's management believes that the total volume of exports is one of the important factors attributing to the positive trend in Alfa-Bank's Diversified Payment Rights business.

### *Loans to and Deposits from Corporate Customers*

Alfa-Bank has a large and diverse corporate customer base to which it makes loans and from which it takes deposits (both term and demand). Whenever one of Alfa-Bank's corporate customers repays a loan or places a deposit with Alfa-Bank (but not such payment or deposit itself), a Payment Order is likely to be generated because the funds that will be applied toward the repayment of a loan or placement of a deposit will first need to be accumulated in a customer's settlement account through a variety of payment or transfer operations that will largely contribute to the generation of the Diversified Payment Rights.

Accordingly, Alfa-Bank's growing asset and liability base should positively affect the volume of Collections because this growth is expected to be accompanied by a greater volume of payments or transfers made to Alfa-Bank's customers' accounts in order to finance borrowing and deposit operations of customers. However, the average term of loans is gradually increasing along with greater economic stability in Russia and increased private investment, which has generated more competition in the Russian banking market. This factor, in turn, has caused a decrease of Alfa-Bank's annual loan "turnover" and (in the view of Alfa-Bank's management) partially explains why the positive trend in the volume of Diversified Payment Rights has slowed since 2003.

Although corporate customers that borrow from Alfa-Bank are not legally required to use its services to process payments for goods and services (including exports), a significant consideration in Alfa-Bank's credit analysis and business decision before providing and extending such a facility is the level of such payments that the customer is expected to process through Alfa-Bank. Given that many of Alfa-Bank's major corporate customers are exporters, it is fairly common for Alfa-Bank to receive some portion of the Payment Orders for such exporters. As such, an increase in Alfa-Bank's export-related loan portfolio will generally indicate a future increase in its Diversified Payment Rights business. In fact, many exporters may prefer to use Alfa-Bank's services to bring currency into Russia even though their export-related loans are granted by other banks if Alfa-Bank's foreign exchange rates are more favorable.

### *Foreign Direct Investment*

Russian foreign direct investment inflows stagnated at US\$4.4 billion in 2000, US\$4.0 billion in 2001 and US\$4 billion in 2002, before showing a 63% increase in 2003. The September 2005 foreign direct investment figures suggest an 18% increase in 2005 from 2004, or an annual increase of some US\$11 billion. The strong correlation between foreign direct investment and export growth, which both increased substantially in 2003, is due to the repatriation of Russian capital to Russia in the form of foreign direct investment, which has intensified since 2003. Still, compared to the total volume of Russian exports, foreign direct investment remains small and Alfa-Bank's management considers foreign direct investment to be a minor contributor to the growth of its Diversified Payment Rights business.

### *Worker Remittances*

Approximately 19 million Russian citizens live and work outside of Russia, with an estimated 16 million in the neighboring CIS countries. Those Russian citizens working and living abroad (particularly in North America and Western Europe) are often able to earn higher wages so that they can send money home to family members in Russia. The Russian population living abroad makes some contribution to the amount of cash remittances, which ultimately flow into Russia via payment orders through banks such as Alfa-Bank. However, it should be noted that such remittances do not form a significant portion of Alfa-Bank's flows, although they may increase as Alfa-Bank seeks to expand its retail presence.

### *Tourism Flows*

The level of Diversified Payment Rights is also a function of the Russian tourist industry in terms of expenditures by tourist and business travelers during their visits to Russia. Russia's tourism industry is relatively small by international standards, accounting for less than 1.7% of the country's GDP as of the end of 2004, according to the World Travel and Tourism Council.

The World Travel and Tourism Council predicts real growth of 3.3% in total travel and tourism demand in 2005 in Russia, and an annualized growth rate of 7% over the next ten years for travel and tourism demand in Russia.

The majority of foreign arrivals to Russia are from other CIS countries. According to Euromonitor, in 2003, CIS arrivals numbered 16 million, accounting for 65.3% of total arrivals. Outside the CIS, most visitors to Russia in 2003 came from Finland, Poland and Lithuania, which respectively accounted for 5.7%, 5.1% and 5.0% of total arrivals. The next highest source was Germany, with 2.2% of total arrivals in 2003.

Although with 24.6 million arrivals in 2003, Russia had one of the highest international arrival rates in the world that year, the majority of these arrivals could not be attributed to tourism. According to Euromonitor's statistical data, 46% of all foreigners entering Russia did so to visit friends and relatives, with most of these visitors coming from the neighboring CIS countries. Another 24% of international arrivals in 2003 came for business, while only 20% visited Russia for leisure. As with worker remittances, it should be noted that tourism-related flows do not form a significant portion of Alfa-Bank's flows.

### *Foreign Exchange*

Alfa-Bank is one of the market leaders in the RUR/US\$ foreign exchange market, with Alfa-Bank's management estimating that it had market share of 6-8% of RUR/US\$ spot transactions in 2005. Alfa-Bank offers its corporate customers a wide variety of services in the foreign exchange and money market areas, including: RUR/US\$ conversion, hard and soft (primarily CIS) currency trading, overnight currency swaps, forward transactions on RUR/US\$ and RUR/Euro currency pairs and hard currencies, cash management services, short-term lending (including lending backed by securities and other financial assets), etc. Some of the services offered by Alfa-Bank (such as foreign exchange forwards and cash management) are not available at some Russian banks and these services provide a competitive advantage to Alfa-Bank and a means for retaining its customers.

### *Competition and Pricing*

Alfa-Bank's management believes that it has the ability to attract and maintain customers, provide customers with competitive levels of service and competitive pricing in the processing of payments and provide customers with attractive credit facilities and foreign exchange rates.

A number of Russian banks and foreign exchange houses actively compete in this market in Russia. Sberbank, Vneshtorgbank, Gazprombank and MDM Bank are significant competitors in this business. While Alfa-Bank's management believes that Alfa-Bank's payment order business represents less than 2% of the total Dollar- and Euro-denominated Payment Orders to Russian banks, there are no official Russian sources of information from which to obtain actual numbers. Alfa-Bank's management believes that its market share reflects its role as one of the

largest private banks in Russia, although one that is still noticeably smaller than Sberbank and other government-related banks. As of December 31, 2005, Alfa-Bank estimates that it ranks fourth among Russian banks in terms of overall SWIFT traffic. Though current competitors may make efforts to increase their share of the market (for example, by reducing prices or developing additional products) and new competitors (such as foreign banks) may attempt to enter the market, Alfa-Bank's management believes that it is well-positioned to continue to be a market leader among private banks in this area.

The table below shows a breakdown by industry of Alfa-Bank's 200 largest beneficiaries with respect to Collections:

**Industry Breakdown of Collections on Diversified Payment Rights  
(in U.S. Dollar Equivalents)<sup>(1) (2)</sup>**

Industry	2003	%	2004	%	2005	%
Energy, Oil & Gas .....	2,582,332,047	35.18%	3,776,933,621	46.46%	2,578,371,068	33.43%
Finance & Investment Companies & Holding Companies .....	2,187,151,241	29.79%	1,263,945,489	15.55%	2,105,319,939	27.30%
Chemicals.....	170,093,953	2.32%	652,823,161	8.03%	762,599,513	9.89%
Manufacturing & Construction.....	548,761,125	7.48%	797,182,610	9.81%	569,379,820	7.38%
Trade & Commerce.....	61,519,331	0.84%	177,322,839	2.18%	510,673,904	6.62%
Metallurgy.....	898,013,045	12.23%	653,494,336	8.04%	454,791,241	5.90%
Defense .....	193,381,659	2.63%	301,385,662	3.71%	276,236,030	3.58%
Food .....	81,158,751	1.11%	75,872,056	0.93%	111,516,026	1.45%
Diamond Mining.....	103,480,000	1.41%	180,592,000	2.22%	95,000,000	1.23%
Wood and Paper.....	104,666,791	1.43%	70,800,821	0.87%	70,604,240	0.92%
Other .....	274,900,770	3.74%	166,266,094	2.05%	175,966,093	2.28%
Unidentified .....	135,516,326	1.85%	12,512,554	0.15%	2,600,114	0.03%
<b>Top 200 Beneficiaries Flows .....</b>	<b>7,340,975,040</b>	<b>100.00%</b>	<b>8,129,131,243</b>	<b>100.00%</b>	<b>7,713,057,988</b>	<b>100.00%</b>

(1) Investors should treat the numbers in the table above as only an approximation of industry breakdowns for total annual Collections. The table contains industry breakdowns for the top 200 beneficiaries of Alfa-Bank in each of 2003, 2004 and 2005. The following procedure was used to identify top 200 beneficiaries: (a) for each of 2003, 2004 and 2005, the 100 largest beneficiaries were identified, (b) the 2003, 2004 and 2005 samples were merged and (c) out of the final sample, the 200 beneficiaries with the largest collections in 2005 were selected.

(2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

The share of Collections attributable to energy, oil and gas companies (35.2%, 46.5% and 33.4% in 2003, 2004 and 2005, respectively) is somewhat less than the share of energy sector companies as compared to total exports, which is 54% in 2003, 55% in 2004 and 61% in 2005. However, it is still greater than the share of energy, oil and gas companies in Alfa-Bank's loan portfolio, which stood at approximately 20% at the end of 2005.

The historically large proportion of finance and investment companies that contribute to Collections is due to two main factors: first, a substantial portion of such Collections is related to Affiliate Transaction Collections that are often received on behalf of various holding companies of the Alfa Banking Group (that have established accounts with Alfa-Bank) and second, the payment processing functions of finance and investment companies are an integral part of the investment banking services of Alfa-Bank.

The increasing proportion of Collections from chemical and trade and commerce sectors and certain other sectors reflects the increased focus of Alfa-Bank on the upper-middle customer segment as well as a general trend towards increased diversification of its loan portfolio.

Detailed information on Alfa-Bank's top individual beneficiaries can be seen in the following table:

**Beneficiaries of Payment Orders Resulting in Diversified Payment Rights  
(in U.S. Dollar Equivalents)<sup>(1)(2)</sup>**

<b>Beneficiary (Identified by Industry)</b>	<b>2003</b>	<b>%</b>	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
Diversified .....	3,599,429,604	28.93%	3,567,385,069	29.40%	2,653,627,242	18.82%
Chemical .....	-	0.00%	416,850,039	3.44%	602,017,246	4.27%
Finance & Investment .....	545,405,964	4.38%	416,050,740	3.43%	585,406,715	4.15%
Oil & Gas .....	187,056,786	1.50%	302,084,219	2.49%	313,670,805	2.22%
Oil & Gas .....	-	0.00%	-	0.00%	245,762,034	1.74%
Coal Industry .....	-	0.00%	128,118,325	1.06%	226,840,613	1.61%
Finance & Investment .....	47,844,700	0.38%	11,415,855	0.09%	207,853,546	1.47%
Nuclear Construction .....	65,897,198	0.53%	223,910,505	1.85%	187,802,836	1.33%
Coal Industry .....	-	0.00%	9,000,000	0.07%	124,033,375	0.88%
Metallurgy .....	4,251,036	0.03%	83,507,416	0.69%	108,217,488	0.77%
Automobile Dealership .....	-	0.00%	-	0.00%	105,935,034	0.75%
Defense .....	2,330	0.00%	46,572,758	0.38%	96,133,999	0.68%
Diamond Mining .....	103,480,000	0.83%	180,592,000	1.49%	95,000,000	0.67%
Defense .....	83,823,974	0.67%	106,687,290	0.88%	87,995,902	0.62%
Metallurgy .....	93,801,372	0.75%	36,146,496	0.30%	84,974,474	0.60%
<b>Top 15 Beneficiaries Flows .....</b>	<b>4,730,994,968</b>	<b>38.02%</b>	<b>5,528,322,716</b>	<b>45.56%</b>	<b>5,725,273,313</b>	<b>40.60%</b>
<b>Top 16-200 Beneficiaries Flows .....</b>	<b>2,609,980,072</b>	<b>20.98%</b>	<b>2,600,808,526</b>	<b>21.43%</b>	<b>1,987,784,675</b>	<b>14.09%</b>
<b>Top 200 Beneficiaries Flows .....</b>	<b>7,340,975,040</b>	<b>59.00%</b>	<b>8,129,131,243</b>	<b>66.99%</b>	<b>7,713,057,988</b>	<b>54.69%</b>
Affiliate Transaction Collections .....	4,144,835,569	33.31%	3,983,435,809	32.83%	3,239,033,957	22.97%
Non-Affiliate Transaction Collections .....	3,196,137,468	25.69%	4,145,693,430	34.16%	4,474,022,026	31.72%
Unidentified .....	5,100,845,592	41.00%	4,005,278,552	33.01%	6,389,745,444	45.31%
<b>Total Annual Collections .....</b>	<b>12,441,820,631</b>	<b>100.00%</b>	<b>12,134,409,794</b>	<b>100.00%</b>	<b>14,102,803,431</b>	<b>100.00%</b>

- (1) Investors should treat the numbers in the table above as only an approximation of beneficiary breakdowns by industry for total annual Collections. The table contains information on flows for the top 15 beneficiaries of Alfa-Bank from 2003 to 2005 that were taken out of a sample of the 200 top beneficiaries. The following procedure was used to identify the top 200 beneficiaries: (a) for each of 2003, 2004 and 2005, the 100 largest beneficiaries were identified, (b) the 2003, 2004 and 2005 samples were merged and (c) out of the final sample, either (i) 15 beneficiaries with the largest collections in 2005 were selected and are identified by industry above or (ii) 200 beneficiaries with the largest collections in 2005 were selected and are identified in the lines related to the Top 200 Beneficiaries Flows.
- (2) Values of Euro-denominated Payment Orders for Diversified Payment Rights are based upon the average rate of the Euro against the Dollar during the month in which the corresponding Payment Order was processed. In turn, the exchange rates used in such averaging were computed by dividing the Euro/RUR official exchange rate published by the Central Bank by the RUR/\$ official exchange rate published by the Central Bank.

The table above reflects both relationships of Alfa-Bank with its major long-time customers, as well as relationships that were developed relatively recently. Alfa-Bank's largest beneficiaries are fairly well diversified across various industry sectors and are often among the major borrowers and/or depositors of Alfa-Bank.

## USE OF PROCEEDS

The proceeds from the sale of the Offered Notes will be used by the SPC to make the Series 2006-A Loan to Alfa-Bank, which Loan will be secured by the Diversified Payment Rights and other Loan Collateral pledged by Alfa-Bank to the SPC under the Pledge Agreement. Alfa-Bank may instruct the SPC to retain and use a portion of such proceeds to be applied to the payment of a “loan arrangement fee” payable by Alfa-Bank to the SPC in connection with the Series 2006-A Loan, from which fee the SPC will pay the Initial Purchasers’ commission and certain other expenses of the offering of the Offered Notes. Net proceeds to Alfa-Bank from the Series 2006-A Loan will be equal to approximately US\$345,107,642. Alfa-Bank will use such proceeds for general corporate purposes. No proceeds from the Series 2006-A Loan or any Additional Loans will be permitted to be used by Alfa-Bank to make loans or otherwise provide funds (directly or, to its knowledge, indirectly) to countries (or any person or entity of such countries or any other person or entity) contrary to the Prohibited Nations Acts.

## MATURITY ASSUMPTIONS

The Indenture will provide that a Series will not receive distributions of principal until the end of the Interest-Only Period for the corresponding Loan, except in the event of an Early Amortization Event that results in the commencement of the Early Amortization Period with respect to such Loan or if Alfa-Bank makes a prepayment of all or a portion of such Loan. Principal on the Offered Notes is expected to be paid during the Scheduled Amortization Period for the Series 2006-A Loan as and when described herein. There will be no Interest-Only Period for the Series 2006-A Loan.

After the Interest-Only Period for a Loan, the Quarterly Amortization Amount for such Loan will be distributed on each Payment Date until such Loan is paid in full (in each case, with the SPC using the proceeds of such payments to make a similar payment on the corresponding Series). If the Early Amortization Period begins with respect to the Series 2006-A Loan, after payment of trustee fees, certain other amounts and accrued interest, all Collections received by the SPC as payment on such Loan will be applied to pay the principal of the Offered Notes. See “Summary of Terms—Allocation of Amounts in the Concentration Accounts” and “—Distribution of Amounts in the Loan Payment Accounts.” In such event, principal distributions in respect of a Loan (and, thus, on a Series) will be made on a monthly basis or, in certain specified circumstances, on a daily basis. See “Summary of Terms—Early Amortization Period.” In addition, the Series 2006-A Loan (and, thus, the Offered Notes) are subject to prepayment under certain circumstances. See “Description of the Offered Notes and the Other Transactions Documents—Offered Notes and the Related Indenture Supplement—Mandatory Redemption” and “—Optional Prepayment.”

Although it is anticipated that principal payments of the Offered Notes equal to the Quarterly Amortization Amount for the Series 2006-A Loan will be distributed to the applicable Noteholders on each Payment Date during the Scheduled Amortization Period for such Loan and that such Loan (and thus, the Offered Notes) will be paid in full on its Maturity Date, no assurance can be given in that regard. The ability of the SPC to make such distributions depends upon the level of Collections generated from time to time and/or Alfa-Bank’s and/or the Guarantors’ ability to make payments under the corresponding Loan and, in the case of a Default resulting in a mandatory redemption of the Series 2006-A Loan, on the availability of sufficient funds in the applicable Loan Payment Account and the ability of Alfa-Bank and/or the Guarantor to make the Default Payment for such Loan. Accordingly, no assurance can be given as to the actual rate of payment of principal of the Offered Notes distributed to the Noteholders.



## EXCHANGE RATES

The following table sets forth the Central Bank's period-average and period-end buying rates for Dollars and Euro for the years ended December 31, 1998 through December 31, 2005.

<u>Period Average<sup>(1)</sup></u>	<u>RUR per US\$<sup>(2)</sup></u>	<u>RUR per €</u>
2005.....	28.2978	35.2179
2004.....	28.8055	35.8138
2003.....	30.6891	34.6862
2002.....	31.3510	29.6464
2001.....	29.1719	26.1301
2000.....	28.1347	26.0291
1999.....	24.6224	26.2399
1998.....	9.6952	13.1210
<u>Period End<sup>(3)</sup></u>	<u>RUR per US\$</u>	<u>RUR per €</u>
December 31, 2005.....	28.7825	34.1850
December 31, 2004.....	27.7487	37.8104
December 31, 2003.....	29.4545	36.8240
December 31, 2002.....	31.7844	33.1098
December 31, 2001.....	30.1400	26.4900
December 31, 2000.....	28.1600	26.1400
December 31, 1999.....	27.0000	27.2300
December 31, 1998.....	20.6500	24.1710

(1) Represents the yearly averages of the monthly averages of the RUR /US\$ and RUR /€exchange rates for the relevant period, which monthly averages were computed by calculating the average of the daily RUR /US\$ and RUR/€exchange rates on the business days (which rate is announced by the Central Bank with respect to such business days) of each month during the relevant period.

(2) Exchange rates derived from Central Bank website: [www.cbr.ru](http://www.cbr.ru).

(3) Represents the RUR /US\$ and RUR /€exchange rates for the purchase of Dollars and Euro announced by the Central Bank on the relevant date in the relevant year.

## CAPITALIZATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets forth the unaudited consolidated capitalization and indebtedness of the Guarantor as of December 31, 2002, 2003 and 2004 and as of the six months ended June 30, 2005, which information has been derived from its Annual Financial Statements or the Interim Financial Statements, as the case may be. This table should be read in conjunction with the Annual Financial Statements or Interim Financial Statements, as the case may be, and the notes thereto appearing in Appendix A of this Offering Circular.

	For the years ended December 31,			For the six months ended
	2002	2003	2004	June 30, 2005
<b>Shareholders' equity</b>	<i>(US\$ millions)</i>			
Share capital.....	160.8	160.8	160.8	160.8
Fair value reserve for investments available for sale.....	62.7	22.8	-	0.6
Revaluation reserve for premises and equipment.....	6.3	5.2	4.1	3.6
Retained earnings.....	201.4	358.2	542.6	609.0
<b>Total shareholders' equity</b> .....	<b>431.2</b>	<b>547.0</b>	<b>707.5</b>	<b>774.0</b>
<b>Minority interest</b> .....	<b>3.5</b>	<b>6.6</b>	<b>2.9</b>	<b>2.1</b>
<b>Indebtedness</b>				
Short term indebtedness.....	3,229.7	4,872.2	5,523.0	6,089.4
Long term indebtedness:				
Due to other banks.....	17.6	13.5	80.8	157.3
Customer accounts.....	9.6	39.5	39.4	128.8
Promissory notes issued.....	76.7	16.7	16.9	14.9
Other borrowed funds.....	193.6	173.7	245.1	398.7
<b>Total indebtedness</b> .....	<b>3,527.2</b>	<b>5,115.6</b>	<b>5,905.2</b>	<b>6,789.1</b>
<b>Total capitalization and indebtedness</b> .....	<b>3,961.9</b>	<b>5,669.2</b>	<b>6,615.6</b>	<b>7,565.2</b>

Except as set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations—"Recent Developments" and "—Liquidity," there has been no material change in the Guarantor's capitalization since June 30, 2005.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Investors should read the following discussion and analysis of the Alfa Banking Group's financial condition and results of operations as of June 30, 2004 and 2005 and for the six month periods then ended and as of December 31, 2003 and 2004 and for the years then ended in conjunction with the Annual Financial Statements and the Interim Financial Statements included elsewhere in this Offering Circular. Such financial statements and the related notes thereto have been prepared in accordance with IFRS, which differ in certain respects from "U.S. GAAP". For a summary of certain differences between IFRS and U.S. GAAP that are relevant to the Alfa Banking Group, see "Accounting Practices – Highlights of Certain Differences Between IFRS and U.S. GAAP" set forth in Appendix B. See also "Forward-Looking Statements," "Summary Financial Information" and "Selected Statistical and Other Information." For a discussion of the Alfa Banking Group's significant accounting policies, see "— Overview—Significant Accounting Policies" below and Note 3 to the Interim Financial Statements. For information regarding the calculation of the average interest rates and average balances of certain of the Alfa Banking Group's interest-earning assets and interest-bearing liabilities described herein, see "Selected Statistical and Other Information—Average Balance Sheet and Interest Rate Data."*

### Overview

#### *Principal Activities*

Alfa-Bank, part of the Alfa Banking Group, is one of the largest non-governmental commercial and retail banks in Russia. The Alfa Banking Group offers a wide range of banking services including lending, securities trading, deposit, payment and account services, foreign exchange and foreign trade operations and other ancillary services to commercial and retail customers and governmental entities. As of December 31, 2005, the Alfa Banking Group's network consisted of approximately 120 offices (including branches, regional branches and outlets) in Moscow, St. Petersburg and other large cities in Russia. The Alfa Banking Group also conducts corporate banking operations through subsidiaries in Ukraine, Kazakhstan and The Netherlands. It carries out investment banking operations principally through its subsidiaries in Cyprus, the United States and the United Kingdom. For a more detailed description of the business activities of the Alfa Banking Group, see "Description of the Alfa Banking Group."

#### *Relationship with the Alfa Consortium*

The Alfa Banking Group is part of a wider group of companies referred to herein as the Alfa Consortium. The Alfa Consortium operates principally in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade business. ABH Holdings Corp., a corporation incorporated under the laws of the British Virgin Islands, is part of the Alfa Consortium and owns 100% of the Guarantor's shares and is beneficially owned by seven individuals. Three of these individuals, Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev, collectively own approximately 77% of ABH Holdings Corp. and indirectly control other companies within the Alfa Consortium. Each of these three individuals owns less than 50% of the shares of ABH Holdings Corp.

The Alfa Banking Group traditionally has conducted and continues to conduct significant business with related parties within the Alfa Consortium. As of June 30, 2005, the Alfa Banking Group's gross exposure (comprising loans and guarantees) to related parties was US\$245.3 million (representing 4.3% of the Alfa Banking Group's total credit exposure as of such date) and customer accounts from related parties were US\$798.7 million (representing 17.0% of the Alfa Banking Group's total customer accounts as of such date). For further information regarding the exposures of the Alfa Banking Group to related parties, see "Related Party Transactions."

#### *General Market Conditions and Operating Environment in Russia*

The majority of the Alfa Banking Group's assets are concentrated in Russia (86%, 84% and 75% as of December 31, 2003, December 31, 2004 and June 30, 2005, respectively). As a result, the Alfa Banking Group is substantially influenced by Russian macro and microeconomic conditions. While there have been improvements in

recent years in the economic situation in Russia, its economy continues to display certain characteristics of an emerging market, including, for instance, a currency that is not freely convertible in most countries outside Russia, a volatile securities market and inflation rates higher than those in more developed countries. See “Risk Factors—Risks Related to Russia—Russian Macroeconomic Considerations.”

The following table sets forth key Russian economic indicators as of the years ended December 31, 2003 and 2004 and as the six months ended June 30, 2004 and 2005:

	As of the year ended December 31,		As of the six months ended June 30,	
	2003	2004	2004	2005
Gross domestic product (billions of RUR) <sup>(1)</sup> .....	13,285.0	16,779.0	7,398.0	9,395.0
Foreign currency reserves (billions of U.S. Dollars) <sup>(2)</sup> .....	76.9	124.5	88.2	151.8
Inflation (%) <sup>(1)</sup> .....	12.0	11.7	6.1	8.0
Nominal appreciation of the RUR against the U.S. Dollar (year-to-year) (%) <sup>(2)</sup> .....	2.2	6.5	8.6	2.9
Real appreciation of the RUR against the U.S. Dollar (year-to- year) (%) <sup>(2)</sup> .....	13.6	15.1	17.3	13.1

<sup>(1)</sup> Russian Federal State Statistics Service: ([www.gks.ru](http://www.gks.ru))

<sup>(2)</sup> Central Bank: ([www.cbr.ru](http://www.cbr.ru))

In 2005, the Russian Federation enjoyed its sixth consecutive year of economic expansion. The continuing rebound of domestic demand from the depressed levels immediately following the financial crisis of August 1998, along with high market prices for key export commodities, particularly oil and gas, sustained economic growth and led to an increase in foreign currency reserves. In 2003, the Russian economy ceased to be hyperinflationary, as the inflation rate in the Russian Federation over the preceding years declined significantly below the levels indicating hyperinflation and the purchasing power of the Russian Ruble strengthened. The significant cash inflows resulting from exports of commodities at high prices also led to the strengthening of the Russian Ruble against the U.S. Dollar. Currently, the Russian economy generates large amounts of excess liquidity, which has resulted in significant competition among banks for borrowers with good credit standing.

The following table presents the average interest rates earned by banks based in Russia on U.S. Dollar and Russian Ruble-denominated loans to corporate clients and average interest rates paid by such banks on U.S. Dollar and Russian Ruble-denominated deposits from corporate and retail clients, which represent the majority of the Alfa Banking Group’s loan portfolio and customer accounts for the years ended December 31, 2003 and 2004 and for the six months ended June 30, 2004 and 2005. These interest rates were calculated on the basis of statistical information published by the Central Bank.

	For the year ended December 31,		For the six months ended June 30,	
	2003	2004	2004	2005
Loans to corporate clients in U.S. Dollars (on short-term loans) .....	9.5%	8.3%	8.3%	8.2%
Loans to corporate clients in RUR (on loans of less than one year) .....	13.0%	11.4%	11.8%	10.7%
Deposits from retail clients in RUR (on deposits of less than one year, including demand deposits) .....	4.5%	3.8%	4.0%	4.2%

Source: Central Bank: ([www.cbr.ru](http://www.cbr.ru))

As noted above, during the periods under review, average interest rates on loans to corporate clients declined, while average interest rates on Russian Ruble deposits from retail clients remained relatively stable. While the Alfa Banking Group’s management believes that many banks in Russia have experienced declining interest rate margins in recent period, the Alfa Banking Group has been able to keep its interest rate margins largely stable. See “Selected Statistical and Other Information—Average Balance Sheet and Interest Rate Data.” The increasingly competitive market in which the Alfa Banking Group operates could, however, result in downward pressure on the Alfa Banking Group’s interest margins in future periods. To the extent that such a trend affects the Alfa Banking Group and is not offset by growth of average interest-earning assets, the Alfa Banking Group may experience

periods of flat or declining net interest income in the future. See “Risk Factors – Risks Relating to Alfa-Bank – Interest Rate, Liquidity and Exchange Rate Risks.”

#### *Significant Accounting Policies*

The accounting policies of the Alfa Banking Group are integral to understanding its results of operations and financial condition. The Alfa Banking Group’s accounting policies are described in Note 3 to the Interim Financial Statements appearing later in this Offering Circular. The preparation of its financial statements requires the Alfa Banking Group’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, the Alfa Banking Group’s management evaluates its estimates and judgments, including those related to the provision for loan impairment, other provisions, investments, income taxes and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results will differ from these estimates and conditions, and such differences may be material.

*Investment securities available for sale.* Securities available-for-sale include investment securities that the Alfa Banking Group intends to hold for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Alfa Banking Group classifies investments as available-for-sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized as profit or loss. Dividends on available-for-sale equity instruments are recognized as profit or loss when the Alfa Banking Group’s right to receive payment is established. All other changes in the fair value of an equity security are deferred in equity until the investment is no longer recognized or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognized as profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost indicates that it is impaired. Thus, the Alfa Banking Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what factors are considered to be significant or prolonged requires judgment. In making this judgment, the Alfa Banking Group evaluates, among other factors, the volatility in the price of the particular investment. In addition, when no active market exists for the investment, from which the price can be derived, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational or financing cash flows. As of June 30, 2005, the Alfa Banking Group had no available-for-sale equity investments carried at fair value below their cost. The Alfa Banking Group held no debt securities that it classified as available-for-sale investments as of June 30, 2005.

*Loans and advances to customers.* Loans and advances to customers are recorded when the Alfa Banking Group advances money to purchase or originate an unquoted, non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

Impairment losses are recognized as profit or loss when incurred as a result of loss events that occurred after the initial recognition of the financial asset and that have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. If the Alfa Banking Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of collectively evaluating impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets because they are indicative of the debtor’s ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are evaluated collectively for impairment are estimated on the basis of the contractual cash flows of the assets and experience of the Alfa Banking Group's management in evaluating which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Historical trends then are adjusted on the basis of current observable data to reflect the effects of current conditions that were not applicable during prior periods and to remove the effects of past conditions that do not exist currently. The Alfa Banking Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the Alfa Banking Group's consolidated statement of income, the Alfa Banking Group makes judgments as to whether observable data indicate that there is a measurable decrease in estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. This evidence may include data indicating that there has been an adverse change in the payment status of particular borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. The Alfa Banking Group's management uses estimates based upon historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The provision amount depends mainly on the interest rate according to the loan agreement and on the estimation of a possible delay in the repayment of the loan and interest on the loan.

*Derivative financial instruments.* Derivative financial instruments including foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value through the consolidated statement of income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Utilizing evaluation techniques requires management to make estimates. 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 derivative financial instruments are included in 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 best evidence of the fair value of a derivative at initial recognition is the transaction price (*i.e.*, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (*i.e.*, without modification or repackaging) or based upon a valuation technique whose variables include only data from observable markets. When such evidence exists, the Alfa Banking Group records profits immediately.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recorded in the consolidated statement of income.

Although the Alfa Banking Group trades in derivative financial instruments for hedging purposes the Alfa Banking Group does not apply hedge accounting.

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

Deferred income tax is provided using the liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Principal temporary differences arise from accrued income and expense of financial instruments, depreciation of property, plant and equipment, revaluation of derivative contracts and impairment of loans and receivables. The rates enacted or substantially enacted as of the date of the balance sheet and that are expected to apply to the temporary difference are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

There are many transactions and calculations for which the ultimate tax determination is uncertain at the time the transaction is recorded. The Alfa Banking Group recognizes liabilities for anticipated tax audit issues based upon estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were recorded initially, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## Recent Developments

The Russian economy recorded GDP growth of 6.4% in 2005. The services sector and the construction industry performed particularly well, each recording growth of over 10% in the second half of 2005. The faster growth of the non-industrial sector of the Russian economy can be traced in part to the high level of retail lending growth in the second half of 2005. From August through November 2005, the monthly increase of retail loans by Russian banks exceeded the monthly intake of retail deposits. According to the Central Bank, as of the 11 months ended December 1, 2005, Russian retail lending increased by 71% compared to the same period in 2004. The Russian securities market also recorded strong growth, with the Russian Trading System (“RTS”) index almost doubling from 614 to 1,125 in 2005, reflecting continuing economic growth and a significant increase in the number of initial public offerings of Russian companies.

The Alfa Banking Group’s loan portfolio and securities portfolio continued to exhibit strong growth in the second half of 2005. The Alfa Banking Group observed strong growth in each of its corporate and retail loan portfolios. The principal contributor to this growth was the continued expansion of the Alfa Banking Group’s corporate loan portfolio. Despite the significant growth of the Alfa Banking Group’s retail loan portfolio, retail loans only accounted for approximately 2% of the Alfa Banking Group’s total loan portfolio at the end of 2005. The Alfa Banking Group’s management expects the Alfa Banking Group’s retail loan portfolio to exhibit strong growth in 2006 in part due to the recent introduction of its consumer finance, auto loan and mortgage products. As the Alfa Banking Group continues to grow its retail loan portfolio, its management anticipates an increase in bad and irrecoverable debts in line with the expansion of the Alfa Banking Group’s retail business; *however*, its management believes that this increase in bad and irrecoverable debts should be more than offset by the higher interest rate margins and increased fees generated by the Alfa Banking Group’s retail business.

The Alfa Banking Group expects to record an increase in net interest income and net profit for 2005 as compared to 2004. The Alfa Banking Group’s net interest income has been positively affected by lower funding rates while interest rates on corporate loans have remained relatively stable.

In addition, while the net profit of the Alfa Banking Group has at times depended in significant part upon substantial non-recurring income, the Alfa Banking Group’s results of operations for 2005 have been driven to a significant extent from items of a more recurring nature, such as interest and fee generating income. The Alfa Banking Group intends to reduce its overall exposure to significant non-recurring transactions, including: (a) divestitures of non-core assets, such as the sale of the Alfa Banking Group’s holding in Akrikhin OJSC, a leading Russian pharmaceutical company, in 2004 for US\$40 million and from which the Alfa Banking Group recorded a profit of US\$23.6 million, and (b) large related party transactions, including transactions with the Alfa Eco Group, a large Russian investment firm, and TNK-BP, a large Russian oil producer. The Alfa Banking Group’s management believes that recurring interest and fee generating income will remain the driver of its overall operating profit in 2006.

On February 22, 2006, the Alfa Banking Group reported: (a) unaudited net profit of US\$170 million for the year ended December 31, 2005, which represents an increase of 11.3% as compared to audited net profit of US\$152.8 million for the year ended December 31, 2004, (b) unaudited total assets of US\$9.4 billion as of December 31, 2005, as compared to audited total assets of US\$7,024.7 million as of December 31, 2004, (c) unaudited gross loans and advances to customers of US\$5.97 billion as of December 31, 2005, as compared to audited gross loans and advances to customers of US\$4,297.9 million as of December 31, 2004, and (d) unaudited shareholders’ equity of US\$870 million as of December 31, 2005, as compared to audited shareholders’ equity of US\$707.6 million as of December 31, 2004. Such unaudited results are subject to adjustment pending the completion of the audit of the Alfa Banking Group’s financial results as of and for the year ended December 31, 2005, which audited results the Alfa Banking Group expects to announce in April 2006. There has been no adverse

change in the prospects of the Guarantor since June 30, 2005, the date of the Guarantor's last published financial statements.

In the second half of 2005, the Alfa Banking Group continued to diversify its funding sources. In November 2005, Alfa-Bank obtained a US\$275 million trade-related term syndicated loan, the biggest syndicated loan received to date by a Russian private bank. The loan bears interest at LIBOR *plus* 1.0% *per annum*. The loan has a term of one year and upon maturity can be extended for an additional 364-day period upon the consent of the lenders if a request for such extension is made by Alfa-Bank. In December 2005, Alfa-Bank, through a special purpose vehicle, issued US\$225 million of subordinated unsecured notes. The notes, which are included within "Tier 2" capital for capital adequacy calculations, bear interest at 8.625% *per annum*. The notes have a ten year maturity, and the issuer has the right to call the notes after five years.

In December 2005, the Alfa Banking Group decided to restructure its corporate banking operations in order to place increased focus on the Russian domestic market. As part of the restructuring, Alfa-Bank will sell a controlling interest in its Ukrainian subsidiary CJSC "Alfa-Bank" to ABH Ukraine Limited, a company controlled by the shareholders of the Alfa Banking Group, but not part of the Alfa Banking Group. The Alfa Banking Group's management does not believe that this restructuring will have a material impact on the Alfa Banking Group.

## Results of Operations for the Six Months Ended June 30, 2004 and 2005

### Summary

The following table sets forth the principal components of the Alfa Banking Group's profit for the periods indicated.

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
Interest income.....	274,937	320,484
Interest expense.....	(127,126)	(132,411)
<b>Net interest income</b> .....	<b>147,811</b>	<b>188,073</b>
Provision for loan impairment .....	(16,153)	(32,715)
<b>Net interest income after provision for loan impairment</b> .....	<b>131,658</b>	<b>155,358</b>
Fee and commission income .....	67,870	73,450
Fee and commission expense.....	(17,834)	(19,896)
Gains less losses arising from trading securities .....	79	18,895
Gains less losses arising from investments available for sale .....	344	463
Gains less losses arising from trading in foreign currencies .....	5,149	(5,281)
Foreign exchange translation gains less losses .....	2,708	26,181
Other operating income.....	13,414	12,917
Other provisions.....	(2,117)	7,067
<b>Operating income</b> .....	<b>201,271</b>	<b>269,154</b>
Operating expenses .....	(148,507)	(169,605)
<b>Profit from operations</b> .....	<b>52,764</b>	<b>99,549</b>
Share of profit of associated company .....	6,256	6,239
<b>Profit before income tax</b> .....	<b>59,020</b>	<b>105,788</b>
Income tax expense.....	(5,828)	(18,516)
<b>Profit</b> .....	<b>53,192</b>	<b>87,272</b>

### Net Interest Income

The Alfa Banking Group's net interest income before provisions for the six months ended June 30, 2005 increased by 27.2% to US\$188.1 million from net interest income before provisions of US\$147.8 million for the six months ended June 30, 2004. This increase resulted from an overall increase in interest income that outpaced growth in interest expense.



The following table sets out the principal components of the Alfa Banking Group's interest income and interest expense for the six months ended June 30, 2004 and 2005:

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
<b>Interest income</b>		
Loans and advances to customers.....	242,659	287,780
Trading securities.....	26,129	17,305
Due from other banks.....	6,149	15,399
<b>Total interest income</b> .....	<b>274,937</b>	<b>320,484</b>
<b>Interest expense</b>		
Customer accounts of legal entities.....	41,456	45,141
Other borrowed funds.....	18,100	34,268
Customer accounts of individuals.....	30,946	33,774
Due to other banks.....	15,844	11,914
Promissory notes issued.....	20,780	7,314
<b>Total interest expense</b> .....	<b>127,126</b>	<b>132,411</b>
<b>Net interest income</b> .....	<b>147,811</b>	<b>188,073</b>

#### *Interest Income*

Interest income includes all interest income from loans and advances to customers, trading securities and income from due from other banks. Total interest income increased by 16.6% to US\$320.5 million for the six months ended June 30, 2005 from US\$274.9 million for the six months ended June 30, 2004.

*Interest income from loans and advances to customers.* Interest income from loans and advances to customers (retail and corporate) increased by 18.6% from US\$242.7 million for the six months ended June 30, 2004 to US\$287.8 million for the six months ended June 30, 2005. This increase resulted primarily from a greater volume of loans outstanding. Average interest rates also increased slightly in the six months ended June 30, 2005, as compared to the comparable period in 2004. The Alfa Banking Group expects that in the future interest rates in the domestic markets will be influenced by various competing factors such as a potential increase in global interest rates, greater competition in the domestic banking market and foreign currency inflows resulting from the current account surplus of the Russian Federation. The Alfa Banking Group believes that loan balances and advances to customers will continue to grow in 2006 as a result of its regional expansion and the continuing diversification of its customer base.

*Interest income from trading securities.* Interest income from trading securities for the six months ended June 30, 2005 fell by 33.8% to US\$17.3 million from US\$26.1 million for the six months ended June 30, 2004. This decrease resulted primarily from a decrease in the Alfa Banking Group's average debt securities portfolio by 47.2% from US\$615.5 million for the six months ended June 30, 2004 to US\$324.8 million for the six months ended June 30, 2005, and was partially offset by higher average interest rates on the debt securities in the Alfa Banking Group's portfolio for the first half of 2005 compared to the first half of 2004.

*Interest income from due from other banks.* Interest income from due from other banks increased by 150.4% from US\$6.1 million for the six months ended June 30, 2004 to US\$15.4 million for the six months ended June 30, 2005. Average amount of deposits placed with other banks and interbank loans granted by the Alfa Banking Group increased by 236.0% from US\$175.0 million for the six months ended June 30, 2004 to US\$588.0 million for the six months ended June 30, 2005. Such increase reflects the increased amount of interbank lending and greater overall liquidity of the Alfa Banking Group in the first half of 2005, as compared to the first half of 2004, where the bank's interbank lending was affected by the occurrence of the outset of the "mini-banking crisis" of 2004 that resulted in temporarily lower interbank lending activity across Russia. In May 2004, Guta Bank, a large Russian bank, had its banking license revoked and shortly thereafter stopped making payments on its obligations. Interbank lending volumes in Russia shrank considerably for a period beginning in June 2004 in response to these and related developments. The average interest rates on the interbank market also declined during such period.

### *Interest Expense*

Total interest expense increased by 4.2% to US\$132.4 million for the six months ended June 30, 2005 from US\$127.1 million for the six months ended June 30, 2004. The increase in total interest expense was primarily attributable to an increase in interest expenses related to other borrowed funds, which was partly offset by a decrease in interest expenses related to promissory notes issued.

*Interest expenses related to customer accounts.* Interest expense related to customer accounts increased by 9.0% for the six months ended June 30, 2005 to US\$78.9 million from US\$72.4 million for the six months ended June 30, 2004. This increase resulted from an increase in deposits by both corporate and retail customers reflecting the growth in the Alfa Banking Group's customer base, growth of its regional operations and expansion of its retail activities. Average amounts in corporate and retail customer accounts increased by 20.3% for the six months ended June 30, 2005 to US\$4,591.1 million from US\$3,814.9 million for the six months ended June 30, 2004, offsetting a decline in average annual interest rates paid.

*Interest expenses related to other borrowed funds.* Interest expense related to other borrowed funds, which includes the Alfa Banking Group's syndicated loan debt, its issued Eurobonds and medium-term notes and its commercial paper, for the six months ended June 30, 2005 increased by 89.3% to US\$34.3 million from US\$18.1 million for the six months ended June 30, 2004. This significant increase resulted from a 134.1% increase in average balances of other borrowed funds from US\$417.9 million for the six months ended June 30, 2004 to US\$978.5 million for the six months ended June 30, 2005, offsetting a decline in average rates payable on other borrowed funds.

*Interest expenses related to due to other banks.* Interest expenses related to due to other banks for the six months ended June 30, 2005, fell by 24.8% to US\$11.9 million from US\$15.8 million for the six months ended June 30, 2004 primarily due to a 24.3% decrease in average amounts owed to banks to US\$519.1 million for the six months ended June 30, 2005, from US\$685.8 million for the six months ended June 30, 2004. Average annual interest rates on due to other banks during the six months ended June 30, 2005 did not change considerably from the interest rates during the six months ended June 30, 2004.

*Interest expenses to promissory notes issued.* Interest expense related to promissory notes issued for the six months ended June 30, 2005, decreased by 64.8% to US\$7.3 million from US\$20.8 million for the six months ended June 30, 2004, primarily due to a 50.1% decrease in average amounts of promissory notes issued by the Alfa Banking Group from US\$518.0 million for the six months ended June 30, 2004, to US\$258.5 million for the six months ended June 30, 2005. Declining average interest rates payable on the promissory notes issued (which are effectively equal to the rates on the term deposits of corporate customers) also contributed to lower interest expenses related to promissory notes issued in the six months ended June 30, 2005, as compared to the six months ended June 30, 2004.

### *Provision for Loan Impairment*

The provision for loan impairment includes changes in the provision for loans and advances to customers. The following tables sets out details of changes in the provisions for loan impairment during the six months ended June 30, 2004 and 2005.

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
<b>Provision for loan impairment as of January 1</b> .....	<b>175,723</b>	<b>197,846</b>
Provision for loan impairment during the period.....	16,153	32,715
Loans written off during the period as uncollectible .....	-	(124)
<b>Provision for loan impairment as of June 30</b> .....	<b>191,876</b>	<b>230,437</b>

The increase in provision for loan impairment for the six months ended June 30, 2005 was US\$32.7 million compared to an increase in the provision for loan impairment of US\$16.2 million for the six months ended June 30, 2004. The increase in provision for loan impairment for the six months ended June 30, 2005 was primarily

attributable to an increase in loans and advances to customers. While the Alfa Banking Group expects provisions for loan impairment to increase in the future in line with the expected growth of the Alfa Banking Group's loan portfolio, management believes that its overall provisioning levels as a percentage of its loan portfolio will decrease due to: (a) the expected improvement in the credit quality of borrowers as the Russian economy continues to expand and (b) the expected improvement in the reliability of the credit histories of Russian borrowers and the expansion of the availability of reliable tools used to analyze the credit histories of Russian borrowers partly offset by the expected increase in the size of the Alfa Banking Group's retail and consumer finance loan portfolio. Management further believes that its retail loan portfolio will continue to have higher provisioning levels than its corporate loan portfolio but that, for the foreseeable future, its retail loan portfolio will continue to remain a relatively small portion of its overall loan portfolio. Its expected growth does not alter management's belief that the Alfa Banking Group's overall provisioning level as a percentage of its loan portfolio will decrease. The Alfa Banking Group has not recorded any provisions on loans due from other banks due to the high quality of the banks with which the Alfa Banking Group conducts its business and the short tenors of such interbank loans.

*Non-interest income*

The following table sets out certain information regarding the Alfa Banking Group's non-interest income for the six months ended June 30, 2004 and 2005:

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
Fee and commission income .....	67,870	73,450
Fee and commission expense .....	(17,834)	(19,896)
Gains less losses arising from trading securities .....	79	18,895
Gains less losses arising from investments available for sale.....	344	463
Gains less losses arising from trading in foreign currencies.....	5,149	(5,281)
Foreign exchange translation gains less losses .....	2,708	26,181
Other operating income.....	13,414	12,917
Other provisions.....	(2,117)	7,067
<b>Total non-interest income.....</b>	<b>69,613</b>	<b>113,796</b>

The Alfa Banking Group's non-interest income increased by 63.5% for the six months ended June 30, 2005 to US\$113.8 million from US\$69.6 million for the six months ended June 30, 2004. The increase in the Alfa Banking Group's non-interest income resulted from an increase in foreign exchange translation gains less losses, gains less losses from trading securities, net fee and commission income and other provisions (chiefly reflecting reversals of previously made provisions for credit-related commitments and receivables), which offset a net loss from trading in foreign currencies.

*Net fee and commission income.* The following table sets out certain information regarding the Alfa Banking Group's net fee and commission income for the six months ended June 30, 2004 and 2005:

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
<b>Fee and commission income</b>		
Commission on settlement transactions.....	30,190	37,094
Commission on cash and foreign currency exchange transactions.....	15,156	15,288
Commission on transactions with securities.....	10,324	5,897
Commission on guarantees issued.....	5,292	5,113
Commission for consulting services.....	4,432	4,242
Other.....	2,476	5,816
<b>Total fee and commission income.....</b>	<b>67,870</b>	<b>73,450</b>
<b>Fee and commission expense</b>		
Commission for consulting services.....	6,544	8,603
Commission on settlement transactions.....	4,317	7,769
Commission on transactions with securities.....	1,948	1,515
Commission on cash and foreign currency exchange transactions.....	1,072	1,478
Other.....	3,953	531
<b>Total fee and commission expense.....</b>	<b>17,834</b>	<b>19,896</b>
<b>Net fee and commission income.....</b>	<b>50,036</b>	<b>53,554</b>

Net fee and commission income for the six months ended June 30, 2005 increased by 7.0% to US\$53.6 million from US\$50.0 million for the six months ended June 30, 2004. This increase was primarily attributable to an increase in net fee and commission income from settlement and cash transactions, which was partly offset by a decrease in net fee and commission income on transactions with securities. The increase in net fee and commission income resulted from the expansion of the Alfa Banking Group's customer base. The Alfa Banking Group's customer account balances increased by 10.9% to US\$4,690.1 million as of June 30, 2005, from US\$4,229.5 million as of June 30, 2004, which in turn led to an increase in the volume of client transactions.

*Net income from trading in securities.* Net income from trading securities for the six months ended June 30, 2005 increased to US\$18.9 million from US\$0.1 million for the six months ended June 30, 2004 primarily as a result of significant gains in the Alfa Banking Group's Russian equity and debt securities portfolio for the six months ended June 30, 2005.

*Net income from trading in foreign currencies and net foreign exchange translation.* The structure of the Alfa Banking Group's net balance sheet position and off-balance sheet net notional position as of June 30, 2005 changed considerably compared to June 30, 2004, following the increase in the Alfa Banking Group's use of derivative financial instruments. According to the Alfa Banking Group's accounting policies, revaluation of currency derivatives is accounted for as results from trading in foreign currencies, and revaluation of balance sheet items is accounted for as foreign exchange translation. Therefore, the Alfa Banking Group's management believes that results from trading in foreign currencies and foreign exchange translation should be analyzed together to reflect the combined effect of the Alfa Banking Group's net balance sheet position and any revaluation of derivatives used in part to hedge such positions. Foreign exchange trading and foreign exchange translation results increased from US\$7.9 million for the six months ended June 30, 2004 to US\$20.9 million for the six months ended June 30, 2005, principally as a result of differences in the movement of the U.S. Dollar relative to the Russian Ruble during such periods. The U.S. Dollar appreciated against the Russian Ruble in the six months ended June 30, 2005, which resulted in significant foreign exchange translation gains during such period, whereas the U.S. Dollar depreciated against the Russian Ruble in the six months ended June 30, 2004, which negatively affected foreign exchange translation income.

*Other operating income.* Other operating income principally includes fines and penalties received by the Alfa Banking Group from its customers and dividend income from equity investments, as well as certain other income such as trading income from precious metals and income from disposals. Other operating income decreased by 3.7% to US\$12.9 million for the six months ended June 30, 2005 compared to US\$13.4 million for the six months ended June 30, 2004, resulting in part from decreased dividend income as well as a decrease in other income, which was partly offset by an increase in fines and penalties received.

*Other provisions.* Other provisions principally consist of provisions for credit related commitments and receivables. The Alfa Banking Group recorded income from the release of other provisions of US\$7.1 million for the six months ended June 30, 2005, as compared to an expense of US\$2.1 million for the six months ended June 30, 2004. Other provisions in the amount of US\$7.1 million for the six months ended June 30, 2005 consisted of recoveries of provisions against credit related commitments and recoveries of provisions for the impairment of receivables. The provision against credit related commitments decreased from US\$21.1 million as of December 31, 2004 to US\$20.5 million as of June 30, 2005, due to the overall decrease of provisioning rates, which resulted in a recovery from that category in the amount of US\$0.6 million. The provision for impairment of receivables decreased from US\$13.9 million as of December 31, 2004 to US\$7.4 million as of June 30, 2005, primarily due to the recovery of a provision related to the insolvency of Sodbusinessbank, which was resolved in 2005 and resulted in the overall recovery of provisions in the amount of US\$6.5 million.

### *Operating Expenses*

The following table sets out the major components of the Alfa Banking Group's operating expenses for the six months ended June 30, 2004 and 2005:

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
Staff costs .....	69,711	97,464
Depreciation and other expenses related to premises and equipment and intangible assets .....	14,793	15,258
Rent .....	9,550	11,522
Computer and telecommunications expenses .....	6,753	7,421
Consulting and professional services .....	5,477	6,936
Maintenance .....	6,828	6,289
Administrative expenses .....	6,055	5,122
Taxes other than income tax .....	8,382	4,503
Heat and utilities .....	1,620	2,017
Advertising and marketing .....	4,287	1,966
Travel expenses .....	1,500	1,777
Other .....	13,551	9,330
<b>Total operating expenses</b> .....	<b>148,507</b>	<b>169,605</b>

Operating expenses increased by 14.2% to US\$169.6 million for the six months ended June 30, 2005 from US\$148.5 million for the six months ended June 30, 2004. The increase in operating expenses for the six months ended June 30, 2005 was primarily attributable to an increase in staff costs (which include remuneration to employees as well as social taxes (*i.e.*, payments made by Russian employers to the State Social Security Fund and the Federal Medical Insurance Fund)), due to higher levels of staff bonuses in the first half of 2005 as compared to the first half of 2004, as well as an approximately 10% increase in the level of employee salaries for the six months ended June 30, 2005. Staff costs grew to US\$97.5 million for the six months ended June 30, 2005 from US\$69.7 million for the six months ended June 30, 2004. Depreciation and other expenses related to premises and equipment and intangible assets increased slightly by 3.1% to US\$15.3 million for the six months ended June 30, 2005 from US\$14.8 million for the six months ended June 30, 2004. Rent expenses increased by 20.6% to US\$11.5 million for the six months ended June 30, 2005 from US\$9.6 million for the six months ended June 30, 2004 due to increases in rent prices during the period and the increased rental space requirements of the Alfa Banking Group.

### *Share of Profit of Associated Company*

The share of profit in an associated company consists of the Alfa Banking Group's share of profit in CTC Media Inc., a Delaware corporation that is engaged primarily in making investments in television and radio assets ("*CTC Media*"), in which the Alfa Banking Group held a 29.1% interest as of June 30, 2005. In August 2004, the Alfa Banking Group purchased an additional 5.8% interest in CTC Media for US\$17.1 million. In the six months ended June 30, 2005, the Alfa Banking Group recorded a US\$6.2 million share of profit in associated company as compared to a US\$6.3 million share of profit in the first six months of 2004.

### *Income Tax Expense*

For the six months ended June 30, 2005, the Alfa Banking Group's income tax expense increased by 217.7% to US\$18.5 million from US\$5.8 million for the six months ended June 30, 2004. The statutory income tax rate applicable to the majority of Alfa-Bank's income was 24% for both periods under review. The income tax rate applicable to the majority of the Alfa Banking Group's income from investment banking operations ranged from 0% to 10% during both periods under review. The increase in income tax expense of the Alfa Banking Group is attributable in part to a corresponding increase in the Alfa Banking Group's profit before income tax, which grew by 79.2% for the six months ended June 30, 2005 as compared to the six months ended June 30, 2004. The increase in the Alfa Banking Group's income tax expense outpaced the growth in its profit before income tax as recorded under IFRS due in part to a decrease in the difference in provisions for loan impairment recorded in accordance with IFRS and statutory tax regulations, which had the effect of decreasing the Alfa Banking Group's tax deductible expenses, for the six months ended June 30, 2005, as compared to the six months ended June 30, 2004.

	<b>Six months ended June 30,</b>	
	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>	
<b>IFRS profit before tax</b> .....	<b>59,020</b>	<b>105,788</b>
Theoretical tax charge at the applicable statutory rate of 24% .....	14,165	25,389
<b>Tax effect of items which are not deductible or assessable for taxation purposes:</b>		
Difference in provisions in accordance with IFRS and statutory rules .....	(16,528)	(7,529)
Non deductible expenses .....	1,880	2,679
Income which is exempt from taxation .....	(673)	(1,674)
Loss/(gain) earned in lower tax jurisdictions .....	5,533	(1,601)
Other .....	1,454	1,252
Tax effect of utilization of tax loss carry forward .....	(1,654)	-
Tax effect of expiry of tax carry forward .....	1,651	-
<b>Income tax expense for the period</b> .....	<b><u>5,828</u></b>	<b><u>18,516</u></b>

See Note 23 to the Interim Financial Statements for additional details regarding the Alfa Banking Group's income tax expenses.

### *Profit*

With respect to the increased profitability mentioned above for the six months ended June 30, 2005, the Alfa Banking Group's net profit increased by 64.1% to US\$87.3 million, compared to US\$53.2 million for the six months ended June 30, 2004.

## **Results of Operations for the Years Ended December 31, 2003 and 2004**

### *Summary*

The following table sets forth the principal components of the Alfa Banking Group's profit for the periods indicated.

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
Interest income .....	484,300	548,467
Interest expense .....	(242,490)	(236,143)
<b>Net interest income</b> .....	<b>241,810</b>	<b>312,324</b>
Provision for loan impairment .....	(42,069)	(23,971)
<b>Net interest income after provision for loan impairment</b> .....	<b>199,741</b>	<b>288,353</b>
Fee and commission income .....	135,818	145,898
Fee and commission expense .....	(41,150)	(30,380)
Gains less losses arising from trading securities .....	18,987	63,804
Gains less losses arising from investments available for sale .....	31,054	34,009
Gains less losses arising from trading in foreign currencies .....	38,908	(3,468)
Foreign exchange translation gains less losses .....	(15,968)	(5,248)
Other impairment provisions .....	(4,450)	(22,212)
Other operating income .....	58,419	51,073
<b>Operating income</b> .....	<b>421,359</b>	<b>521,829</b>
Operating expenses .....	(305,553)	(350,738)
<b>Profit from operations</b> .....	<b>115,806</b>	<b>171,091</b>
Share of profit of associated company .....	920	13,621
<b>Profit before tax</b> .....	<b>116,726</b>	<b>184,712</b>
Income tax expense .....	(11,011)	(31,522)
<b>Profit</b> .....	<b>105,715</b>	<b>153,190</b>

#### *Net Interest Income*

The Alfa Banking Group's net interest income before provisions for the year ended December 31, 2004 increased by approximately 29.2% to US\$312.3 million from net interest income before provisions of US\$241.8 million for the year ended December 31, 2003. This increase resulted from an overall increase in interest income and a slight decline in interest expense.

The following table sets out the principal components of the Alfa Banking Group's interest income and interest expense for the years ended December 31, 2003 and 2004:

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
<b>Interest income</b>		
Loans and advances to customers .....	410,218	489,311
Trading securities .....	55,713	45,018
Due from other banks .....	18,369	14,138
<b>Total interest income</b> .....	<b>484,300</b>	<b>548,467</b>
<b>Interest expense</b>		
Term deposits of legal entities .....	45,952	63,248
Term deposits of individuals .....	57,899	56,360
Other borrowed funds .....	24,249	40,485
Due to other banks .....	38,592	27,274
Promissory notes issued .....	52,736	26,530
Current/settlement accounts .....	23,062	22,246
<b>Total interest expense</b> .....	<b>242,490</b>	<b>236,143</b>
<b>Net interest income</b> .....	<b>241,810</b>	<b>312,324</b>

#### *Interest Income*

Total interest income increased by 13.2% to US\$548.5 million for the year ended December 31, 2004 from US\$484.3 million for the year ended December 31, 2003.

*Interest income from loans and advances to customers.* Interest income from loans and advances to customers (retail and corporate) increased by 19.3% from US\$410.2 million for the year ended December 31, 2003 to US\$489.3 million for the year ended December 31, 2004. This increase resulted primarily from a greater volume of loans outstanding, which was offset by a decrease in effective interest rates caused by increased competition in the Russian banking market and excessive liquidity in the market.

*Interest income from trading securities.* Interest income from trading securities for the year ended December 31, 2004 fell by 19.2% to US\$45.0 million from US\$55.7 million for the year ended December 31, 2003. This decrease resulted primarily from a decrease in yields payable on Russian debt securities as well as a decrease in the Alfa Banking Group's debt securities portfolio.

*Interest income from due from other banks.* Interest income from due from other banks decreased by 23.0% from US\$18.4 million for the year ended December 31, 2003 to US\$14.1 million for the year ended December 31, 2004. While the average amount of deposits and reverse sale and repurchase agreements with other banks increased by 64.7% from US\$186.3 million for the year ended December 31, 2003 to US\$306.9 million for the year ended December 31, 2004, the average interest rates on the interbank market declined significantly from 9.9% in 2003 to 4.6% in 2004.

#### *Interest Expense*

Total interest expense decreased by 2.6% to US\$236.1 million for the year ended December 31, 2004 from US\$242.5 million for the year ended December 31, 2003. The decrease in total interest expense was primarily attributable to a decrease in interest expense related to promissory notes issued and a decrease in interest expense on amounts due to other banks, which was offset by an increase in interest expense on term deposits of legal entities and an increase in interest expenses related to other borrowed funds.

*Interest expenses related to term deposits of legal entities.* Interest expenses related to term deposits of corporate and state entity customers increased by 37.6% for the year ended December 31, 2004 to US\$63.2 million from US\$46.0 million for the year ended December 31, 2003. This increase resulted from an increase in term deposits by corporate and state customers reflecting the growth in the Alfa Banking Group's customer base, which was partly offset by lower average annual interest rates paid. Average amounts of term deposits due to corporate and state customers increased by 144.7% for the year ended December 31, 2004 to US\$1,444.0 million from US\$590.1 million for the year ended December 31, 2003.

*Interest expenses related to other borrowed funds.* Interest expenses related to other borrowed funds for the year ended December 31, 2004 increased by 67.0% to US\$40.5 million from US\$24.2 million for the year ended December 31, 2003. This significant increase resulted from a 112.6% increase in average balances of other borrowed funds from US\$241.9 million for the year ended December 31, 2003 to US\$514.3 million for the year ended December 31, 2004, which was partially offset by lower interest rates payable on other borrowed funds.

*Interest expenses related to due to other banks.* Interest expense related to due to other banks for the year ended December 31, 2004 fell by 29.3% to US\$27.3 million from US\$38.6 million for the year ended December 31, 2003, primarily due to a 17.2% decrease in average amounts owed to other banks to US\$623.9 million for the year ended December 31, 2004 from US\$753.9 million for the year ended December 31, 2003. Interest rates payable by the Alfa Banking Group on funds in the interbank market during the year ended December 31, 2004 did not change substantially compared to the year ended December 31, 2003.

*Interest expenses related to term deposits of individuals.* Interest expense related to term deposits of individuals for the year ended December 31, 2004 decreased slightly by 2.7% to US\$56.4 million from US\$57.9 million for the year ended December 31, 2003, primarily due to a decline in interest rates paid on individual term deposits in 2004 as compared to 2003. In addition, term deposits of individuals increased only slightly, by 0.2%, from US\$961.9 million as of December 31, 2003 to US\$964.2 million as of December 31, 2004, primarily as a result of a temporary slow-down in the growth of the Alfa Banking Group's term deposits of individuals as certain customers suspended or terminated their accounts due to a perceived liquidity problem in the Russian banking market in the summer of 2004. Average amounts on term deposits of individuals increased by 25.2% for the year ended December 31, 2004 to US\$947.0 million from US\$756.3 million for the year ended December 31, 2003.



*Interest expenses related to promissory notes issued.* Interest expense related to promissory notes issued for the year ended December 31, 2004 decreased by 49.7% to US\$26.5 million from US\$52.7 million for the year ended December 31, 2003, primarily due to a substantially lower amount of promissory notes in issue as the Alfa Banking Group increasingly sought alternative forms of funding, including, in particular, longer-term funding through international debt markets. Average amounts of promissory notes issued decreased for the year ended December 31, 2004 to US\$414.0 million from US\$657.2 million for the year ended December 31, 2003.

*Interest expenses related to current/settlement accounts.* Interest expense related to current/settlement accounts for the year ended December 31, 2004 decreased by 3.5% to US\$ 22.2 million from US\$23.1 million for the year ended December 31, 2003, primarily due to a decline in interest rates paid on current/settlement accounts in 2004 as compared to 2003. Average amounts of current/settlement accounts increased by 20.5% for the year ended December 31, 2004 to US\$1,649.7 million from US\$1,363.0 million for the year ended December 31, 2003.

#### *Provision for Loan Impairment*

The following tables sets out details of changes in the provisions for loan impairment during the years ended December 31, 2003 and 2004.

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
<b>Provision for loan impairment as of January 1</b> .....	<b>134,921</b>	<b>175,723</b>
Provision for loan impairment during the year.....	42,119	23,971
Loans written off during the year as uncollectible.....	(1,317)	(1,848)
<b>Provision for loan impairment as of December 31</b> .....	<b>175,723</b>	<b>197,846</b>

The increase in the provision for loan impairment for the year ended December 31, 2004 was US\$24.0 million compared to an increase in the provision for loan impairment of US\$42.1 million for the year ended December 31, 2003. The decrease in the growth rate of the provision for loan impairment recorded during the year ended December 31, 2004 was primarily attributable to the slower growth of the Alfa Banking Group's total loan portfolio and the assessment of the Alfa Banking Group of ongoing improvements in the credit quality of Russian borrowers as the Russian economy continued to expand.

#### *Non-interest income*

The following table sets out certain information regarding the Alfa Banking Group's non-interest income for the years ended December 31, 2003 and 2004:

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
Fee and commission income .....	135,818	145,898
Fee and commission expense .....	(41,150)	(30,380)
Gains less losses arising from trading securities .....	18,987	63,804
Gains less losses arising from investments available for sale.....	31,054	34,009
Gains less losses arising from trading in foreign currencies.....	38,908	(3,468)
Foreign exchange translation gains less losses.....	(15,968)	(5,248)
Other provisions .....	(4,450)	(22,212)
Other operating income .....	58,419	51,073
<b>Total non-interest income</b> .....	<b>221,618</b>	<b>233,476</b>

The Alfa Banking Group's non-interest income increased by 5.4% for the year ended December 31, 2004 to US\$233.5 million from US\$221.6 million for the year ended December 31, 2003. The increase in the Alfa Banking Group's non-interest income resulted from an increase in net fee and commission income and net income from trading in securities, which offset a decline in net loss from trading in foreign currencies and an increase in other impairment provisions.

*Net fee and commission income.* The following table sets out certain information regarding the Alfa Banking Group's net fee and commission income for the years ended December 31, 2003 and 2004:

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
<b>Fee and commission income</b>		
Commission on settlement transactions.....	51,595	60,800
Commission on cash and foreign currency exchange transactions .....	24,134	29,852
Commission for consulting services.....	12,537	23,377
Commission on transactions with securities .....	9,225	14,585
Commission on guarantees issued.....	9,916	11,632
Commission income from the Alfa Eco Group .....	10,430	-
Commission income in relation to formation of TNK-BP Limited .....	4,015	-
Other.....	13,966	5,652
<b>Total fee and commission income</b> .....	<b>135,818</b>	<b>145,898</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions.....	5,162	12,779
Commission for consulting services.....	24,480	9,687
Commission on transactions with securities .....	3,672	4,893
Commission on cash and foreign currency exchange transactions .....	4,752	2,203
Other.....	3,084	818
<b>Total fee and commission expense</b> .....	<b>41,150</b>	<b>30,380</b>
<b>Net fee and commission income</b> .....	<b>94,668</b>	<b>115,518</b>

Net fee and commission income for the year ended December 31, 2004 increased by 22.0% to US\$115.5 million from US\$94.7 million for the year ended December 31, 2003. This increase was primarily attributable to an increase in net fee and commission income from settlement and cash transactions and an increase in net fee and commission income received for consulting services and a decrease in commission expenses for consulting services, which was partly offset by a decrease in net fee and commission income from the Alfa Eco Group and a decrease in "fee and commission income on other operations." Commissions received for consulting services increased by 86.5% from US\$12.5 million for the year ended December 31, 2003 to US\$23.4 million for the year ended December 31, 2004, principally due to fees amounting to US\$12.7 million for participating in a significant one-off transaction involving the sale of Linnotex Developments by Vimpelcom Finance BV, a related party of the Alfa Banking Group. The Alfa Banking Group also received commissions amounting to US\$10.4 million in 2003 in connection with certain significant investment transactions of the Alfa Eco Group.

*Gains less losses from trading securities.* Net income from trading securities for the year ended December 31, 2004 increased to US\$63.8 million from US\$19.0 million for the year ended December 31, 2003, primarily as a result of significant gains in the Alfa Banking Group's Russian debt and equity securities portfolio for the year ended December 31, 2004, reflecting in part the strong performance of the Russian securities market in 2004.

*Gains less losses from trading in foreign currencies and from foreign exchange translation.* The structure of the Alfa Banking Group's net balance sheet position and off-balance sheet net notional position during the year ended December 31, 2004 changed considerably compared to the year ended December 31, 2003, following the increase in the Alfa Banking Group's use of derivative financial instruments. According to the Alfa Banking Group's accounting policies, revaluation of currency derivatives is accounted for as gains less losses from trading in foreign currencies and revaluation of balance sheet items is accounted for as gains less losses from foreign exchange translation. Therefore, management believes that gains less losses from trading in foreign currencies and foreign exchange translation should be analyzed together to reflect the combined effect of the Alfa Banking Group's net balance sheet position and any revaluation of derivatives used in part to hedge such positions. Foreign exchange trading and foreign exchange translation results decreased from gains of US\$22.9 million for the year ended December 31, 2003, to losses of US\$8.7 million for the year ended December 31, 2004 primarily due to the depreciation of the U.S. Dollar against the Russian Ruble and the resulting decrease in value of the off-balance sheet net notional position represented by short positions in U.S. Dollars (as the principal rate of exchange used for

translating foreign currency balances changed from US\$1.00 = RR 29.4545 for the year ended December 31, 2003 to US\$1.00 = RR 27.7487 for the year ended December 31, 2004).

*Other operating income.* Other operating income includes fines and penalties received and paid by the Alfa Banking Group, dividend income from equity investments, structured finance income, which principally includes dealings in debt of other companies that was acquired at a discount, trading income from precious metals and certain other income. Other operating income decreased by 12.6% from US\$58.4 million for the year ended December 31, 2003 to US\$51.1 million for the year ended December 31, 2004, primarily due to decreased structured finance income partly offset by increases in income from fines and penalties and other income. Gains from structured finance for the year ended December 31, 2003 included a gain in the amount of US\$20.9 million from the restructuring of the debt of a large telecommunications company.

*Other provisions.* The Alfa Banking Group recorded other provisions of US\$22.2 million for the year ended December 31, 2004, as compared to other provisions of US\$4.5 million for the year ended December 31, 2003. Other provisions in the amount of US\$22.2 million for the year ended December 31, 2004, consisted of an increase in the provision against credit related commitments, and an increase in provision for impairment of receivables. The provision against credit related commitments increased from US\$7.8 million as of December 31, 2003 to US\$21.1 million as of December 31, 2004 due to an increase in the credit related commitments portfolio by 55.8% and an overall increase of provisioning rates of such borrowers, which resulted in an additional provision of US\$13.3 million. The provision for impairment of receivables increased from US\$7.8 million as of December 31, 2003 to US\$13.9 million as of December 31, 2004 primarily due to the creation of a provision related to a legal case involving the insolvency of Sodbusinessbank, which resulted in an increase of the provision by US\$7.1 million and the overall increase in provisions by US\$6.1 million.

#### *Operating Expenses*

The following table sets out the major components of the Alfa Banking Group's operating expenses for the years ended December 31, 2003 and 2004:

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<i>(US\$ thousands)</i>	
Staff costs .....	142,315	187,049
Depreciation and other expenses related to premises and equipment and intangible assets .....	26,932	33,159
Rent, heat and utilities .....	22,151	26,553
Computer and telecommunications expenses .....	13,422	20,674
Taxes other than income tax .....	20,770	20,387
Consulting and professional services .....	13,462	16,607
Maintenance .....	18,798	12,659
Advertising and marketing .....	19,906	7,714
Travel expenses .....	3,608	3,046
Other .....	24,189	22,890
<b>Total operating expenses</b> .....	<b>305,553</b>	<b>350,738</b>

Operating expenses increased by 14.8% to US\$350.7 million for the year ended December 31, 2004 from US\$305.6 million for the year ended December 31, 2003. The increase in operating expenses for the year ended December 31, 2004 was primarily attributable to an increase in staff costs (which include remuneration to employees as well as social taxes) due to increases in employee salaries and bonuses for the year ended December 31, 2004, although the number of employees decreased. Staff costs grew to US\$187.0 million for the year ended December 31, 2004 from US\$142.3 million for the year ended December 31, 2003. Depreciation and other expenses related to premises and equipment and intangible assets increased by 23.1% to US\$33.2 million for the year ended December 31, 2004 from US\$26.9 million for the year ended December 31, 2003, primarily due to higher levels of retirement of fixed assets during 2004 as compared to 2003. Rent, heat and utilities expenses increased by 19.9% to US\$26.6 million for the year ended December 31, 2004 from US\$22.2 million for the year

ended December 31, 2003 due to increases in rent prices during the period. The Alfa Banking Group also recorded substantially lower advertising costs in 2004 as compared to 2003 as a result of general cost-cutting measures.

#### *Share of Profit of Associated Company*

The share of profit in an associated company consists of the Alfa Banking Group's share of profit in CTC Media. In August 2004, the Alfa Banking Group purchased an additional 5.8% interest in CTC Media for US\$17.1 million. In the year ended December 31, 2004, the Alfa Banking Group recorded a US\$13.6 million share of profit in this associated company as compared to a US\$0.9 million share of profit in the year ended December 31, 2003 mainly as a result of higher profits reported by CTC Media in 2004.

#### *Income Tax Expense*

For the year ended December 31, 2004, the Alfa Banking Group's income tax expense increased by 186.3% to US\$31.5 million from US\$11.0 million for the year ended December 31, 2003. The statutory income tax rate applicable to the majority of the Alfa Banking Group's income was 24% for both periods under review. The income tax rate applicable to the majority of the Alfa Banking Group's income from investment banking operations ranged from 0% to 10% in 2004 and from 0% to 5% in 2003. The increase in income tax expense of the Alfa Banking Group is attributable in part to an increase in the Alfa Banking Group's profit before income tax, which grew by 58.2% for the year ended December 31, 2004, as compared to the year ended December 31, 2003. The increase in the Alfa Banking Group's income tax expense outpaced the growth in its profit before income tax primarily due to an increase of losses generated in lower tax jurisdictions offset in part by an increase of the difference in provisions in accordance with IFRS and statutory tax regulations.

	<b>Year ended December 31,</b>	
	<b>2003</b>	<b>2004</b>
<b>IFRS profit before tax</b> .....	<b>116,726</b>	<b>184,712</b>
Theoretical tax charge at the applicable statutory rate .....	28,014	44,331
Tax effect of items which are not deductible or assessable for taxation purposes:		
Difference in provisions in accordance with IFRS and statutory rules .....	(15,459)	(32,513)
Non deductible expenses .....	5,943	1,545
Income which is exempt from taxation.....	(2,211)	(6,370)
Loss/(gain) earned in lower tax jurisdictions .....	(7,560)	29,985
Other .....	8,607	34
Tax effect of loss used during the year .....	(1,648)	(5,490)
Tax effect of loss carry forward.....	(4,675)	-
<b>Income tax expense for the year</b> .....	<b>11,011</b>	<b>31,522</b>

See Note 21 to the Annual Financial Statements for additional details regarding the Alfa Banking Group's income tax expenses.

#### *Profit*

For the year ended December 31, 2004, the Alfa Banking Group's net profit increased by 44.6% to US\$152.8 million, compared to US\$105.6 million for the year ended December 31, 2003.

#### **Cash Flows**

The following table sets out the Alfa Banking Group's main sources of cash for the years ended December 31, 2003 and 2004 and for the six months ended June 30, 2004 and 2005:

	Year ended December 31,		Six months ended June 30,	
	2003	2004	2004	2005
	<i>(US\$ thousands)</i>			
Net cash flows from (used in) operating activities ....	268,433	(359,226)	(404,674)	(254,825)
Net cash flows from (used in) investing activities.....	57,799	23,108	(12,433)	(69,196)
Net cash flows from financing activities .....	181,284	382,450	186,536	548,159
Net increase (decrease) in cash and cash equivalents.....	540,957	74,087	(230,571)	224,138
Cash and cash equivalents, at beginning of the year.....	382,234	923,191	923,191	997,278
Cash and cash equivalents, at end of the year.....	923,191	997,278	696,604	1,177,318

### *Operating Activities*

For the six months ended June 30, 2005, US\$254.8 million of net cash was used in operating activities, compared to US\$404.7 million for the six months ended June 30, 2004. The decline in net cash used in operating activities resulted primarily from changes in operating assets and liabilities, an increase of interest income received and a decrease of other operating expenses paid.

For the year ended December 31, 2004, net cash used in the Alfa Banking Group's operating activities was US\$359.2 million, compared to US\$268.4 million generated from operating activities for the year ended December 31, 2003. This change resulted primarily from changes in operating assets and liabilities, the increase of interest expense, staff compensation and income taxes paid.

### *Investing Activities*

For the six months ended June 30, 2005, net cash used in the Alfa Banking Group's investing activities was US\$69.2 million, compared to net cash used in investing activities of US\$12.4 million for the six months ended June 30, 2004. The increase in net cash used in investing activities resulted primarily from the purchase of an 8.3% interest in Amtel Holdings, a tire manufacturing company, for US\$45 million and investments in other available for sale securities.

For the year ended December 31, 2004, net cash from investing activities was US\$23.1 million, compared to US\$57.8 million for the year ended December 31, 2003. The decrease in net cash from investing activities in 2004 resulted primarily from lower levels of proceeds from disposals of available for sale investments and higher levels of purchases of investments available for sale.

### *Financing Activities*

For the six months ended June 30, 2005, net cash from financing activities was US\$548.2 million compared to US\$186.5 million from financing activities for the six months ended June 30, 2004. The increase in net cash from financing activities resulted from the issuance of two series of notes under Alfa-Bank's Euro Medium Term Notes Program and the receipt of a syndicated loan from a consortium of large international banks. See "—Liquidity" for further information on these financings.

For the year ended December 31, 2004, net cash from financing activities was US\$382.5 million compared to US\$181.3 million from financing activities for the year ended December 31, 2003. The increase in net cash from financing activities during 2004 resulted from an increased amount of other borrowed funds as described above.

Cash and cash equivalents as of June 30, 2005 and December 31, 2004 and 2003 were US\$1,177.3 million, US\$997.3 million and US\$923.2 million, respectively.

## Liquidity

The Alfa Banking Group's primary source of funds is and has been its corporate and retail deposit base, which consists primarily of current accounts and term deposits. The Alfa Banking Group has a large and diverse funding base, servicing approximately 40,000 corporate clients and approximately 1.2 million retail clients as of June 30, 2005. Total customer accounts increased to US\$4,690.1 million, as of June 30, 2005, compared to US\$4,492.1 million, as of December 31, 2004, and US\$3,400.4 million, as of December 31, 2003. Highly liquid assets (comprising cash and cash equivalents, bank deposits and trading securities) represented 29.9% of the Alfa Banking Group's balance sheet assets as of June 30, 2005, compared to 32.5% and 29.7% as of December 31, 2004 and December 31, 2003, respectively.

The Alfa Banking Group also funds its operations through capital increases, short-term and medium-term loans from international banks and the placement of Eurobonds in the international capital markets.

On June 24, 2004, Alfa-Bank received a syndicated loan in the amount of US\$120 million from a consortium of large international banks. Initially, the loan had a maturity date of June 24, 2005, and bore interest at a floating rate equal to LIBOR *plus* 2.0% *per annum* payable semi-annually. On June 24, 2005, Alfa-Bank repaid US\$47 million of this loan and rolled over the balance in the amount of US\$73 million. The rolled-over balance matures on June 15, 2006. As of June 30, 2005, the effective interest rate on the loan was 5.9% *per annum*. The issue proceeds of the loan net of transaction costs were equal to US\$118.8 million.

On December 3, 2004, Alfa-Bank received a syndicated loan in the amount of US\$65 million from a consortium of large international banks. The loan matured on December 2, 2005, and bore a floating interest rate equal to LIBOR *plus* 1.8% *per annum*, payable semi-annually. As of June 30, 2005, the effective interest rate was 6.4% *per annum*. The issue proceeds of the loan net of transaction costs were equal to US\$64.3 million.

On June 7, 2005, Alfa-Bank received a syndicated loan in the amount of US\$230 million from a consortium of large international banks. The loan matures on June 6, 2006, and bears a floating interest rate equal to LIBOR *plus* 1.5% *per annum* payable semi-annually. As of June 30, 2005 the effective interest rate was 6.1% *per annum*. Issue proceeds net of transaction costs were equal to US\$227.7 million.

On June 22, 2004, the Alfa Banking Group established a Euro Medium Term Note Program ("*MTN Program*"). The aggregate principal amount of outstanding notes issued under the MTN Program at any time may not exceed US\$1,000 million. On October 12, 2004, the Alfa Banking Group issued notes under the MTN Program with an aggregate nominal amount of US\$190 million. The notes carry a fixed coupon at a rate of 8.0% *per annum* payable semi-annually and mature on April 13, 2006. Issue proceeds from the notes net of transaction costs and discount amounted to US\$187.8 million, and the effective interest rate at origination was 9.1% *per annum*. On February 9, 2005, the Alfa Banking Group issued notes under the MTN Program with an aggregate nominal amount of US\$150 million. The notes carry a fixed coupon at a rate of 7.8% *per annum* payable semi-annually and mature on February 9, 2007. Issue proceeds net of transaction costs and discount amounted to US\$148.3 million, and the effective interest rate at origination was 8.5% *per annum*. On June 28, 2005, the Alfa Banking Group issued notes under the MTN Program with an aggregate nominal amount of US\$250 million. The notes carry a fixed coupon at a rate of 7.8% *per annum* payable semi-annually and mature on July 2, 2008. Issue proceeds net of transaction costs and discount amounted to US\$248.7 million, and the effective interest rate at origination was 8.1% *per annum*.

On November 19, 2002, the Alfa Banking Group issued U.S. Dollar denominated Eurobonds with a nominal value of US\$175 million. The bonds carried a fixed coupon at a rate of 10.8% *per annum* payable semi-annually and matured on November 19, 2005. Issue proceeds from the Eurobonds net of transaction costs and discount amounted to US\$171.1 million, and the effective interest rate at origination was 12.0% *per annum*.

On December 11, 2003, the Alfa Banking Group established a Euro Commercial Paper Program ("*ECP Program*"). Initially, the aggregate principal amount of outstanding notes issued under the ECP Program at any time was not to exceed US\$200 million, and the tenor of the notes may not be more than 365 days. In November 2005, the maximum allowed principal amount of outstanding notes was increased to US\$350 million. As of June 30, 2005, the nominal value of outstanding notes was US\$120.5 million, and they were issued at a discount to

the nominal value ranging from 3.4% to 7.7% depending upon the type of issue. As of June 30, 2005, the average effective interest rate at origination on the notes outstanding was 7.7% *per annum*.

On November 16, 2005, Alfa-Bank obtained a US\$275 million trade-related term syndicated loan, the largest syndicated loan received to date by a Russian private bank. The loan bears interest at LIBOR *plus* 1.0% *per annum*. The loan has a term of one year, and upon maturity can be extended for an additional 364-day period upon the consent of the lenders if a request for such extension is made by Alfa-Bank.

On December 9, 2005, the Alfa Banking Group, through a special purpose vehicle, issued US\$225 million of subordinated unsecured notes. The notes, which are included within “Tier 2” capital for capital adequacy calculations, bear interest at 8.625% *per annum*. The notes have a ten year maturity with the issuer having the right to call the notes after five years.

## Total Assets

The following table sets out the Alfa Banking Group’s assets as of December 31, 2003 and 2004 and June 30, 2005:

	As of December 31,		As of
	2003	2004	June 30, 2005
	<i>(US\$ thousands)</i>		
Cash and cash equivalents .....	923,191	997,278	1,177,318
Mandatory cash balances with central banks.....	293,294	139,549	171,423
Trading securities .....	694,575	717,050	651,306
Due from other banks .....	131,621	570,642	605,274
Loans and advances to customers.....	3,466,306	4,100,089	4,887,921
Investments.....	65,443	60,933	130,032
Other assets and receivables.....	159,983	275,690	370,156
Premises and equipment and intangible assets .....	149,721	146,891	141,268
Deferred tax asset .....	-	16,587	16,251
<b>Total assets</b> .....	<b>5,884,134</b>	<b>7,024,709</b>	<b>8,150,949</b>

The Alfa Banking Group’s assets increased by 16.0% to US\$8,150.9 million as of June 30, 2005, from US\$7,024.7 million as of December 31, 2004. The increase in total assets was primarily due to a 19.2% increase in net loans and advances to customers and an 18.1% increase in the Alfa Banking Group’s cash and cash equivalents. The Alfa Banking Group’s assets increased by 19.4% to US\$7,024.7 million as of December 31, 2004, from US\$5,884.1 million as of December 31, 2003. The increase in total assets was primarily due to an 18.3% increase in net loans and advances to customers and a 333.5% increase in amounts due from other banks.

### *Loans and advances to customers*

Net loans and advances to customers increased by 19.2% to US\$4,887.9 million as of June 30, 2005, from US\$4,100.1 million as of December 31, 2004. Net loans and advances to customers accounted for 60.0% of the Alfa Banking Group’s total assets as of June 30, 2005. The growth in net loans and advances to customers as of June 30, 2005, as compared to December 31, 2004 was primarily attributable to the Alfa Banking Group’s regional expansion and the growth of its customer base.

Net loans and advances to customers increased by 18.3% to US\$4,100.1 million as of December 31, 2004, from US\$3,466.3 million as of December 31, 2003. The growth in net loans and advances to customers as of December 31, 2004, as compared to December 31, 2003 was primarily attributable to the Alfa Banking Group’s regional expansion and the growth of its customer base.

### *Trading securities*

The Alfa Banking Group’s trading securities portfolio decreased by 9.2% from US\$717.1 million as of December 31, 2004 to US\$651.3 million as of June 30, 2005. The trading securities portfolio accounted for 8.0%

and 10.2% of the Alfa Banking Group's total assets as of June 30, 2005 and December 31, 2004, respectively. See "Risk Management—Liquidity Risk."

The Alfa Banking Group's trading securities portfolio increased by approximately 3.2% from US\$694.6 million as of December 31, 2003 to US\$717.1 million as of December 31, 2004.

#### *Cash and cash equivalents*

As of June 30, 2005, cash and cash equivalent increased by 18.1% from US\$997.3 million as of December 31, 2004 to US\$1,177.3 million. The increase is primarily attributable to an increase in the Alfa Banking Group's correspondent accounts and overnight accounts with foreign banks, as well as to the general increase in the Alfa Banking Group's total assets and liabilities and the Alfa Banking Group's obligation to support its liquidity to match the growth of its liabilities.

As of December 31, 2004, cash and cash equivalents increased by 8.0% from US\$923.2 million as of December 31, 2003 to US\$997.3 million. The increase is primarily attributable to an increase in cash on hand and held in Alfa-Bank's correspondent accounts with the Central Bank, as well as to the general increase in the Alfa Banking Group's total assets and liabilities and the Alfa Banking Group's obligation to support its liquidity to match the growth of its liabilities.

#### *Due from other banks*

As of June 30, 2005, the amount due from other banks increased by 6.1% to US\$605.3 million from US\$570.6 million as of December 31, 2004. Changes in amounts due from other banks is largely a function of the Alfa Banking Group's liquidity position at any particular point in time.

As of December 31, 2004, due from other banks increased by 333.5% to US\$570.6 million from US\$131.6 million as of December 31, 2003.

### **Total Liabilities**

The following table sets out the Alfa Banking Group's liabilities as December 31, 2003 and 2004 and as of June 30, 2005:

	<b>As of December 31,</b>		<b>As of</b>
	<b>2003</b>	<b>2004</b>	<b>June 30, 2005</b>
		<i>(US\$ thousands)</i>	
Due to other banks.....	796,301	499,958	538,154
Customer accounts .....	3,400,406	4,492,072	4,690,080
Promissory notes issued .....	594,940	206,223	310,828
Other borrowed funds.....	323,917	706,955	1,250,039
Other liabilities and payables .....	201,517	380,568	555,545
Deferred tax liability .....	13,448	28,501	30,168
<b>Total liabilities .....</b>	<b>5,330,529</b>	<b>6,314,277</b>	<b>7,374,814</b>

The Alfa Banking Group's total liabilities grew by 16.8% to US\$7,374.8 million as of June 30, 2005, from US\$6,314.3 million as of December 31, 2004. The increase in total liabilities was primarily due to a 76.8% increase in other borrowed funds, a 4.4% increase in customer accounts, a 50.7% increase in promissory notes issued and 46.0% increase in other liabilities and payables.

The Alfa Banking Group's total liabilities grew by 18.5% to US\$6,314.3 million as of December 31, 2004, from US\$5,330.5 million as of December 31, 2003. The increase in total liabilities was primarily due to a 32.1% increase in customer accounts and a 118.3% increase in other borrowed funds, partly offset by a 65.3% decrease in promissory notes issued and a 37.2% decrease in amounts due to other banks.



### Customer Accounts

The following table sets out the composition of the Alfa Banking Group's customer account portfolio as of December 31, 2003 and 2004 and June 30, 2005:

	As of December 31,		As of
	2003	2004	June 30, 2005
	<i>(US\$ thousands)</i>		
<b>Commercial organizations</b>			
Current/settlement accounts .....	944,284	1,296,757	1,653,746
Term deposits .....	1,076,782	1,261,851	868,068
<b>Individuals</b>			
Current/demand accounts .....	331,236	433,787	537,963
Term deposits .....	961,926	964,175	1,020,998
<b>State and public organizations</b>			
Current/settlement accounts .....	7,817	79,534	60,069
Term deposits .....	78,361	455,968	549,236
<b>Total customer accounts</b> .....	<b>3,400,406</b>	<b>4,492,072</b>	<b>4,690,080</b>

Current accounts of commercial organizations increased by 27.5% from US\$1,296.8 million as of December 31, 2004 to US\$1,653.7 million as of June 30, 2005, due to an increase of funds in accounts of existing clients (primarily Transneft, and the related parties Alfa Eco and Alfa Telecom) and opening of new current accounts. Current accounts of commercial organizations increased by 37.3% from US\$944.3 million as of December 31, 2003 to US\$1,296.8 million as of December 31, 2004, primarily due to the increase of funds in current accounts of Transneft and Alfa Eco. Term deposits of commercial organizations decreased by US\$393.8 million as of June 30, 2005, compared to December 31, 2004, primarily due to the repayment of a significant deposit from affiliate Alfa Petroleum. Term deposits of individuals remained substantially level at US\$964.2 million as of December 31, 2004, compared to US\$961.9 million as of December 31, 2003. The absence of significant growth during such periods principally reflects the effects of the "mini-banking crisis" in Russia in the summer of 2004, which resulted in a withdrawal of some of the Alfa-Bank's existing retail customer deposits. In the first half of 2005, term deposits of individuals grew by a moderate 5.9% from US\$964.2 as of December 31, 2004 to US\$1,021.0 million as of June 30, 2005. Term deposits of state and public organizations increased by 20.5% from US\$456.0 million as of December 31, 2004, compared to US\$549.2 million as of June 30, 2005, due mainly to an increase of deposits from the administration of the Uvatsky Region of Russia.

### Other borrowed funds

Other borrowed funds, including syndicated bonds, Eurobonds, medium-term notes and commercial paper, also serve as sources of funding. The aggregate amount of debt securities issued was US\$1,250.0 million representing 17.0% of the Alfa Banking Group's liabilities as of June 30, 2005, compared to US\$707.0 million or 11.2% of its liabilities as of December 31, 2004 and US\$323.9 million or 6.1% of its liabilities as of December 31, 2003. The following table sets out the Alfa Banking Group's other borrowed funds as of December 31, 2003 and 2004 and as of June 30, 2005.

	As of December 31,		As of
	2003	2004	June 30, 2005
	<i>(US\$ thousands)</i>		
Syndicated loans.....	82,237	225,218	366,563
Euro Medium Term Notes maturing in 2008.....	-	-	248,809
Euro Medium Term Notes maturing in 2006.....	-	191,348	191,921
Eurobonds .....	174,535	175,690	176,526
Euro Medium Term Notes maturing in 2007.....	-	-	142,810
Euro-Commercial Paper .....	50,442	46,390	116,317
Russian Ruble denominated bonds maturing in 2010.....	-	68,195	1,956
Other.....	16,703	114	5,137
<b>Total other borrowed funds</b> .....	<b>323,917</b>	<b>706,955</b>	<b>1,250,039</b>

The Alfa Banking Group increasingly has been using other borrowed funds as a source of funding both in absolute terms and as a percentage of its liabilities because of the diversification of funding and longer tenors than are obtainable through other sources of funds.

*Due to other banks*

The Alfa Banking Group also engages in short-term interbank borrowings, primarily as part of its correspondent banking business and to regulate its liquidity. The following table sets out the Alfa Banking Group's amounts due to other banks as of December 31, 2003 and 2004 and as of June 30, 2005.

	<b>As of December 31,</b>		<b>As of</b>
	<b>2003</b>	<b>2004</b>	<b>June 30, 2005</b>
		<i>(US\$ thousands)</i>	
Term placements of other banks.....	369,465	315,138	414,221
Sale and repurchase agreements with other banks.....	289,341	126,131	60,907
Correspondent accounts of other banks:			
Russian Federation .....	70,725	43,761	42,121
Other countries .....	66,770	14,928	20,905
<b>Total due to other banks .....</b>	<b>796,301</b>	<b>499,958</b>	<b>538,154</b>

Amounts due to other banks declined by 37.2% from US\$796.3 million as of December 31, 2003 to US\$500.0 million as of December 31, 2004. This was primarily caused by the so-called “mini-banking crisis” that occurred in the summer of 2004 that resulted in a temporary decrease in interbank lending activity on the Russian market in 2004. The interbank lending environment improved in 2005 and amounts due to other banks increased by 7.6% from US\$500.0 million as of December 31, 2004 to US\$538.2 million as of June 30, 2005. Amounts due to other banks through sale and repurchase agreements continued to decrease throughout the periods examined as customer interest in such transactions has declined.

**Analysis by Segment**

The Alfa Banking Group's primary format for reporting segment information is business segments and the secondary format is geographical segments. Starting from January 1, 2005, the Alfa Banking Group has had three business segments: commercial banking (also referred to as corporate banking), investment banking and retail banking. For the six months ended June 30, 2004 and 2005, the Alfa Banking Group provided financial information based upon its current segmental structure. For the years ended December 31, 2003 and 2004, the Alfa Banking Group reported segmental information based upon only two business segments: commercial banking and investment banking. For an analysis of the Alfa Banking Group's assets and liabilities by geographical segment, see Note 24 to the Interim Financial Statements and Note 22 to the Annual Financial Statements.

The following tables set out segment information for the Alfa Banking Group's reportable business segments. Revenues, as indicated in the following tables, comprises all items of income that are included in operating income including interest income, fees and trading gains.

As indicated above, for the six months ended June 30, 2004 and 2005, the Alfa Banking Group reported segmental income statement information based upon three business segments: commercial banking, investment banking and retail banking.

<b>Six months ended June 30, 2005</b>	<b>Commercial Banking</b>	<b>Investment banking</b>	<b>Retail banking</b>	<b>Eliminations</b>	<b>Total</b>
					<i>(US\$ thousands)</i>
<b>Total revenues</b> .....	<b>346,814</b>	<b>62,476</b>	<b>37,819</b>	-	<b>447,109</b>
Segment results.....	166,860	22,093	(60,407)	-	128,546
Unallocated costs.....					(28,997)
<b>Profit from operations</b> .....					<b>99,549</b>
<b>Six months ended June 30, 2004</b>					
<b>Total revenues</b> .....	<b>298,161</b>	<b>48,740</b>	<b>17,600</b>	-	<b>364,501</b>
Segment results.....	131,419	4,997	(75,699)	-	60,717
Unallocated costs.....					(7,953)
<b>Profit from operations</b> .....					<b>52,764</b>

As indicated above, for the years ended December 31, 2003 and 2004, the Alfa Banking Group reported segmental income statement information based on only two business segments: commercial banking and investment banking.

<b>Year ended December 31, 2004</b>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Eliminations</b>	<b>Total</b>
				<i>(US\$ thousands)</i>
<b>Total revenues</b> .....	<b>625,907</b>	<b>213,876</b>	-	<b>839,783</b>
Segment results.....	35,118	138,039	-	173,157
Unallocated costs.....				(2,066)
Share of results of associated company after tax .....				13,621
<b>Profit before tax</b> .....				<b>184,712</b>
<b>Year ended December 31, 2003</b>				
<b>Total revenues</b> .....	<b>554,123</b>	<b>213,363</b>	-	<b>767,486</b>
Segment results.....	219,605	201,754	-	421,359
Unallocated costs.....				(305,553)
Share of results of associated company after tax .....				920
<b>Profit before tax</b> .....				<b>116,726</b>

As of June 30, 2005 and December 31, 2004, the Alfa Banking Group reported segmental balance sheet information based on three business segments: commercial banking, investment banking and retail banking.

<b>Six months ended June 30, 2005</b>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Retail banking</b>	<b>Eliminations</b>	<b>Total</b>
					<i>(US\$ thousands)</i>
Segment assets.....	6,813,182	1,168,979	1,258,929	(1,162,880)	8,078,210
Investment in an associated company...	-	56,488	-	-	56,488
Unallocated assets .....					16,251
<b>Total assets</b> .....					<b>8,150,949</b>
Segment liabilities .....	6,238,763	664,502	1,604,261	(1,162,880)	7,344,646
Unallocated liabilities .....					30,168
<b>Total liabilities</b> .....					<b>7,374,814</b>
<b>Year ended December 31, 2004</b>					
Segment assets.....	5,794,377	1,252,764	1,247,128	(1,336,396)	6,957,873
Investment in an associated company...	-	50,249	-	-	50,249
Unallocated assets .....					16,587
<b>Total assets</b> .....					<b>7,024,709</b>
Segment liabilities .....	5,248,783	896,316	1,477,073	(1,336,396)	6,285,776
Unallocated liabilities .....					28,501
<b>Total liabilities</b> .....					<b>6,314,177</b>

Corporate banking historically has been the principal driver of the Alfa Banking Group's total revenues, accounting for 77.6% of the Alfa Banking Group's revenues for the six months ended June 30, 2005 as compared to 81.8% for the six months ended June 30, 2004 and 74.5% for the year ended December 31, 2004. Retail banking became a separate reportable segment only in 2005 and currently accounts for less than 10% of the Alfa Banking Group's revenues.

For the six months ended June 30, 2005, corporate banking was the principal driver of the Alfa Banking Group's profitability, recording a positive segment result of US\$166.9 million as compared to an investment banking positive segment result of US\$22.1 million and a retail banking negative segment result of US\$60.4 million. For the six months ended June 30, 2004, corporate banking again was the principal driver of the Alfa Banking Group's profitability, recording a positive segment result of US\$131.4 million, as compared to an investment banking positive segment result of US\$5.0 million and a retail banking negative segment result of US\$ 75.7 million. Retail banking has continued to record losses principally due to the ongoing expansion of retail operations and the development and launch of new retail products and services, including internet and mobile banking services and new loan products such as consumer finance lending, auto loans and mortgage lending. In addition, the Alfa Banking Group is currently establishing new transfer pricing guidelines for the pricing of intra-group transactions, including lending and borrowing transactions, which is expected to become effective in 2006 and that may affect the allocations among the Alfa Banking Group's different business segments in the future.

For the year ended December 31, 2004, investment banking was the principal driver of the Alfa Banking Group's profitability, recording a positive segment result of US\$138.0 million, as compared to a corporate banking positive segment result of US\$35.1 million. For the year ended December 31, 2003, corporate banking recorded a positive segment result of US\$219.6 million and investment banking also recorded a positive segment result of US\$201.8 million. In 2003 and 2004, the results of investment banking were enhanced by a number of significant one-off transactions, including: (a) the sale in 2004 of the Alfa Banking Group's holding in Akrikhin OJSC, a leading Russian pharmaceutical company, for US\$40 million, from which the Alfa Banking Group recorded a profit of US\$23.6 million, (b) the sale of its holding of Saratovstroysteklo, a Russian glass production company, for US\$12.0 million, from which it recorded a profit of US\$9.2 million, and (c) several large related party transactions, including large transactions with the Alfa Eco Group and TNK-BP. In 2003, the Alfa Banking Group recorded significant, unallocated costs in preparing its segmental analysis, which, if allocated, would have significantly affected the segment results of commercial banking and investment banking.

### **Contingencies, Commitments and Derivative Financial Instruments**

The Alfa Banking Group enters into certain financial instruments with off-balance sheet risk in the normal course of business to meet the needs of its clients. Such instruments, which include guarantees, letters of credit, undrawn credit lines and commitments to extend credit, involve varying degrees of credit risk and are not reflected in the Alfa Banking Group's balance sheet and are disclosed in the notes to the financial statements only. The primary purpose of these instruments is to ensure that funds are available to clients as required. The Alfa Banking Group also enters into derivative contracts with professional counterparties on standardized terms and conditions. Such contracts generally are traded in the over-the-counter market. The Alfa Banking Group also has capital commitments, which cover items such as modernization and repair of its premises and operating lease commitments, which also are not reflected in the Alfa Banking Group's balance sheet and are disclosed in the notes to the financial statements only.

#### *Credit related commitments*

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Alfa Banking 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 Alfa Banking Group on behalf of a customer authorizing a third party to draw drafts on the Alfa Banking Group up to a stipulated amount under specific terms and conditions, are usually collateralized 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 were as follows:

	<b>As of December 31,</b>		<b>As of</b>
	<b>2003</b>	<b>2004</b>	<b>June 30, 2005</b>
	<i>(US\$ thousands)</i>		
Guarantees issued .....	387,073	597,850	540,581
Export letters of credit .....	241,843	346,945	253,895
Import letters of credit .....	75,171	151,923	179,678
Less: provision for losses on credit related commitments .....	(7,782)	(21,123)	(20,510)
<b>Total credit related commitments .....</b>	<b>696,305</b>	<b>1,075,595</b>	<b>953,644</b>

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.

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

	<b>Year ended December 31,</b>		<b>Six months ended June 30,</b>	
	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2005</b>
	<i>(US\$ thousands)</i>			
Provision for losses on credit related commitments as of January 1 .....	9,462	7,782	7,782	21,123
(Release of provision)/provision for losses on credit related commitments during the period .....	(1,680)	13,341	3,820	(613)
Provision for losses on credit related commitments as of December 31 or June 30 (as appropriate).....	7,782	21,123	11,602	20,510

#### *Derivative financial instruments*

The Alfa Banking Group uses foreign exchange and other off-balance sheet financial instruments that generally are traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

The following table sets forth the principal or agreed amounts and fair values of derivative instruments held by the Alfa Banking Group. This table reflects gross positions before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to the respective balance sheet date indicated.

## As of June 30, 2005

	Domestic counterparties			Foreign counterparties		
	Principal Agreed Amount at Fair Value	Liabilities Negative Fair Value	Assets Positive Fair Value	Principal Agreed Amount at Fair Value	Liabilities Negative Fair Value	Assets Positive Fair Value
<b><i>Deliverable forwards</i></b>						
Foreign currency						
Sale of foreign currency .....	19,511	–	–	318,822	–	–
Purchase of foreign currency .....	138,905	(5)	4,287	313,986	(6,859)	2,024
Securities						
Sale of securities .....	72,794	(341)	170	12,260	(44)	6
Purchase of securities .....	25,645	–	843	25,082	–	1,038
<b><i>Non-deliverable forwards</i></b>						
Foreign currency						
Sale of foreign currency .....	2,077	–	16	193,282	(4,076)	11
Purchase of foreign currency .....	–	–	–	150,598	(576)	2,017
Securities						
Sale of securities .....	–	–	–	244,860	(88,035)	–
Purchase of securities .....	30,750	–	188	–	–	–
<b><i>Futures</i></b>						
Foreign currency						
Sale of foreign currency .....	–	–	–	166,537	–	4,708
Purchase of foreign currency .....	–	–	–	5,718	(59)	–
Securities						
Sale of securities .....	–	–	–	30,750	(133)	23
Purchase of securities .....	–	–	–	–	–	–
<b><i>Spot</i></b>						
Foreign currency						
Sale of foreign currency .....	1,877,745	(48)	1	1,621,601	–	1
Purchase of foreign currency .....	1,942,248	(4,088)	3,776	1,623,427	(3,601)	3,236
<b><i>Call options</i></b>						
Foreign currency						
Sale of call options .....	–	–	–	34,244	(772)	–
Purchase of call options .....	4,853	–	20	–	–	–
Securities						
Sale of call options .....	–	–	–	1,250	(165)	–
Purchase of call options .....	–	–	–	3,563	–	125
Commodities						
Sale of call options .....	38,213	(2,034)	–	–	–	–
Purchase of call options .....	–	–	–	38,213	–	2,034
<b><i>Put options</i></b>						
Foreign currency						
Sale of put options .....	–	–	–	4,851	(57)	–
Purchase of put options .....	5,461	–	66	–	–	–
Securities						
Sale of put options .....	–	–	–	4,499	(1)	–
Purchase of put options .....	–	–	–	7,572	–	18
<b><i>Swaps</i></b>						
Interest rate on foreign currency .....	–	–	–	100,000	(195)	–
<b>Total .....</b>		<b>(6,516)</b>	<b>9,367</b>		<b>(104,573)</b>	<b>15,241</b>

## As of December 31, 2004

	Domestic counterparties			Foreign counterparties		
	Principal or Agreed Amount at Fair Value	Negative Fair Value	Positive Fair Value	Principal or Agreed Amount at Fair Value	Negative Fair Value	Positive Fair Value
<b>Deliverable forwards</b>						
Foreign currency						
Sale of foreign currency .....	20,542	–	542	131,566	–	–
Purchase of foreign currency .....	36,403	(1,148)	259	306,322	(5,471)	3,031
Securities						
Sale of securities.....	108,818	(140)	1,024	333,570	(79,017)	153
Purchase of securities .....	29,685	–	2,065	–	–	–
Precious metals						
Sale of precious metals.....	–	–	–	18,639	–	450
Purchase of precious metals.....	–	–	–	–	–	–
<b>Non-deliverable forwards</b>						
Foreign currency						
Sale of foreign currency .....	–	–	–	6,063	(358)	–
Purchase of foreign currency .....	9,617	–	604	68,468	–	1,846
Securities						
Sale of securities.....	1,120	–	1	–	–	–
Purchase of securities .....	34,719	(19)	173	–	–	–
Precious metals						
Sale of precious metals.....	–	–	–	5,218	(27)	145
Purchase of precious metals.....	–	–	–	4,712	(54)	12
Commodities						
Sale of precious metals.....	5,290	(59)	87	–	–	–
Purchase of precious metals.....	5,838	(119)	40	–	–	–
<b>Futures</b>						
Foreign currency						
Sale of foreign currency .....	–	–	–	81,312	(1,839)	59
Purchase of foreign currency .....	–	–	–	365,451	(4,876)	1,123
Securities						
Sale of securities .....	–	–	–	39,178	(206)	20
Purchase of securities .....	–	–	–	5,597	(1)	36
Precious metals						
Sale of precious metals.....	–	–	–	12,553	(19)	215
Purchase of precious metals.....	–	–	–	13,016	(427)	43
Commodities						
Sale of commodities .....	–	–	–	5,356	(52)	76
Purchase of commodities.....	–	–	–	4,950	(53)	75
<b>Spot</b>						
Foreign currency						
Sale of foreign currency .....	9,478	(13)	12	48,309	–	168
Purchase of foreign currency .....	9,478	(321)	61	44,712	(89)	1,463
Precious metals						
Sale of precious metals.....	–	–	–	13,016	–	15
<b>Call options</b>						
Securities						
Sale of call options .....	19,190	(643)	–	19,179	(1,169)	9
Purchase of call options.....	51,190	–	1,389	5,805	–	643
<b>Put options</b>						
Securities						
Purchase of put options .....	10,225	–	149	14,530	–	948
<b>Total .....</b>		<b>(2,462)</b>	<b>6,406</b>		<b>(93,658)</b>	<b>10,530</b>

	As of December 31, 2003					
	Domestic			Foreign		
	Principal or Agreed Amount at Fair Value	Negative Fair Value	Positive Fair Value	Principal or Agreed Amount at Fair Value	Negative Fair Value	Positive Fair Value
<i>Deliverable forwards</i>						
Foreign currency						
Sale of foreign currency .....	112,594	(170)	63	287,804	(187)	141
Purchase of foreign currency .....	134,164	(68)	305	253,781	(19)	2,238
Securities						
Sale of securities .....	369,447	(1,592)	6,380	119,172	(1,460)	907
Purchase of securities .....	48,645	–	1,542	9,847	–	499
Precious metals						
Sale of precious metals .....	–	–	–	1,161	–	4
Purchase of precious metals .....	–	–	–	20,393	(86)	1,008
<i>Spot</i>						
Foreign currency						
Sale of foreign currency .....	129,805	(408)	356	80,493	(6)	247
Purchase of foreign currency .....	237,241	(425)	795	38,905	(37)	7
<b>Total .....</b>		<b>(2,663)</b>	<b>9,441</b>		<b>(1,795)</b>	<b>5,051</b>

Total principal, or agreed amount of derivative financial instruments was US\$9,059.3 million as of June 30, 2005, US\$1,899.1 million as of December 31, 2004 and US\$1,843.5 million as of December 31, 2003. The increase was due to growth of volume of derivative contracts with both domestic and foreign counterparties. The Alfa Banking Group's derivatives operations are driven by two major factors: (a) the need of the Alfa Banking Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (b) customer demand, principally for foreign currency, securities and commodities derivatives. The substantial increase in the volume of foreign currency derivatives principally reflects the increasing size of its balance sheet and the sophistication of its hedging activities as well as the increasing use of these type of derivatives contracts by the Alfa Banking Group's customers. In addition, the Alfa Banking Group has historically entered into certain arrangements with its customers that are classified as derivative instruments through which it holds securities, most of which are shares of certain large Russian companies, as principal at the request of customers and then passes along the risks and rewards of such securities to such customers. Such arrangements are classified within "Non-deliverable forwards – Securities" or "Deliverable forwards – Securities" in the table above. While the Alfa Banking Group's derivatives portfolio had a net negative change in fair value of US\$86.5 million as of June 30, 2005 and US\$79.2 million as of December 31, 2004, due to the Alfa Banking Group's hedging strategy, the assets underlying such derivatives have generally appreciated in line with the negative fair value of the derivatives portfolio, effectively offsetting the negative balance of the Alfa Banking Group's derivatives portfolio.

In accordance with its accounting policies, the Alfa Banking Group does not apply hedge accounting.

#### *Capital commitments*

As of June 30, 2005, the Alfa Banking Group had capital commitments of US\$74.0 million, of which US\$51.0 million was related to capital construction, modernization and repair of premises, US\$11.0 million was related to purchase and installation of new computer systems, US\$12.0 million thousand was related to other capital commitments. As of December 31, 2004, Alfa Banking Group had capital commitments of US\$30.5 million, of which US\$9.7 million related to capital construction, modernization and repair of premises, US\$9.6 million related to purchase and installation of new computer systems, US\$11.2 million related to other capital commitments. The Alfa Banking Group's management already has allocated the necessary resources in respect of these commitments. The Alfa Banking Group's management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

#### *Operating lease commitments*

The future minimum lease payments under non-cancellable premises and equipment operating leases were as follows:



	As of December 31,		As of
	2003	2004	June 30, 2005
		<i>(US\$ thousands)</i>	
Not later than 1 year .....	11,700	11,754	12,952
Later than 1 year and not later than 5 years .....	31,614	26,666	26,740
Later than 5 years.....	11,025	7,341	7,445
Total operating lease commitments .....	54,339	45,761	47,137

## Capital Adequacy

### *Alfa-Bank*

Alfa-Bank is required to comply with a capital adequacy ratio set by the Central Bank. For the purposes of calculating Alfa-Bank's capital adequacy ratio according to the Central Bank's requirements, the principal Alfa-Bank's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the Central Bank is currently 10% for banks whose capital is €5 million or more. Alfa-Bank's capital adequacy ratio was 10.6% as of July 1, 2005 compared to 12.4% as of January 1, 2005 and 13.7% as of January 1, 2004.

### *The Alfa Banking Group*

The Alfa Banking Group also meets international standards with respect to capital adequacy. The following table sets forth the capital adequacy ratios and related data as of December 31, 2003 and 2004 and June 30, 2005, calculated in accordance with the Basel Accord, a paper entitled, "International Convergence of Capital Measurement and Capital Standards" dated July 1988 and prepared by the Basel Committee on Banking Regulation and Supervision, as amended:

	As of December 31,		As of
	2003	2004	June 30, 2005
	<i>(US\$ millions, except percentages)</i>		
Paid up share capital .....	160.8	160.8	160.8
Retained earnings .....	358.2	542.6	609.0
Tier I Capital.....	519.0	703.4	769.8
Tier II Capital <sup>(1)</sup> .....	14.7	4.1	3.9
Total Capital .....	533.7	707.5	773.7
Risk weighted assets .....	5,186.8	6,812.8	7,846.3
<b>Capital adequacy ratios</b>			
Tier I capital adequacy ratio (%) <sup>(2)</sup> .....	10.0%	10.3%	9.8%
Total capital adequacy ratio (%) <sup>(2)</sup> .....	10.3%	10.4%	9.9%

(1) Revaluation reserve for premises and equipment plus adjusted fair value reserve for investments available for sale.

(2) Net available capital as a percentage of risk weighted assets.

## DESCRIPTION OF THE ALFA BANKING GROUP

### Overview

The Alfa Banking Group is one of the leading banking groups in the Russian Federation. The Alfa Banking Group offers a wide range of banking services including corporate and retail lending, deposit, payment and account services, foreign exchange operations, cash handling services, investment banking services and other ancillary services to corporate and retail customers.

The Alfa Banking Group's business is comprised of three main segments:

- (a) *Corporate banking*: comprises corporate lending, corporate deposit services, trade finance operations, structured corporate lending, corporate finance advisory services and leasing services;
- (b) *Retail banking*: comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal installment loans and auto loans, money transfers and private banking services; and
- (c) *Investment banking*: comprises securities trading, debt and equity capital markets services and derivative products.

The Alfa Banking Group also has a treasury department that carries out a variety of risk management functions as well as foreign currency trading operations.

The Alfa Banking Group carries out its corporate and retail banking activities principally through Alfa-Bank and its subsidiaries. Alfa-Bank, which is headquartered in Moscow, is the most significant asset of the Alfa Banking Group. The Alfa Banking Group carries out its investment banking activities principally through Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. As of December 31, 2005, Alfa-Bank had approximately 120 offices (including subsidiary branches, regional branches and outlets) throughout Moscow, St. Petersburg and other cities in Russia and the CIS. The Alfa Banking Group also operates through subsidiaries in Ukraine, Kazakhstan, The Netherlands, Cyprus, the United States and the United Kingdom.

As of June 30, 2005, the Alfa Banking Group had total assets of US\$8,150.9 million and total equity of US\$776.1 million. For the year ended December 31, 2004, the Alfa Banking Group generated operating income of US\$521.8 million and had a net profit of US\$152.8 million. For the six months ended June 30, 2005, the Alfa Banking Group generated operating income of US\$269.2 million and had a net profit of US\$87.3 million.

According to the Central Bank, as of December 1, 2005, Alfa-Bank: (a) was Russia's fifth largest bank in terms of assets, (b) was the sixth largest in terms of shareholders' equity, (c) was the twelfth largest in terms of number of branches and (d) was the seventh largest retail bank in Russia in terms of retail deposit amounts, behind Sberbank, Vneshtorgbank, Bank of Moscow, Rosbank, UralSib and Gazprombank.

Alfa-Bank has a long-term foreign and local currency counterparty credit and certificate of deposit rating of "BB-" and a short-term foreign and local currency counterparty credit and certificate of deposit rating of "B" from S&P, a bank foreign currency deposit rating of "Ba2/NP" and a bank financial strength rating of "D-" from Moody's.

### Alfa Consortium

The Alfa Banking Group is part of a wider group of companies referred to herein as the Alfa Consortium. The Alfa Consortium operates principally in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade business. ABH Holdings Corp., a corporation incorporated under the laws of the British Virgin Islands, owns 100% of the Guarantor's shares and is beneficially owned by seven individuals. Three of these individuals, Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev, collectively own

approximately 77% of ABH Holdings Corp. and indirectly control other companies within the Alfa Consortium. Each of these three individuals owns less than 50% of the shares of ABH Holdings Corp.

The Alfa Banking Group traditionally has conducted, and continues to conduct, significant business with related parties. As of June 30, 2005, the Alfa Banking Group's gross exposure (comprising loans and guarantees) to related parties was US\$245.3 million (representing 4.3% of the Alfa Banking Group's total credit exposure as of such date) and customer accounts from related parties were US\$798.7 million (representing 17.0% of the Alfa Banking Group's total customer accounts as of such date). For further information regarding the exposure of the Alfa Banking Group to related parties, see "Related Party Transactions."

### **History and Structure of the Alfa Banking Group**

Alfa Finance Holdings S.A., a Luxembourg holding company, was incorporated in May 1999 principally to function as a holding company of the Alfa Finance Group, which controlled the main businesses of the Alfa Consortium. Commencing in December 1999, Alfa Finance Holdings S.A. effected a multi-stage reorganization (the "*Reorganization*") in order to accomplish the following principal objectives:

- to increase the transparency of the Alfa Finance Group by having a structure with a single parent company, and
- to segregate the Alfa Consortium's banking and non-banking assets.

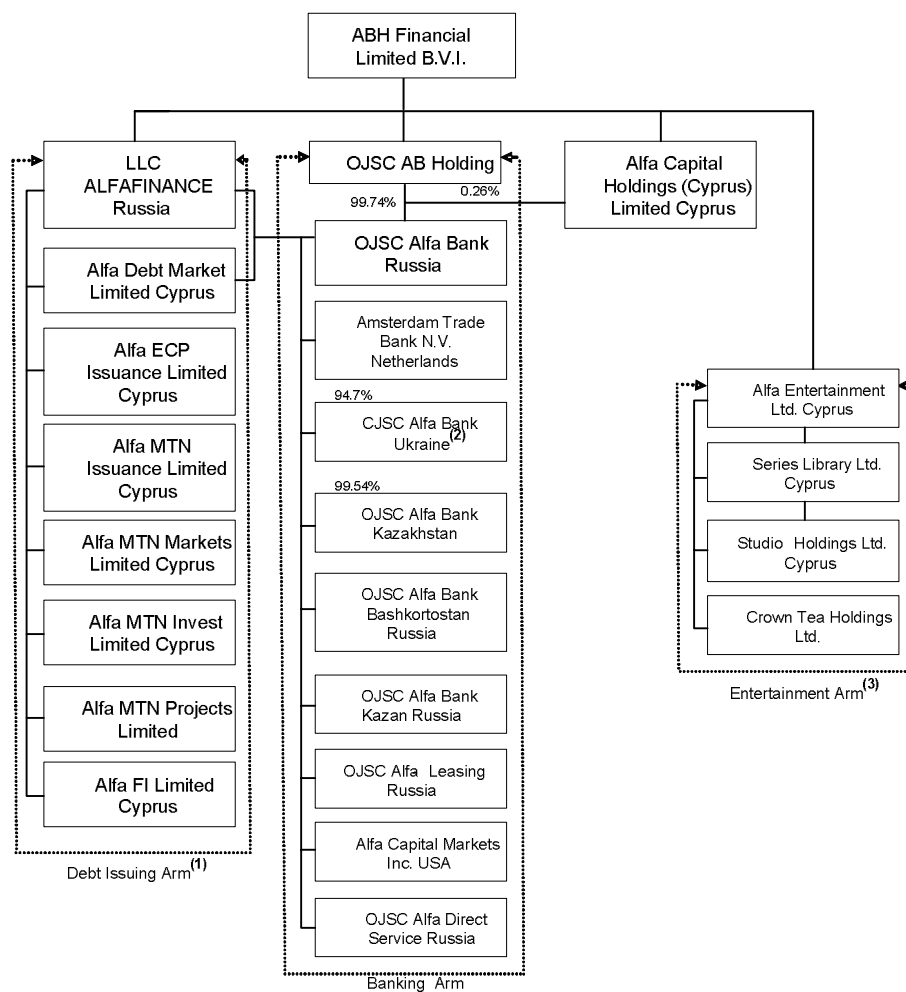
As a result of the Reorganization, the Guarantor, which was incorporated as a private company with limited liability under the laws of the British Virgin Islands on November 3, 1995, became the parent company of the Alfa Banking Group. The Guarantor's registered office is Geneva Place, 2nd Floor, #333 Waterfront Drive, P.O. Box 3339, Road Town, Tortola, British Virgin Islands, its telephone number is +(352) 264-70-621 and it is registered with the Registrar of Corporate Affairs of the British Virgin Islands under No. 165196 (originally named Alfa Capital Holdings Limited). Subject to certain exceptions, the Guarantor is authorized to engage in any act or activity that is not prohibited under the laws of the British Virgin Islands.

After the Reorganization, Alfa Finance Holdings S.A. held four wholly-owned sub-holding companies, each corresponding to the four main business segments in which the Alfa Consortium operates: (a) corporate and investment banking, (b) telecommunications, (c) oil trading and production and (d) insurance. Alfa Finance Holdings S.A. was the sole shareholder of each of the Guarantor (corporate and investment banking), Alfa Telecom Limited (telecommunications), Alfa Petroleum Holdings Limited (oil trading and production) and Alfa Capital Stock Trading Limited (insurance).

In 2004, the Alfa Consortium effected a restructuring of the Alfa Banking Group's ownership structure to further increase its transparency to allow it to comply with Central Bank requirements applicable to banks with consumer retail operations and ultimately enable it to participate in Russia's bank deposit insurance regime. The restructuring was carried out by transferring the ownership of the Guarantor, the parent of the Alfa Banking Group, from Alfa Finance Holdings S.A. to the then newly formed ABH Holdings Corp. through the following steps: in early 2004, Alfa-Bank reformed its shareholding structure. The reform resulted in the merger of its 11 shareholders (holding in aggregate 99.74% of Alfa-Bank's charter capital) into one company, OJSC AB Holding, which became a wholly-owned subsidiary of the Guarantor. ABH Holdings Corp. was then incorporated in the British Virgin Islands on March 5, 2004. As described above, ABH Holdings Corp. is wholly-owned by several persons, including Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev. In June 2004, the shares of the Guarantor were then transferred to ABH Holdings Corp. from Alfa Finance Holdings S.A.

In connection with the reorganization, the Alfa Banking Group retained certain non-banking assets that it considers to be non-core assets. The Alfa Banking Group has divested and seeks to continue to divest its non-core assets, which at present principally comprise interests in Russian media and manufacturing businesses. As of the date of this Offering Circular, the Alfa Banking Group continues to hold investments in non-core assets that had an aggregate carrying value of approximately US\$130.0 million as of June 30, 2005. See "—Planned Divestiture of Non-core Assets."

As of the date of this Offering Circular, the Alfa Banking Group has the following principal corporate structure:



- (1) The Debt Issuing Arm consists of special purpose vehicles that are used to issue international debt. These entities do not have assets apart from the contractual rights associated with their respective debt obligations.
- (2) In December 2005, the Alfa Banking Group decided to restructure its corporate banking operations in order to place increased focus on the Russian domestic market. As part of the restructuring Alfa-Bank will sell a controlling interest in its Ukrainian subsidiary CJSC Alfa-Bank to ABH Ukraine Limited, a company controlled by the shareholders of the Alfa Banking Group, but which is not part of the Alfa Banking Group.
- (3) The Entertainment Arm consists of non-core entities that hold various intellectual property assets such as publishing rights. The size of these holding companies are not material relative to the asset value of the Alfa Banking Group.

### Alfa-Bank

Alfa-Bank was established on December 20, 1990 as LLP CIB Alfa-Bank, a partnership with limited liability, and obtained its general banking license from the Central Bank in January 1991. Alfa-Bank was converted from a limited liability partnership (*Tovarischestvo s Ogranichennoi Otvetstvennost' u*) to a limited liability company (*Obschestvo s Ogranichennoi Otvetstvennost' u*) in line with Russian legislation on the status of such companies in 1996. LLC CIB Alfa-Bank was reorganized as an open joint-stock company to increase management transparency and shareholder flexibility in January 1998. Alfa-Bank is registered with the Central Bank under No. 1326 and with the Moscow Registration Chamber under No. 001.937. Alfa-Bank's registered office is 27 Kalanchyovskaya Str., Moscow 107078, Russian Federation, and its telephone number is +7 495 745 7896.

Alfa-Bank operates in all sectors of the Russian financial markets and is regulated and supervised by the Central Bank. Since 1991, Alfa-Bank has been registered in Russia to carry out banking and foreign exchange activities under a general Central Bank banking license and obtained a license to deal in precious metals in 1994.

Alfa-Bank has established a network of branches across Moscow, as well as in certain other major cities in Russia. Alfa-Bank opened a fully-owned subsidiary in Almaty, Kazakhstan in December 1994, the first Russian bank to have done so. Alfa-Bank also has subsidiaries engaged in corporate and investment banking in the Republic of Bashkortostan (Russia), Ukraine, The Netherlands and the Republic of Tatarstan (Russia).

In March 2001, Alfa-Bank purchased a 100% share in Amsterdam Trade Bank N.V. (“ATB”) to become the first private Russian corporate bank to have an affiliate bank with a full banking license in the European Union.

Alfa-Bank has been a member of SWIFT since 1994 and a member of Euroclear since 1996. In addition, Alfa-Bank is a member of the Moscow InterBank Currency Exchange (“MICEX”), the National Association of Security Markets Participants and the RTS, Russia’s primary electronic stock trading system. Alfa-Bank also is a member shareholder of the InterBank Credit Union, a clearing institution connected to the Depository Clearing Company.

### **Russian Market Position and Competitive Advantages**

A small number of Moscow-based banks dominate the Russian banking industry. According to the Central Bank, as of October 1, 2005, there were 1,215 banks operating in Russia, with the five largest banks accounting for 44% of total bank assets in Russia. The largest Russian banks are concentrated in Moscow while large regional banks conduct most of their business in the capital city of their home region. For a description of the Russian banking sector, see “Regulatory Environment” in [Appendix C](#).

Due to the large number of Russian banks and the diversity in their lines of business, Alfa-Bank faces competition from different banks for the various business sectors and geographic locations in which it operates. In the corporate banking sector, including corporate lending, Alfa-Bank’s primary competitors are Sberbank, Vneshtorgbank, Bank of Moscow, MDM-Bank, International Moscow Bank, Petrokommerts, Rosbank and UralSib, as well as some foreign banks, each of which serves companies throughout Russia. In the retail banking sector, Alfa-Bank’s primary competitors are Sberbank, Vneshtorgbank, Raiffeisenbank, Bank of Moscow, Gazprombank, Citibank, Industry and Construction Bank and Rosbank. In the investment banking sector, Alfa-Bank’s primary competitors are MDM-Bank, Troika Dialog, Renaissance Capital, Vneshtorgbank and foreign investment banks. The majority of Alfa-Bank’s national competitors are based in Moscow, although a few have regional branch networks, including Sberbank, which has a branch network across Russia. In the regions outside Moscow, Alfa-Bank competes with Moscow-based banks in addition to regional banks.

The Alfa Banking Group believes that over the next few years the banking environment will be characterized by tougher competition, lower profit margins and tightening of banking supervision, which will result in the further consolidation of the banking sector. In addition, the Alfa Banking Group believes that the top 20 banks will need to increase their capitalization, expand their branch networks and offer leading Russian companies banking products that are able to compete with those provided by foreign competitors.

The Alfa Banking Group also expects to see an increase in the range of banking products and services provided by major foreign credit institutions under the Russian Federal Law No. 173-FZ “On Currency Regulation and Currency Control,” dated December 10, 2003, as amended. The Alfa Banking Group believes that the removal of most of the restrictions related to banking services provided by foreign credit institutions to Russian residents will increase competition for the customer base available to Russian banks and will affect the competitive position of domestic banks that lend to major corporate customers.

According to Alfa-Bank’s calculations based upon published Central Bank statistics, as of December 31, 2005, Alfa-Bank had, by value, an approximate 2.87% market share in demand accounts, a 3.1% market share in corporate deposit accounts and a 4.4% market share in loans, and Alfa-Bank’s assets accounted for approximately 2.6% of the assets of the Russian banking sector (under RAR).

Alfa-Bank believes that it has a number of competitive advantages when compared to other banks operating in Russia:

*Strong Franchise and Brand Recognition.* The Alfa Banking Group is a leading Russian banking group in corporate and interbank lending, retail deposits, fixed income and equity trading, foreign exchange and corporate finance advisory services. The Alfa Banking Group's breadth of operations provides it with a diversified revenue base. The Alfa Banking Group has also developed what its management believes is one of the best recognized brands in the Russian banking industry. The Alfa Banking Group's franchise is supported by an extensive distribution platform with multiple delivery channels, including in-person service through approximately 120 offices in Russia and internationally and 572 ATMs, as well as remote access through internet and phone banking.

*Strong Management Team and Advanced Systems.* The Alfa Banking Group believes that its success is in large measure due to its strong management team, which combines Russian and Western expertise. The Alfa Banking Group's Chief Executive Officer, Petr Smida, previously was the Chairman and CEO of General Electric Capital Bank, Prague and Senior Vice-President of GE Consumer Finance, United States. The Alfa Banking Group's other senior managers, approximately half of whom are non-Russian, have previously held senior positions at leading international banks. The Alfa Banking Group's management team has also been instrumental in supporting the Alfa Banking Group's adoption of best practices from more developed banking markets including the development and implementation of a modern management information system and advanced risk management procedures.

*Established Relationships with Leading Russian Companies.* The Alfa Banking Group has a history of cooperation and good relationships with leading Russian companies operating in various sectors of the Russian economy. Its collaboration with leading Russian companies is based upon a wide range of corporate and investment banking products and its in-depth knowledge of its customers' businesses. This collaboration has resulted in the Alfa Banking Group developing tailor-made solutions for clients that management believes provides the Alfa Banking Group with a competitive advantage as compared to less flexible government-run banks. The Alfa Banking Group's management also believes that by servicing specialized sectors such as the construction industry and the military, the Alfa Banking Group has an experiential advantage over foreign banks in many sectors of the Russian banking market.

*International Experience and Reputation.* From its inception, the Alfa Banking Group has been active in international markets and has strong relationships with many international financial institutions. It has been successful in attracting funding from international capital markets through syndicated loans and offerings of debt securities. In addition, management believes that Alfa-Bank has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, unlike many other banks in Russia, it settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they came due.

*Strong Shareholder Commitment to Support the Bank.* The Alfa Banking Group is one of the main strategic assets of the Alfa Consortium, which is one of Russia's largest privately-owned financial-industrial conglomerates. The Alfa Banking Group's shareholders have historically provided financial support to the Alfa Banking Group. During the July 2004 Russian liquidity crisis that resulted in large outflows of deposits from Alfa-Bank, the Alfa Banking Group's shareholders deposited significant amounts of personal funds with Alfa-Bank and its subsidiaries. The Alfa Banking Group's shareholders have publicly expressed their commitment to provide support to the Alfa Banking Group in the future; *however*, there is no certainty that such will in fact occur.

## **Strategy**

The Alfa Banking Group's strategic objective is to develop further its universal banking operations and thereby enhance its profitability. To achieve this goal, the Alfa Banking Group has developed a strategy focusing on the following key initiatives:

### *Focus on Developing its Retail Banking Business*

The Alfa Banking Group's main strategic priority is to expand its retail banking business. The Alfa Banking Group considers retail banking to have greater profit potential than corporate banking due to the increasing demand for banking services by consumers in the Russian Federation and the higher margins derived from lending to individuals as compared with lending to corporate customers. The Alfa Banking Group considers expansion in the scope and improvement in the quality of its retail banking services to be a priority, especially in light of increasing competition in the retail banking market and rising consumer demand for banking products.

The Alfa Banking Group aims to develop its retail customer base by increasing the number of retail branches and modernizing its existing retail branches using a new branch format that offers retail customers a wide range of standardized, fast and efficient banking products and services, remote banking services and lower costs. The new branch format provides customers with 24-hour highly-automated and user-friendly branches, a fully operational call center, a field sales force that contacts new customers, an ATM network (including ATMs with drop boxes) and secure access to bank accounts via the internet and telephone. The Alfa Banking Group plans to develop further its retail business through its advanced technology initiatives.

In addition, from the beginning of 2006, the Alfa Banking Group has implemented a rebranding of its Alfa-Bank branches that operated under the "Alfa-Bank Express" name in order to simplify, clarify and unify the perception of the bank among its clients. All branches formerly known as "Alfa-Bank Express" were renamed "Alfa-Bank" branches. As of February 1, 2006, the Alfa Banking Group had 29 branches operating under the new branch format. The Alfa Banking Group plans to introduce new branches using the new branch format in other regions of Russia and gradually convert its existing retail network branches to the new branch format.

The Alfa Banking Group currently offers four different tariff plans with a variety of different features including discounts, family cards and Euro, Russian Ruble and Dollar accounts, and believes that it can expand its specialized plans and VIP programs to achieve better client segmentation and loyalty. The Alfa Banking Group intends to increase the proportion of demand accounts in its portfolio because it believes that customers with demand accounts are more loyal than customers who only have term deposits. With respect to lending products, the Alfa Banking Group began offering personal loans and auto loans in 2005 and plans to enter the home mortgage market in the end of the first quarter of 2006.

### *Increased Focus on Consumer Finance*

One of the major strategic priorities of the Alfa Banking Group is to expand its rapidly growing consumer finance business. The Alfa Banking Group believes that consumer finance offers it the opportunity to achieve high growth and attractive margins and that it is a business with a favorable risk profile.

Since September 2005, the Alfa Banking Group has expanded its consumer finance business into 30 regions of Russia and it currently has approximately 200,000 consumer finance customers. The aggregate principal amount of consumer loans issued by the Alfa Banking Group has grown from negligible levels as of December 31, 2004 to US\$22.3 million as of June 30, 2005, and the total number of consumer finance loans has grown from negligible levels as of December 31, 2004 to 57,500 loans as of June 30, 2005. Currently, the consumer finance business distributes its products through over 500 points of sale through partnerships with high-volume consumer goods retailers, including 40 nationwide retail chains such as Technosila, Eldorado and Mir. The Alfa Banking Group seeks to continue to expand its partnership base and points of sale as a critical means of expanding its consumer finance business.

### *Increased Focus on Medium-Sized Clients*

The Alfa Banking Group aims to increase its lending to medium-sized clients (which the Alfa Banking Group generally classifies as companies with an annual turnover between \$3 million and \$100 million) because management believes there is growing demand for capital from these customers and because the Alfa Banking Group believes that it can achieve better interest margins than with larger corporate clients that often have access to cheaper foreign capital as a means of acquiring new customers and diversifying its loan portfolio.

In 2004, the Alfa Banking Group launched a specialized loan program for medium-sized clients that it then rolled out on a large scale to the Russian regions in 2005. The Alfa Banking Group's management believes that the Alfa Banking Group's modern branch network, which focuses on providing customers with streamlined transaction processing involving less paperwork and prompt service, is attractive to medium-sized clients. The Alfa Banking Group further believes that its information technology infrastructure, which provides clients with fast transaction times and convenient access to internet banking services such as an account receivables monitoring service, is an important element in expanding its banking business with medium-sized clients. The Alfa Banking Group plans to expand its business by establishing relationships with medium-sized businesses first through the provision of standard lending and deposit services and then continuing to serve them as they expand their operations and purchase more complex financial products and services.

#### *Expansion of Investment Banking Operations*

The Alfa Banking Group plans to develop further its investment banking business both in Russia and overseas. With the recent increase in capital markets activity in Russia and the strong recent performance of Russian stock markets, the Alfa Banking Group believes that it can profitably expand its investment banking operations. For its brokerage operations, the Alfa Banking Group plans to increase its level of fee income, in particular from its online equity brokerage service, Alfa Direct. For its fixed income operations, the Alfa Banking Group plans to increase its trading activity in the Russian corporate bond sector. The Alfa Banking Group also plans to develop further its equity capital markets activities, particularly in relation to initial public offerings. The Alfa Banking Group also plans to expand its role as an arranger in the local and international debt capital markets and to arrange further credit linked notes issues under its US\$10 billion Global Repackaging Program, which allows the Alfa Banking Group to repackage the existing debts of clients and sell such repackaged instruments in the capital markets or to issue new debt products. The Alfa Banking Group also aims to enhance the potential for cross-selling of products and services between its corporate banking and investment banking operations.

#### *Improving the Alfa Banking Group's Funding Base*

As clients increasingly demand medium- and long-term financing, the Alfa Banking Group intends to support that demand by correspondingly increasing its medium- and long-term funding through international and domestic capital markets. The Alfa Banking Group believes that increased medium- and long-term funding will support products such as project financing, consumer loans, auto loans and mortgages and allow it to compete more effectively with Russian and foreign banks. Over the past two years, the Alfa Banking Group has been building its funding base from 1-2 year funding to 3-5 year funding. In December 2005, the Alfa Banking Group entered the subordinated debt market with an issuance of US\$225 million in subordinated unsecured notes. The Alfa Banking Group intends to expand further its funding base and to diversify its overall sources of funding among corporate, consumer and international funding.

#### *Attracting and Retaining High-Caliber Staff*

The Alfa Banking Group's employment strategy is to attract and retain high-caliber employees at all levels, in particular those with either Western professional experience or Western qualifications. The Alfa Banking Group cooperates with a number of leading Russian universities to attract top tier graduates to ensure the Alfa Banking Group's competitiveness in the future. The Alfa Banking Group has introduced financial incentives to minimize staff turnover and to encourage its staff to be results-driven. The compensation and benefits department closely monitors the regional labor markets and develops financial incentives, based upon international best practices, that measure both short- and long-term performance, in order to maintain an attractive level of employee compensation.

### **Banking Services and Activities**

The Alfa Banking Group offers a wide range of banking services, including lending, deposit, payment and account services, foreign exchange operations, cash handling services, investment banking services and other ancillary services to corporate and retail customers.



The Alfa Banking Group is organized on the basis of three main business segments: corporate banking, retail banking and investment banking. For the six months ended June 30, 2005, corporate banking generated revenues of US\$346.8 million, or 77.6% of the Alfa Banking Group's total revenues, investment banking generated revenues of US\$62.5 million, or 14.0% of the Alfa Banking Group's total revenues, and retail banking generated revenues of US\$37.8 million, or 8.5% of the Alfa Banking Group's total revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operation – Analysis by Segment" for a further discussion of the revenues and segment results generated by the Alfa Banking Group's respective business segments.

### *Corporate Banking*

Corporate banking is the Alfa Banking Group's most significant business segment and it derives most of its revenues from corporate banking activities. Corporate banking generated total revenues of US\$346.8 million for the six month period ended June 30, 2005, or 77.6% of the Alfa Banking Group's total revenues for the period.

The Alfa Banking Group's corporate banking services include lending, bank account, deposit and settlement services, trade finance, structured corporate lending, corporate finance and leasing.

*Corporate Customer Base and Segmentation.* The Alfa Banking Group provides corporate banking products and services to a variety of corporate and governmental entities. As of June 30, 2005, the Alfa Banking Group had more than 40,000 corporate and governmental customers. The Alfa Banking Group traditionally has provided corporate banking services to companies within oil and gas extraction and processing industries, mining and metals companies and car manufacturing and chemical industries. More recently, the Alfa Banking Group has begun providing corporate banking services to Russian retail chains, food production companies and companies in other growing industry sectors such as telecommunications and the media. See "—Selected Statistical and Other Information—Loan Portfolio—Economic Sector Concentration" and "Selected Statistical and Other Information—Loan Portfolio—Customer Concentration."

In Russia, the Alfa Banking Group's internal corporate client categories include large clients, medium clients and small businesses. Large corporate clients are clients with annual sales volume greater than US\$100 million. Large corporate clients are served by dedicated managers at Alfa-Bank branches and may be provided with customized services. Medium clients are clients with annual sales volume of between US\$3 million and US\$100 million, and small businesses are clients with annual sales volume of less than US\$3 million. Small business clients typically receive standardized services at Alfa-Bank branches.

In 2004, the Alfa Banking Group launched a specialized loan program for medium-sized businesses called "Mars." A pilot program was launched in Moscow and subsequently introduced on a country-wide basis in 2005. A company operating in any industry and with an annual turnover of \$3 million (\$10 million for Moscow-based companies) to \$100 million can become a client of the program. Through the "Mars" program, the Alfa Banking Group provides a standardized set of banking products, including loans to medium-sized enterprises that have flexible terms as to the types of collateral and simplified procedures for processing transaction documents rapidly.

As of June 30, 2005, the Alfa Banking Group's net corporate loan portfolio amounted to US\$4,887.9 million. The Alfa Banking Group's corporate banking division plans to expand its loan portfolio to medium-sized corporate customers and to reduce the concentration of loans to large corporate clients. The Alfa Banking Group intends to diversify its loan portfolio by reducing exposure to large companies in the oil and gas industries and to increase lending in industry sectors that have shown strong growth potential such as defense, metallurgy, food, retail, telecommunications, media and construction.

*Lending.* The Alfa Banking Group offers a wide range of credit products to corporate clients, including loans, credit lines, overdrafts and bank guarantees. As of June 30, 2005, the Alfa Banking Group's total gross loans and advances totalled US\$5,118.4 million, of which approximately 98.8% comprised loans to corporate entities as part of its corporate banking business. The commercial terms of the loans differ depending upon the clients' needs and the Alfa Banking Group's capital position. Loans are available in Russian Rubles, Dollars, Euro and in certain other foreign currencies. Loans to corporate entities generally involve collateral, guarantees or other assurance arrangements. See "Selected Statistical and Other Information—Lending Policies and Procedures—Collateral."

The Alfa Banking Group is continuing to develop its portfolio of medium-term (one to three years) and long-term (over three years) loans to corporate entities. The Alfa Banking Group also arranges and acts as a lender on syndicated loans made to Russian companies and banks as well as banks in CIS countries where the syndicates include foreign and Russian banks. In 2005, it acted as an arranger and a lender on a number of syndicated loans provided to JSC “Pharmacies 36.6,” a Russian pharmacy chain, and the “Rolf” Group, a large Russian car distributor. The Alfa Banking Group believes that the arrangement of syndicated loans may become a significant source of fee-based income in the future.

Recently, the Alfa Banking Group began providing loans to Russian retail chains, food production companies and companies in other growing industry sectors such as telecommunications and the media. By mid-2005, trading companies accounted for the largest portion of the Alfa Banking Group’s loan portfolio (approximately 15% of the total loan portfolio volume), followed by ferrous metal producers (approximately 11%), the construction and engineering industry (approximately 9%), each of the electric power production, the military and the coal and oil industries (each accounting for approximately 6%), non-ferrous metal producers (approximately 5%) and each of the nuclear power, telecommunications and transport industries (each accounting for approximately 4%). The Alfa Banking Group generated the greatest increase in loan volume from ferrous metal producers and coal mining and engineering companies in the six months ended June 30, 2005. In 2004 and 2005, certain corporate customers to which the Alfa Banking Group provided loans were Russian industry leaders such as Gazprom, a leading natural gas company, RAO UES, the Russian state electricity monopoly, Atomstroyexport, a general contractor involved in nuclear power plant construction, NK Russneft, a major Russian oil company, SUEK, one of Russia’s largest coal producers, RUSAL, a leading aluminium company, Urals Steel Group, a Russian steel company, UGMK, a mining and metallurgical company, MIG, an aircraft manufacturer, Severnaya Verf, a shipyard based in St. Petersburg, Kuzbassrazrezugol, a Russian coal mining company, Avtovaz, a Russian automobile manufacturer, Don-story, a Moscow real estate development company, Mirax, a construction company, UTK, a telecommunications company, Azovstal, one of the largest steel mills in Ukraine, and the EAM Group, a Russian metallurgy and coal company.

The Alfa Banking Group’s credit products for corporate entities also include guarantees. Guarantees include loan guarantees, performance guarantees, advance guarantees, payment guarantees, customs guarantees and bid bonds. Loan guarantees secure repayment of a loan; performance guarantees secure obligations to deliver goods or provide services under export contracts; advance guarantees secure refunds of advance payments received under export contracts if the relevant obligations are not fulfilled; payment guarantees secure payment obligations under import contracts; and customs guarantees secure payments of customs duties and bid bonds secure obligations incurred through participation in tenders.

The Alfa Banking Group is continuing to develop and has begun to offer more complex credit products, such as financial leasing, project financing, merger and acquisition financing and refinancing of investment portfolios of specialized financial entities such as leasing companies and property investment funds.

*Bank Account, Deposit and Settlement Services.* The Alfa Banking Group assists corporate entities with opening bank accounts and advises them on various banking operations and the use of different banking products in their business. The Alfa Banking Group’s bank accounts for corporate entities include current and term accounts in Russian Rubles and in certain foreign currencies (predominantly U.S. Dollars and Euro), as well as special-purpose accounts such as payment accounts used to settle obligations with Russian counterparties and current accounts denominated in foreign currencies used for currency operations. Companies operating across Russia are able to receive services throughout the Alfa Banking Group’s branch network. The Alfa Banking Group provides payment and settlement services on behalf of clients through its branches and its correspondent banking network in Russia and abroad. The Alfa Banking Group provides payment services to foreign subsidiaries of Russian clients through its foreign banks.

In addition to placing funds on deposit with the Alfa Banking Group, corporate entities may invest in the Alfa Banking Group’s promissory notes, which they can hold to maturity or use as payment instruments, and certificates of deposits.

In addition to traditional banking services, the Alfa Banking Group offers what its management believes are innovative technological solutions in the Russian market that enable its clients to reduce their payment

processing costs and centralize their cash flow management by using the Alfa Banking Group's continuously available electronic network.

As of June 30, 2005, the Alfa Banking Group's total customer accounts totalled US\$4,690.1 million of which US\$3,131.1 million, or approximately 66.8%, comprised current/settlement and term accounts of corporate entities and state enterprises. As of June 30, 2005, US\$1,417.3 million, or 45.3%, of the Alfa Banking Group's corporate and state customer accounts comprised term deposits, and US\$1,713.8 million, or 54.7%, comprised current/demand accounts.

#### *Trade Finance*

The Alfa Banking Group provides a wide range of trade finance products for its corporate customers, including payment and settlement services in connection with import and export operations, issuing import, export, stand-by and revolving letters of credit and providing import and export financing and related services. The Alfa Banking Group also provides pre-export financing (financing used by the borrower to produce goods for export) for corporate entities. In addition, the Alfa Banking Group provides import financing using funds from foreign banks and export credit agencies that are currently unwilling to assume direct credit risk of Russian companies. For example, in 2005 the Alfa Banking Group provided trade financing for companies in the mining and metallurgy sectors that were insured by Hermes, the export credit agency of Germany. These credit agreements are structured as framework agreements for the provision of medium-term (one to three year) loans to the Alfa Banking Group. The Alfa Banking Group also enters into framework agreements with export credit agencies whereupon the credit agencies provide long-term (five to ten year) loans to the Alfa Banking Group, the proceeds of which are also used to finance imports of good and services into Russia by Russian companies.

#### *Structured Corporate Lending*

The structured finance department of the corporate banking division offers customers a range of tailor-made, complex credit products and services and advisory services regarding innovative debt financing techniques, including securitizations. These predominantly medium- to long-term products include acquisition and leveraged finance, complex capital expenditure corporate loans, limited recourse project financings and long-term structured trade and export finance. Using the resources of the Alfa Banking Group's syndication desk, this department is also responsible for arranging co-financings of large transactions by attracting both local and international financial institutions to participate in projects. The department is gradually developing its capacity to offer international project finance advisory services for large infrastructure and energy projects, particularly in the CIS.

#### *Corporate Finance*

The main area of activity of the Alfa Banking Group's corporate finance department has been the provision of financial advice on mergers and acquisitions to Russian and foreign clients. The corporate finance department draws on the extensive reach of its branch network and the international expertise of its investment bank to advise on investments into and within Russia. For example, in 2004, the Alfa Banking Group advised the shareholders of Natur Produkt Holdings, one of the largest pharmacy networks in Russia, on the sale of their shares. In 2004, the Alfa Banking Group advised the owners of TOO KaR Tel, the second largest cellular operator in Kazakhstan, in arranging a closed-tender for the sale of their shares. From 2002 to 2004, the Alfa Banking Group advised Russia's utility monopoly, RAO Unified Energy System, as part of its restructuring effort and spin-off of non-core assets.

For the first six months of 2005, the Alfa Banking Group was one of the top ten among investment banks operating in Russia in terms of volume of deals according to RosBusiness Consulting. In 2004, the aggregate value of the corporate finance transactions in which the Alfa Banking Group acted as an advisor exceeded US\$3 billion.

#### *Leasing*

LLC Alfa Leasing ("*Alfa Leasing*"), established in 1999, is a wholly owned subsidiary of Alfa-Bank. It acquires capital assets and leases them to Russian enterprises in a variety of industries. Through Alfa Leasing, the Alfa Banking Group provides clients with assistance in establishing cost effective and tax efficient leasing plans.

Alfa Leasing's representative clients are JSC "Russian Railways," OJSC "NOVATEK," OJSC "IzhAvto," OJSC "GAZ," JSC "SMARTS" and OJSC Airline "KrasAir." Alfa Leasing works together with certain large foreign manufacturers of vehicles and equipment, including Caterpillar (United States), Leibher (Germany), Tetra Pak (Sweden), Hitachi (Japan), DURR KOREA Inc. (South Korea), AZOVMASH (Ukraine) and Uralvagonzavod (Russia).

## **Retail Banking**

The Alfa Banking Group's retail services currently focus on deposit taking, lending and certain ancillary services. According to the Central Bank, Alfa-Bank had a 2.87% share of the Russian retail banking market in terms of demand accounts as of December 31, 2005. Alfa-Bank was the seventh largest retail bank in Russia in terms of retail deposit amounts according to the Central Bank (behind Sberbank, Vneshtorgbank, Bank of Moscow, Rosbank, UralSib and Gazprombank) with 1,454,534 retail customers as of December 31, 2005. The Alfa Banking Group's retail banking operations generated total revenues of US\$37.8 million for the six month period ended June 30, 2005, compared with US\$17.6 million for the same period in 2004.

Individuals in Russia may conduct their banking activities through the Alfa Banking Group's branches, sub-branches, outlets, ATMs and subsidiary banks. As of December 31, 2005, the Alfa Banking Group had approximately 120 offices, including subsidiary banks, branches and outlets, and 572 ATMs.

### *Deposit Accounts*

The Alfa Banking Group's deposit accounts include current/demand and term accounts denominated in Russian Rubles, U.S. Dollars and Euro. Terms of deposits vary from on demand to two years and may be extended. In accordance with Russian law, clients currently are allowed to withdraw their deposits prior to the expiration of the term, but a bank has the right to decrease the interest rate on the withdrawn deposit.

As of June 30, 2005, the Alfa Banking Group's customer accounts totalled US\$4,690.1 million of which US\$1,559.0 million, or approximately 33.2%, comprised current/demand and term accounts of individuals. As of June 30, 2005, US\$1,021.0 million, or 65.5%, of the Alfa Banking Group's individual customer accounts comprised term deposits, and US\$538.0 million, or 34.5%, comprised current/demand accounts.

The Alfa Banking Group issues VISA debit cards to individuals. Debit card holders pay annual and transaction-based fees for using the cards. In 2005, the number of individual debit cards issued by the Alfa Banking Group grew by 51%, to 1,273,000 by the end of the year. The Alfa Banking Group's retail clients may apply for debit cards via the Alfa Banking Group's internet site. In addition, the Alfa Banking Group has begun to offer debit cards with overdraft loans.

The Alfa Banking Group provides a number of ancillary services to individuals in Russia. It buys, sells and exchanges all major foreign currencies and cashes foreign payment instruments and travelers checks. Individuals can make direct payments from their bank accounts and pay for goods and services via the internet with their Alfa Banking Group debit cards. They also may transfer funds domestically and internationally through the Alfa Banking Group branch and correspondent banking network, purchase travellers checks and rent safe deposit boxes to store valuables.

Alfa-Bank applied for participation in the Russian national Deposit Insurance System, which was introduced by the Federal Law N177-FZ "On Insurance of Deposits of Individuals in Banks of the Russian Federation" dated December 23, 2003 (under number 309). Alfa-Bank was accepted into the national deposit insurance system on December 16, 2004, and Alfa-Bank's regional subsidiary, Alfa-Bank Bashkortostan, was admitted to the Deposit Insurance System on November 11, 2004 (under number 159).

### *Lending*

The Alfa Banking Group provides a range of loan products to retail customers. As of June 30, 2005, gross loans to retail customers accounted for approximately US\$60.0 million or 1.2% of the Alfa Banking Group's loan portfolio, compared to US\$46.1 million, or 1.1% of its loan portfolio, as of December 31, 2004.

The Alfa Banking Group currently offers consumer loans, overdraft loans, personal installment loans, credit card loans and auto loans and expect to launch a mortgage lending product by the end of the first quarter of 2006. Since July 2005, the Alfa Banking Group has been offering personal installment loans ranging from RUR 22,500 to RUR 750,000 for terms of between one to two years. The Alfa Banking Group also offers credit cards that can be issued to customers on the basis of risk-assessment software, which allows expedited credit decisions following the presentation by the customer of certain documents. Retail clients are also offered classic/mass, gold and platinum versions of Visa and MasterCard credit cards. Credit card limits are up to 400% of a customer's monthly income and the grace period for balances extends for 60 calendar days. Credit limits by credit card type are as follows:

<b>Credit Card</b>	<b>Lower Credit Limit</b>	<b>Upper Credit Limit</b>
	<i>(US\$)</i>	
Visa Classic/MasterCard Mass .....	360	3,000
Visa Gold / MasterCard Gold .....	3,001	7,000
Visa Platinum / MasterCard Platinum .....	7,001	12,000

Currently, all of the Alfa Banking Group's retail loans have fixed rates, but it is planning to introduce floating-rate retail loans in the near future. The Alfa Banking Group advertises its retail loans in the media and through company clients and insurance companies.

The Alfa Banking Group also focuses on providing consumer financing in partnership with retailers who have an agreement with Alfa-Bank. The Alfa Banking Group's consumer finance products are distributed through over 500 point-of-sale locations with such retailers. Typically, these retailers are large national chains such as Eldorado, Technosila and Mir that specialize in electronic appliances. The Alfa Banking Group has also established a number of partnerships with retailers to allow it to offer its clients discounted and/or privileged access to a range of travel, insurance, car-rental, dining, fashion and beauty services as well as enhanced terms with outlets of household goods and mobile handsets. The Alfa Banking Group has a proprietary method of evaluating a potential customer's credit risk based on their submitted consumer finance application. This credit scoring determines whether or not to extend credit to the consumer.

The Alfa Banking Group offered a single consumer finance lending product in 2004 and expanded its offering to five products in 2005. Currently, the Alfa Banking Group provides the following consumer finance products: Visa Electron/Cirrus/Maestro (an international credit card with revolving, termless credit), local consumer cards (domestic cards with non-revolving, termless credit, which can only be used in certain retail chains), network consumer cards (domestic cards with revolving, termless credit), Visa Instant Issue cards (international credit card with revolving, termless credit and a limited set of services as compared with Visa Electron) and extensions of credit with equal monthly repayments and a fixed repayment date. The Alfa Banking Group's consumer finance lending products typically have lower lending limits, higher interest rates and shorter processing times than its retail finance products.

In 2005, the Alfa Banking Group's consumer finance business successfully entered 30 major regions of Russia (including Kaliningrad, Volgograd and Krasnodar) and the number of its consumer clients grew to approximately 200,000 customers. The Alfa Banking Group intends to develop further its presence in 20 additional regions including Omsk, Khabarovsk and Irkutsk.

The Alfa Banking Group started to offer mortgage loans to its own employees in February 2006 and plans to begin issuing mortgages to employees of corporate clients in Moscow and the St. Petersburg region by the end of the first quarter of 2006. The Alfa Banking Group has recently established mortgage centers in each of Moscow and

St. Petersburg, and management intends to open additional mortgage centers in the regions of Yekaterinburg and Nizhniy Novgorod in 2006.

The Alfa Banking Group plans to offer various mortgage products for the purchase of individual houses but expects to place particular focus on mortgages for secondary market apartments. Management believes that the Alfa Banking Group's mortgage department has established strong relationships with real estate agencies in Moscow and St. Petersburg that are viewed as a principal distribution channel for the mortgage business along with the Alfa Banking Group's corporate client network, the internet and other forms of advertising. The Alfa Banking Group's mortgage underwriting procedures (borrower and collateral underwriting) were developed in accordance with IFC and EBRD underwriting criteria.

The Russian market and legal framework for mortgages is underdeveloped. See "Risk Factors—Risk Factors Relating to Russia—Russian Bankruptcy Law." Nevertheless, the Alfa Banking Group believes that the Russian retail mortgage market has significant potential. Management estimates that the Russian mortgage market is about five years old and has been doubling in size every year with over US\$2 billion in mortgage loans issued in 2005.

The Alfa Banking Group started to offer auto loans in 2005 and seeks to issue approximately 10,000 auto loans per year. Management intends for half of the auto loan portfolio to consist of auto loans that will be used to purchase used automobiles because of the relatively high margins associated with these loans. As of February 2006, the Alfa Banking Group has entered into agreements with five automobile dealerships to provide auto loans.

#### *Alfa-Bank Retail Branches*

The Alfa Banking Group's retail banking business is spearheaded by its network of branches with the aim of providing easy-to-understand, convenient and efficient service to individuals and small enterprises, the Alfa Banking Group launched the Alfa-Bank Express model of branches in 2003 and subsequently rebranded them as Alfa-Bank branches, as discussed above.

As of February 1, 2006, the Alfa Banking Group operated 29 Alfa-Bank branches based upon the Alfa-Bank Express model. A substantial majority of these 29 branches are based in Moscow. Unlike the previous branches, the newly-formatted branches offer customers 24-hour a day access to their accounts through telephone, internet and self-service channels. In addition to offering customers a range of checking and savings accounts in Russian Ruble, U.S. Dollar and Euro currencies, credit cards, overdraft facilities and instant cash transfers, pre-paid cash cards and safe deposit boxes, the new Alfa-Bank branches also offer customers four different tariff plans with tiered levels of service. All tariff plans offer: (a) up to three separate checking and savings accounts in Russian Rubles, U.S. Dollars and Euro currencies, (b) Visa Instant Issue cards, which are used for withdrawing cash from ATM machines and have a limited set of services as compared with the Visa Electron card, (c) MasterCard Virtual cards, which are used solely for internet banking services, (d) up to four international credit cards and (e) the ability to make payments and access customer accounts through a variety of methods.

Since July 2005, the Alfa Banking Group, through its newly formatted branches, has offered personal loans ranging from RUR 22,500 to RUR 750,000 for terms of between one to three years. The Alfa Banking Group also offers various types of Visa and MasterCard credit cards that can be issued to customers on an expedited basis using risk-assessment software to analyze a customer's credit card application.

In January 2006, the Alfa Banking Group established a pilot program for VIP clients with demand accounts of US\$100,000 or more, term deposits of at least US\$300,000 or who held Alfa Banking Group investment products of US\$400,000 or more. This pilot program offers clients a qualified personal account manager, segregated VIP customer service areas in their local branch and priority service in other branches of the Alfa Banking Group.

Having established a strong presence and branch identity in Moscow with approximately 290,000 customers as of September 30, 2005, the Alfa Banking Group intends to roll out the new Alfa-Bank branches in other Russian regions and increase marketing through direct sales and telephone solicitations.

## **Investment Banking**

The Alfa Banking Group, operating through Alfa Capital Holdings (Cyprus) Limited, Alfa-Bank and certain of its affiliates, provides a broad range of investment banking and brokerage services including equity and debt capital markets services, equity and fixed income trading and derivatives operations. The primary emphasis of the investment banking business is on Russia and Ukraine, although brokerage operations also have been established in New York, London and Nicosia (Cyprus). The Alfa Banking Group's investment banking business generated total revenues of US\$62.5 million for the six month period ended June 30, 2005, compared to US\$48.7 million for the six month period ended June 30, 2004.

### *Equities*

The Alfa Banking Group's equities department runs one of Russia's leading brokerages and is an active participant on all major exchanges where Russian securities are traded, such as RTS, MICEX and GDR/ADR markets in London and New York. The total turnover of the Alfa Banking Group's equities department in the first half of 2005 was more than US\$6 billion, of which more than US\$5 billion related to trade and executed on behalf of the Alfa Banking Group's domestic and international clients.

The equities department specializes in six key areas: equity trading (both on behalf of clients and for the Alfa Banking Group's own account), international sales, domestic sales, equity capital markets, structured products (originating, structuring and distributing equity, fixed income, credit and foreign exchange derivatives) and proprietary analytical research. Based upon its experience of operating in the financial markets of Ukraine and Kazakhstan, the Alfa Banking Group sees one of its most important strategic objectives as offering its clients the opportunity to invest in the securities of these dynamically growing CIS economies.

The Alfa Banking Group provides a wide range of services to Russian corporations, including financial advisory services, structuring and executing transactions and raising capital. In the last few years, the Alfa Banking Group has individually acted as a bookrunner or co-lead manager in a number of high-profile international and local initial public offerings of Russian companies, including: Amtel-Vredestein, a Russian tire manufacturer, NLMK, a Russian steel company, Novatek, a Russian gas producer, Wimm-Bill-Dann, a Russian dairy group, and RBC, a Russian media company. It has also arranged a number of private placements for Russian companies including Perekriostok, a Russian retailer, Wimm-Bill-Dann and Amtel-Vredestein.

The equities department has also developed an internet trading platform called AlfaDirect which has serviced thousands of retail clients across Russia since 2000. AlfaDirect provides clients with a variety of financial information and allows them to complete securities transactions on all main Russian exchanges via the internet.

The Alfa Banking Group's research department analyzes overall market conditions and macroeconomic issues as well as issuing industry and company-specific reports. It forms the core of the Alfa Banking Group's expertise in monitoring current developments and evaluating investment opportunities in Russia and the CIS.

In 2005, Alfa Capital Markets, a central part of the Alfa Banking Group's London investment banking operations, was reorganized as a branch of Alfa Capital Holdings (Cyprus) Limited and became a member of the London Stock Exchange. It is authorized by the UK Financial Services Authority to provide brokerage, research and investment banking services to UK and European institutional clients. The Alfa Banking Group's U.S. operations are carried out through Alfa Capital Markets (USA) Inc., a New York corporation, which services clients in North and South America from its offices in New York. Alfa Capital Markets provides brokerage and investment services to a wide range of institutional clients investing in Russia. Alfa Capital Markets Inc. is a NASD member firm.

### *Fixed Income*

The Alfa Banking Group engages in fixed income trading, covering a range of products including Russian government and corporate bonds, promissory notes and repurchase agreements. The Alfa Banking Group works with more than 400 local clients and offers a large range of services in both the domestic and international debt capital markets. During 2005, Alfa-Bank was a lead manager of Russian Ruble corporate bond issuances totalling

RUR10.1 billion, compared to RUR6.6 billion in 2004. In June 2005, Alfa-Bank established a US\$10 billion Global Repackaging Program, which allows the Alfa Banking Group to repackage the existing debts of its clients and sell such repackaged instruments in the capital markets or to issue new debt products. During the year ended December 31, 2005, Alfa-Bank arranged for the issuance of credit-linked notes in the principal amount of US\$325 million on behalf of its clients. In addition, the Alfa Banking Group trades emerging markets' fixed income instruments as well as derivative contracts.

### *Derivatives*

In early 2004, the Alfa Banking Group created a separate derivatives department, which is responsible for the Alfa Banking Group's derivatives operations, primarily to meet the needs of its customers. Trading is carried out through two entities, Alfa-Bank and Alfa Capital Holdings (Cyprus) Limited. The range of instruments utilized by the Alfa Banking Group covers both over-the-counter and exchange-traded foreign exchange, Russian Ruble, commodities, interest rate, Russian equity and Eurobond derivatives. Alfa-Bank is a clearing member of the St. Petersburg Currency Exchange (SPCEX), which currently is the main exchange trading floor for different derivative contracts in Russia. In 2004, Alfa-Bank became a member of Futures and Options on RTS ("*FORTS*") on the RTS Stock Exchange. The Alfa Banking Group's derivatives customers include both large corporate clients of the Alfa Banking Group (primarily for foreign exchange, Russian Ruble and interest rate derivatives) as well as Russian small- and medium-sized banks and investment companies (for a wide range of derivative products).

### **International and Correspondent Banking**

The Alfa-Banking Group has established correspondent banking relationships with a large number of financial institutions both within Russia and abroad. This process usually begins with the exchange of SWIFT and/or telex authentication keys, which enable banks to operate through special secured interbank communication channels, and with the exchange of statutory documents and financial statements. More advanced levels of correspondent banking relationships may involve the opening of "Nostro" accounts and entering into various interbank agreements.

As of February 1, 2006, the Alfa Banking Group had a global correspondent network with approximately 450 institutions and 46 Nostro accounts with leading banks in the CIS, the United States, Western Europe and Asia. International and domestic clearing is carried out through SWIFT, which Alfa-Bank joined in 1994. The Alfa Banking Group's counterparties in the interbank market include, among others, JPMorgan Chase, Bank of Tokyo-Mitsubishi UFJ, Commerzbank, Dresdner Bank, HSBC and Wachovia. The Alfa Banking Group believes that its developed global correspondent networks as well as the availability of different credit facilities from the international banking community have been among the key elements of its growth and success.

### **Treasury Operations**

The Treasury has historically been responsible principally for the Alfa Banking Group's risk management (both liquidity and interest rate risks) and maintenance of open foreign exchange positions as directed by the Asset and Liability Management Committee ("*ALCO*"), as well as methodological and analytical functions. In February 2006, the treasury department reorganized such that the foreign exchange and money market operations of the Alfa Banking Group were transferred from the investment banking division to the treasury as part of the Alfa Banking Group's strategy of concentrating its funding and liquidity management functions into one division. See "Risk Management" below for a further discussion of ALCO and its operations.

### *Risk Management Functions*

The Treasury department supports ALCO in carrying out the risk management function of the Alfa Banking Group. Among other things, the ALM unit of the Treasury department analyzes, monitors and, in certain cases, manages the Alfa Banking Group's liquidity, foreign currency and interest rate positions on behalf of ALCO. See "Risk Management." The Treasury also makes recommendations concerning lending rates to ALCO and transfer pricing rates among the Alfa Banking Group's different divisions.



### Foreign Exchange

The Alfa Banking Group currently acts as a leading market maker on the Russian Ruble/U.S. Dollar foreign exchange markets, including both the bank-to-bank market and MICEX, acting both on behalf of clients and for its own account. Apart from traditional Russian Ruble/U.S. Dollar transactions, the Alfa Banking Group has historically executed over 20% of the total foreign exchange trading volume within Russia of other CIS currencies (Limited Convertible Currencies) and is part of a group of five domestic banks used by the Central Bank for determination of the Central Bank's daily official rate for CIS currencies. The Alfa Banking Group is an active participant in the international foreign exchange markets with approximately US\$300 million in trading lines from leading European and North American financial institutions and is a leading Russian-based spot and margin trader as measured by its 30–35% share of trading volume in these instruments during the last three years.

### Branch Network

As of December 31, 2005, the Alfa Banking Group had approximately 120 offices within Russia and the CIS (including subsidiary banks, regional branches and outlets) and 572 automated teller machines (“ATMs”) across its branch network, compared with 117 offices and 456 ATMs as of December 31, 2004. The network comprises branches located in Moscow and other Russian cities such as St. Petersburg, Nizhny Novgorod, Vladivostok, Omsk, Perm and Orenburg, and subsidiaries in Kazakhstan and Ukraine.

### Subsidiaries

The Guarantor's principal consolidated subsidiaries as of June 30, 2005 are set out below:

<b>Name</b>	<b>Nature of Business</b>	<b>Percentage Controlled<sup>(2)</sup></b>	<b>Country of Registration</b>
Alfa-Bank	Banking		Russian Federation
Alfa-Bank Kazakhstan	Banking		Kazakhstan
Alfa-Bank Ukraine	Banking	96.9	Ukraine
Alfa Capital Holdings (Cyprus) Limited	Financial Services		Cyprus
Alfa Capital Markets USA Inc	Brokerage		United States
Alfa Leasing	Leasing		Russian Federation
Alfa Russia Finance B.V.	SPV <sup>(1)</sup>		The Netherlands
Alfa Securities Limited	Brokerage		United Kingdom
Amsterdam Trade Bank	Banking		The Netherlands
Alfa Debt Market Limited	SPV <sup>(1)</sup>		Cyprus
Alfa MTN Issuance Limited	SPV <sup>(1)</sup>		Cyprus
Alfa MTN Invest Limited	SPV <sup>(1)</sup>		Cyprus
Alfa FI Limited	SPV <sup>(1)</sup>		Cyprus

(1) SPV — special purpose vehicle.

(2) Unless otherwise stated, each of the principal subsidiaries listed above is wholly-owned directly or indirectly by the Guarantor.

A number of the Guarantor's subsidiaries are incorporated outside Russia and some of its business is generated by entities other than Alfa-Bank.

### ATB

ATB was incorporated in September 1994 in Amsterdam, The Netherlands and holds a full banking license from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, Alfa-Bank acquired a 100% interest in ATB.

ATB is a member of SWIFT, TARGET and Interpay settlement systems and issues private and corporate EuroCards and MasterCards. ATB is the main correspondent bank of Alfa-Bank for Euro-denominated clearing services.

ATB provides banking, consulting and project finance services to a wide range of corporate clients with a particular focus in trade finance services involving Russia, other CIS countries and the European Union. ATB also facilitates foreign direct investment in Russia and the CIS.

According to its management accounts, ATB's net profit for the six month period ended June 30, 2005 amounted to €5.1 million as compared to €7.1 million for the year ended December 31, 2004. ATB's total assets increased from €1.25 billion in 2004 to €1.5 billion as of June 30, 2005. ATB's loan portfolio amounted to €620 million as of June 30, 2005 as compared to €349 million as of December 31, 2004. ATB's capital adequacy ratio as of December 31, 2004 under the Basel Accords was more than 22.6%, well above the minimum requirement of 8%.

The Alfa Banking Group made an equity contribution to ATB in 2004 in the amount of €40 million, and a subordinated loan to ATB in 2005 in the amount of €45 million.

#### *Alfa-Bank Ukraine*

In 2000, the Alfa Banking Group acquired the Ukrainian corporate bank Kievinvestbank and then reorganized it into CJSC Alfa-Bank (Ukraine) with the long-term aim of establishing a high-tech, universal bank, combining the expertise of the Alfa Banking Group with the know-how of a local operator in the Ukrainian market. In addition to corporate and retail banking, Alfa-Bank Ukraine engages in investment banking activities, such as fixed income trading, debt capital services and mergers and acquisitions consulting.

Over the last two years, Alfa-Bank Ukraine opened three branches in the cities of Donetsk, Kharkov and Dnepropetrovsk, in addition to its central office and two outlets in Kiev. Alfa-Bank Ukraine plans to expand its branch business in the future by establishing new outlets in Kiev and other large cities, including the big industrial regional centers of Ukraine.

As of December 31, 2004, Alfa-Bank Ukraine's loan portfolio was approximately 581.4 million Ukrainian Hryvnia ("UAH"), or approximately 58% of total assets. For the year ended December 31, 2004, in accordance with Ukrainian accounting standards, Alfa-Bank Ukraine's net income was UAH 1.1 million (US\$0.2 million), net interest income was UAH 31.1 million (US\$5.8 million), net commission income was UAH 18.7 million (US\$3.5 million) and operating income was UAH 61.1 million (US\$11.4 million). The U.S. Dollar figures in this paragraph are for presentation purposes only.

As of February 1, 2006, Alfa-Bank Ukraine was ranked twenty-second in Ukraine in terms of assets and capital by the Ukrainian Banking Association with approximately US\$500 million in total assets and US\$50 million in capital in accordance with Ukrainian accounting standards.

In December 2005, the Alfa Banking Group decided to restructure its corporate banking operations in order to place increased focus on the Russian domestic market. As part of the restructuring Alfa-Bank will sell a controlling interest in Alfa-Bank Ukraine to ABH Ukraine Limited, a company controlled by the shareholders of the Alfa Banking Group, but not part of the Alfa Banking Group.

#### *Alfa-Bank Kazakhstan*

Alfa-Bank Kazakhstan was established in 1994 and has three branches located in Karaganda, Ust Kamenogorsk and Astana, as well as its head office in Almaty. Alfa-Bank Kazakhstan focuses primarily on corporate clients. In August 2001, Alfa-Bank Kazakhstan started issuing Visa-branded debit cards under a license from Visa International. In late 2001, it became a full member of SWIFT. For the year ended December 31, 2004, in accordance with Kazakhstan accounting standards, net income was 395 million Kazakhstan Tenge ("KZT") (US\$2.9 million), net interest income was KZT 949 million (US\$7.0 million), fees and commission income was KZT 479 million (US\$3.5 million). The U.S. Dollar figures in this paragraph are for presentation purposes only.

### *Alfa Capital Markets Inc.*

Alfa Capital Markets, headquartered in New York, is an SEC-registered broker-dealer that acts as the U.S.-arm of the Alfa Banking Group's investment banking business. It provides brokerage and investment services to many major U.S. institutional investment companies investing in the Russian market and has gained a customer base of over 30 blue chip institutional funds since its founding in 2001. Alfa Capital Markets' operations consist of sales research, sales and trading and securities compliance. Alfa Capital Markets is active on all major U.S. equity exchanges. Alfa Capital Markets has direct trading lines open with both Moscow and London and operates in real time on all exchanges. It plans to distribute the Alfa Banking Group's products to all major financial institutional clients in the United States and to be a gateway for investment by the Alfa Banking Group's U.S. clients into Russia.

### *Alfa Capital Holdings (Cyprus) Limited*

Alfa Capital Holdings (Cyprus) Limited was incorporated in Cyprus on August 23, 1996, with registration No. 78416, under the provisions of the Cyprus Companies Law, Cap. 113. Alfa Capital Holdings (Cyprus) Limited is wholly-owned by the Guarantor. The principal activities of the company are investment operations in equities and bonds in the Russian Federation and the provision of financial services to other members of the Alfa Banking Group. The company has been regulated by the Central Bank of Cyprus as a financial services company under permit No. EC/D/II/24839, which was issued in April 2002 and which allows it to provide financial services to banking or credit institutions, the company's shareholders or members of its group of companies and to other experienced or professional investors outside the Alfa Banking Group. Pursuant to the provisions of the Investment Firms Law, Law 148(I)/2002, the Cyprus Securities and Exchange Commission ("CSEC") is the principal regulator of Alfa Capital Holdings (Cyprus) Limited. Alfa Capital Holdings (Cyprus) Limited received a license from the CSEC to operate as an investment firm under the provisions of the Investment Firms Law in May 2004.

### **Planned Divestiture of Non-core Assets**

The Alfa Banking Group currently holds certain non-banking assets that it considers to be non-core assets. The Alfa Banking Group aims to divest its interests in such non-core businesses subject to, among other things, market conditions. The Alfa Banking Group's non-core asset portfolio had a carrying value of US\$130.0 million as of June 30, 2005, which represents 1.6% of the Alfa Banking Group's total assets.

The following table sets forth the Alfa Banking Group's portfolio of non-banking assets as of June 30, 2005:

<b>Investments</b>	<b>Line of Business</b>	<b>Country of Registration</b>	<b>Ownership interest (%)</b>	<b>Carrying value (US\$ million)</b>
CTC Media Inc.....	Television	Russia	29.1	56.5
Cracker OJSC.....	Food production	Russia	47.4	12.5
Noble Gibbons.....	Real estate consulting	Russia	74.9	8.7
Amtel Vredestein N.V.....	Tire manufacturing	The Netherlands	8.3	45.0
Other.....	Food industry and publishing, etc.	Russia	-	7.3
<b>Total.....</b>				<b>130.0</b>

### **IT Infrastructure**

The Alfa Banking Group has created a number of information technology projects to increase the efficiency of its banking operations. Investments and expenditures for information technology totalled approximately US\$35 million in 2004 and approximately US\$33 million in 2005. Investments and expenditures for information technology initiatives are expected to be at approximately the 2005 level in 2006.

### *OMEGA Program*

Part of the Alfa Banking Group's strategy is to be the most technologically advanced and efficient banking group in Russia. To achieve this end, the Alfa Banking Group implemented the OMEGA program, which has

resulted in a highly-automated business throughout its back, middle and front office, its central management and its branch network.

In 2004, the Alfa Banking Group completed implementation of the OMEGA program. The centerpiece of the OMEGA program is software technology that was developed by Misys, a leading UK global software solutions provider with customers in over 120 countries. In 2003, the Alfa Banking Group successfully implemented the core component of the software package, Equation.

The OMEGA program provides management with information in key areas such as risk and profit analysis across all product and department lines. Management also believes that the OMEGA program enables the Alfa Banking Group to reduce the time it takes to roll out new financial products and to adapt to changes in market conditions, as well as to increase the number of clients, accounts and transactions that can be accommodated and to reduce costs and risk. It has also provided the platform upon which the Alfa Banking Group has launched its new modern retail network.

The OMEGA program is designed not only to ensure that the Alfa Banking Group remains a leader in Russia, but also to maintain the Alfa Banking Group's competitiveness as large foreign banks enter the domestic market. The OMEGA program is expected to form the core of a technologically advanced banking supermarket geared entirely toward electronic transactions. The program is expected to facilitate the Alfa Banking Group's plans to provide clients with a 24-hour online service for most products.

#### *Gemini Project*

The Gemini Project is an IT project focused on implementing cost effective IT solutions for the Alfa Banking Group's retail business. The Gemini project consists of advanced technology front ends and end customer applications, such as internet banking and Java/GSM, for mobile phone banking. It is based upon an innovative core Business Process Management software engine, which enables the Alfa Banking Group to optimize its business process on a rolling and continual basis for consumer finance, credit cards and other products.

#### **Employees**

As of December 31, 2005, the Alfa Banking Group had 6,694 employees, a 36.1% increase from 4,919 employees as of December 31, 2004. Of these 6,694 employees, 3,264 are located in Moscow, 3,190 are located elsewhere in Russia and 240 are located outside Russia. Staff costs accounted for 53% of the Alfa Banking Group's operating expenses in 2004 and 56% in 2005.

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. See "Risk Factors—Retention of Management and Employees." The Alfa Banking Group's personnel management policy is aimed at developing a skilled, highly productive staff that is successful in conducting its business. The Alfa Banking Group's training and development function is designed to develop employees' technical management and sales skills. Particular focus is placed on developing managerial skills for junior and middle management. The Alfa Banking Group has focused significant resources on the computer and internet-based skills of its employees over the course of the past few years.

The Alfa Banking Group has about 17 incentive based programs, each of which is oriented to a specific type of product within a specific division. The Alfa Banking Group regularly develops and introduces incentive programs oriented to increase the volume of products sold and its overall market share.

#### **Property**

The Alfa Banking Group leases its corporate headquarters and substantially all of the space of its existing branch locations. These leases generally have terms of three to five years and contain options to renew the contract. The Alfa Banking Group expects that most of its future branch locations will also occupy leased properties with similar or better terms.

## Litigation

### *Norex*

On February 26, 2002, a lawsuit was filed by Norex Petroleum Limited (“Norex”) in the United States District Court for the Southern District of New York against various defendants, including the Alfa Consortium, Alfa Finance Holdings, S.A., Crown Finance Foundation and CTF Holdings Limited. Neither Alfa-Bank nor the Guarantor was named as a defendant in this lawsuit or was served with court papers. However, the complaint describes the Alfa Consortium as an unincorporated association of various affiliated companies including Crown Finance Foundation, CTF Holdings Limited, Alfa Finance Holdings, S.A., Crown Luxembourg Holdings Sarl, OAO Alfa-Bank, Alfa Capital Markets (USA), Inc., Crown Commodities Ltd., Crown Trade and Finance Limited, Crown Resources A.G., Crown Resources (USA), Inc. and OOO Alfa-Eco.

The complaint alleges that Norex was injured as a result of a purported “illegal takeover” of ZAO Yugraneft Corporation, a Russian oil company of which Norex was majority shareholder, and that the defendants were involved in an “illegal scheme” that effectuated this takeover. The complaint alleges claims for damages based upon purported violations of the U.S. Racketeering Influenced Corrupt Organizations “RICO” statute (18 U.S.C. § 1961 *et seq.*) and seeks compensatory damages in excess of \$500 million. Norex requests that this amount be trebled pursuant to the provisions of the RICO statute.

On March 3, 2004, the U.S. district court dismissed the lawsuit on the ground that the United States was not a convenient forum. Norex appealed the dismissal, and on July 21, 2005, the U.S. Court of Appeals for the Second Circuit reversed the decision of the district court and remanded the case for further proceedings. Defendants’ Motion for Rehearing was denied by the Second Circuit. On December 21, 2005, the plaintiff filed an Amended Complaint adding additional defendants as well as new allegations. On January 30, 2006, a status conference was held before the district court judge handling the matter. Defendants advised the court that they plan to file further motions to dismiss, and the court set a briefing schedule for the motions. The judge referred Norex’s request for discovery, including its request for discovery directed at obtaining information to effect service on certain of the new defendants, to a magistrate but indicated her intent to continue the stay of pretrial discovery regarding the merits of Norex’s claims. Apart from the motion to dismiss on *forum non conveniens* grounds, there have been no significant procedural or substantive developments in this case.

Management believes that Norex’s claims are without merit and are unlikely to succeed.

### *Belorousskiy Birzhevoy Bank*

Joint Stock Company Belorousskiy Birzhevoy Bank has filed a claim with the Arbitrazh Court of the City of Moscow against Alfa Capital Holdings (Cyprus) Limited and Joint Stock Company PrivatBank (Ukraine) in connection with the sale by PrivatBank (Ukraine) of bonds issued by the Ministry of Finance of the Russian Federation to Alfa Capital Holdings (Cyprus) Limited. According to the complaint, PrivatBank (Ukraine) sold, on behalf of Belorousskiy Birzhevoy Bank, bonds of the Ministry of Finance of the Russian Federation with a face amount of US\$15 million to Alfa Capital Holdings (Cyprus) Limited at a purchase price of US\$6,337,500. The sale allegedly took place in April 2001. Belorousskiy Birzhevoy Bank seeks to have the sale and purchase be declared invalid. The court hearing on the matter has been scheduled for April 11, 2006.

Generally, under the Russian Civil Code, in the event a transaction is declared invalid, each of the parties to such transaction is obliged to return to the other party all consideration received in connection with the transaction, or in the event it is impossible to return the consideration received, to compensate the other party for the market value of the consideration received, unless otherwise provided by law. Given the early stage of the proceedings related to this claim, the Alfa Banking Group’s management is not currently in a position to evaluate the likelihood of success of the Belorousskiy Birzhevoy Bank’s claims against Alfa Capital Holdings (Cyprus) Limited.

*Other proceedings*

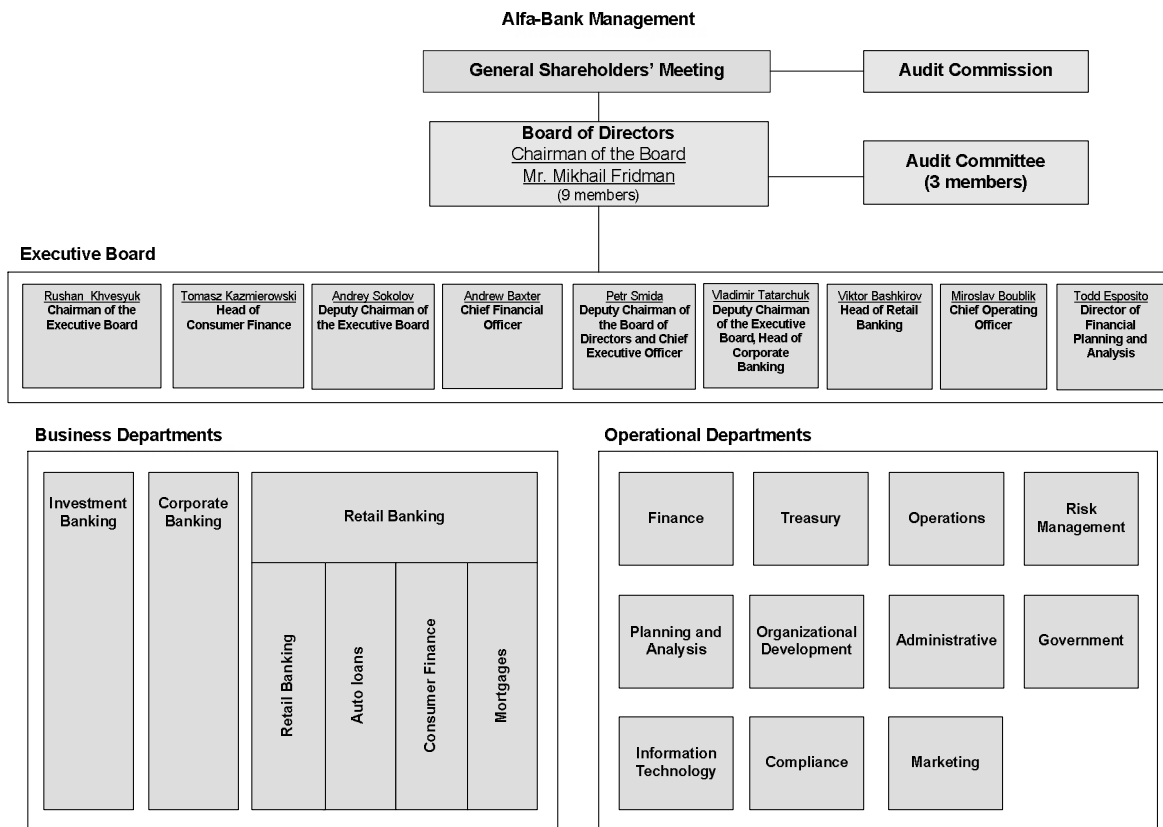
The Alfa Banking Group is involved in various other legal proceedings but does not believe that such proceedings, individually or taken together, are likely to have a material adverse effect on the business of the Alfa Banking Group, the Guarantor or Alfa-Bank or on the results of their respective operations or financial conditions.

## MANAGEMENT

### Alfa-Bank

In line with other Russian banks, Alfa-Bank is managed through a multi-tier system of governing bodies comprised of the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board.

The following is Alfa-Bank's organizational chart as of February 27, 2006:



The General Shareholders' Meeting is the supreme governing body of Alfa-Bank. The shareholders elect the Board of Directors at the General Shareholders' Meeting, which is responsible for the general management of Alfa-Bank, including coordination of its overall strategy and general supervision. The Board of Directors appoints members of the Executive Board, which is the collective executive body of Alfa-Bank and the Chairman of the Executive Board, who oversees the Executive Board. Day-to-day activities of Alfa-Bank are overseen by the Chairman of the Executive Board and the Executive Board. Certain powers are delegated by the Chairman of the Executive Board to his or her deputies, members of the Executive Board, department heads and various committees. A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board is set out below.

#### *General Shareholders' Meeting*

The shareholders of Alfa-Bank, through shareholder actions taken at the General Shareholders' Meeting, are the ultimate governing body of Alfa-Bank. The powers of the shareholders at the General Shareholders' Meeting are set forth in Federal Law No. 208-FZ "On Joint Stock Companies" dated October 26, 1995, as amended (the "Joint Stock Companies Law") and Alfa-Bank's charter. General Shareholders' Meetings are convened at least once

a year pursuant to the Joint Stock Companies Law and Alfa-Bank's charter. Within the competence of the General Shareholders' Meeting are corporate actions such as the following:

- amendments to Alfa-Bank's charter,
- reorganization or liquidation of Alfa-Bank, appointment of a commission to liquidate Alfa-Bank and approval of preliminary and final liquidation balances,
- determination of the number of members of the Board of Directors, election and removal of members of the Board of Directors,
- determination of the number, the nominal value and the class/type of authorized shares and the rights granted by such shares,
- changes in Alfa-Bank's share capital,
- appointment and removal of the members of Alfa-Bank's audit commission,
- approval of Alfa-Bank's external auditor,
- approval of Alfa-Bank's annual reports and financial statements,
- approval of certain interested-party transactions and large-scale transactions,
- distribution of profits,
- split or consolidation of Alfa-Bank's shares,
- redemption by Alfa-Bank of issued shares in circumstances contemplated by Russian Legislation,
- approval of Alfa-Bank's participation in holding companies, financial and industrial groups, associations and other groups of commercial organizations, and
- approval of certain internal documents of Alfa-Bank's governing bodies.

Corporate decisions proposed at the General Shareholders' Meeting generally are adopted by a simple majority of shareholders holding voting shares who are present at the meeting (subject to a minimum quorum requirement of the presence of shareholders holding at least 50% plus one share of the placed voting shares of Alfa-Bank). However, pursuant to the Joint Stock Companies Law, the following decisions must be approved by a three-quarters majority vote of the voting shares present at the General Shareholders' Meeting of Alfa-Bank:

- amendments to Alfa-Bank's charter,
- reorganization or liquidation of Alfa-Bank, appointment of a commission to liquidate Alfa-Bank and approval of preliminary and final liquidation balances,
- large-scale transactions involving assets in excess of 50% of the balance sheet value of the assets of Alfa-Bank,
- determination of the number, the nominal value and the class/type of authorized shares and the rights granted by such shares,
- redemption by Alfa-Bank of its issued shares,



- any issuance of shares or securities convertible into ordinary shares by closed subscription, and
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case constituting more than 25% of the number of issued ordinary shares.

The annual General Shareholders' Meeting must be convened by the Board of Directors between March 1 and June 30 of each year, and its agenda must include the following items:

- determination of the number of and the election of the members of the Board of Directors,
- approval of the annual report and the annual financial statements, including the balance sheet and the profit and loss statement of Alfa-Bank,
- approval of the distribution of profits, including approval of annual dividends, if any,
- approval of an external auditor, and
- appointment of the members of Alfa-Bank's audit commission.

#### *Board of Directors*

The Board of Directors is responsible for matters of general management, with the exception of those matters that are within exclusive authority of the General Shareholders' Meeting. The activities of the Board of Directors should be carried out in accordance with Alfa-Bank's charter and applicable law. The Board of Directors meets as often as necessary and exercises exclusive authority over certain matters. Such matters include, for example:

- determination of Alfa-Bank's business priorities,
- convening of annual and extraordinary General Shareholders' Meetings, except in certain circumstances specified in the Joint Stock Companies Law,
- approval of the agenda of a General Shareholders' Meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with, preparation for and holding of General Shareholders' Meetings,
- determination of the price of Alfa-Bank's property and of its securities to be placed or repurchased, as provided for by the Joint Stock Companies Law,
- repurchase of Alfa-Bank's shares, bonds and other securities in certain circumstances provided for by the Joint Stock Companies Law,
- determination of the number of members of the Executive Board, election and removal of the Chairman of the Executive Board and members of the Executive Board,
- recommendations on the amount of remuneration to be paid to members of Alfa-Bank's audit commission and on the fees payable for the services of an external auditor,
- recommendations on the amount of dividends on shares and the payment procedure thereof,
- the use of Alfa-Bank's reserve fund and other funds,
- approval of Alfa-Bank's internal documents, except for those documents the approval of which fall within the competence of its shareholders or other governing bodies,

- the establishment of branches and representative offices,
- approval of large-scale and interested party transactions in the circumstances contemplated by the Joint Stock Companies Law,
- establishment of internal control system,
- approval of credit facilities which exceed established limits,
- appointment of Alfa-Bank's share registrar, approval of the terms of the agreement with the registrar and termination of the agreement with the registrar, and
- approval of the annual financial and economic plan of Alfa-Bank.

According to the Joint Stock Companies Law, the election of its entire Board of Directors at the General Shareholders' Meeting should be conducted through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of members on Alfa-Bank's Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of the General Shareholders' Meeting.

According to the Joint Stock Companies Law, members of the Executive Board may not comprise more than a quarter of the members of the Board of Directors.

Alfa-Bank's charter provides that its Board of Directors should consist of not less than five members. Currently, there are nine members on Alfa-Bank's Board of Directors.

On February 27, 2006, Alfa-Bank held an Extraordinary General Shareholders' Meeting where, as part of a continuing effort to improve corporate governance, changes were made to the composition of the Board of Directors to reduce the number of shareholders who are represented on the Board of Directors and to more closely align the members of the Executive Board with the heads of business and operational departments.

The name, position and certain other information for each current member of the Board of Directors of Alfa-Bank are set forth below.

The Board of Directors of Alfa-Bank consists of:

<b>Name</b>	<b>Position</b>
Mikhail Fridman .....	Chairman
Oleg Sysuev .....	First Deputy Chairman
Petr Smida .....	Deputy Chairman and Chief Executive Officer of Alfa-Bank
Alexander Lukanov .....	Member of the Board of Directors
Rushan Khvesyuk .....	Member of the Board of Directors and Chairman of the Executive Board
Ildar Karimov .....	Member of the Board of Directors
Alexander Gafin .....	Member of the Board of Directors
Andrej Kosogov .....	Member of the Board of Directors
Pyotr Aven.....	President of Alfa-Bank and Member of the Board of Directors

The business address of Messrs. Fridman, Sysuev, Lukanov, Karimov, Gafin and Aven is 11 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Messrs. Smida, Khvesyuk and Kosogov is 12 Acad. Sakharova Prospect, 107078, Moscow, Russia.

A brief biographical description of the members of Alfa-Bank's Board of Directors is set out below.

***Mr. Mikhail Fridman***

Born in 1964 in Lvov, Mikhail Fridman graduated from the Moscow University of Alloys and Steel in 1986 with an MS in Engineering. He is the principal founder of Alfa-Bank and in 1998 was appointed Chairman of the Board of Directors of Alfa-Bank. In 1989, he began the process of creating the Alfa Consortium, which has developed into one of the most powerful financial and industrial associations in Russia. In addition to his post with Alfa-Bank, he is the Chairman of the Board of Directors of TNK, a Member of the Board of Directors of OJSC “Vimpel Communication,” a Member of the Board of Directors of CJSC “Trade House Perekryostok” and a Member of the Board of Alfa Finance Holdings S.A.

***Mr. Oleg Sysuev***

Born in 1953 in Kuibyshev, Oleg Sysuev graduated from Kuibyshev Aviation Institute (Samara) in 1976. Formerly, he worked as the First Deputy Head of the Administration of the President of the Russian Federation from 1998 to 1999, Deputy Chairman of the Government of the Russian Federation, the Minister of Labor and Social Development from 1997 to 1998 and Head of Administration of Samara City from 1992 to 1997. He was appointed to Alfa-Bank’s Board in 1999 and was appointed First Deputy Chairman of the Board of Directors of Alfa-Bank in 1999. In his current position, he is responsible for Alfa-Bank’s regional branch network and banking in the regions. He also serves as a Member of the Board of Directors of OJSC “STS” and Chairman of the Board of Directors of the “Sozidaniye” Foundation. Mr. Sysuev is a member of several public and political organizations.

***Mr. Petr Smida***

Born in 1963 in Mestets Kralove, Czech Republic, Petr Smida graduated from the University of Economics in Prague in 1988. Before joining Alfa-Bank in 2003, he was the Chairman and CEO at GE Capital Bank, Prague and Senior Vice-President at GE Consumer Finance, USA. Currently, he serves as a Deputy Chairman of the Board of Directors of Alfa-Bank, a member of the Executive Board of Alfa-Bank and as Chief Executive Officer of Alfa-Bank. He has served as Deputy Chairman of the Board of Directors since 2003 and as Chief Executive Officer since 2004. In his current position, Mr. Smida is responsible for Alfa-Bank’s general management and strategy.

***Mr. Alexander Lukanov***

Born in 1962 in Moscow, Alexander Lukanov graduated from the Moscow Power Engineering Institute in 1986. Prior to joining Alfa-Bank, he worked as Chairman of the Executive Board of one of the first venture capital funds in Russia, SPF Kontakt XXI. He joined Alfa-Bank in 1995, and has served as a Member of the Board of Directors since February 27, 2006. He also serves as Head of Corporate Banking and Chairman of the Supervisory Board of Alfa-Bank Ukraine. In addition to his position with Alfa-Bank, he also is a Member of the Board of CJSC “Trade House Perekryostok” and a Member of the Board of Directors of “Alfa Strakhovanie.”

***Mr. Rushan Khvesyuk***

Born in 1969 in Zagorsk Moscow Region, Rushan Khvesyuk graduated from the Moscow State Academy of Law in 1994. From 1995 until 2002, he headed Alfa-Bank’s legal department. Since 2002, he has served as the Chairman of the Executive Board of Alfa-Bank and he became a Member of the Board of Directors on February 27, 2006. In 2001, Russian Career Magazine named Mr. Khvesyuk as one of 50 best Russian corporate lawyers.

***Mr. Ildar Karimov***

Born in 1961 in Izhevsk, Ildar Karimov earned a Ph.D. in mathematical economics and an MS in economics in 1983 and 1986, respectively, both of which he received from Moscow State University. Formerly, he worked as a researcher with the International Institute of Applied Analysis in Austria, and from 1991 to 1993 he worked as an advisor to the Council on Foreign Economic Policy at the Ministry of Foreign Economic Relations in Moscow. He joined Alfa-Bank in 1994 and served as a Deputy Chairman of the Executive Board of Alfa-Bank until his election to the Board of Directors on February 27, 2006. Mr. Karimov also serves as a Member of the Board of Directors of OJSC “Alfa Strakhovanie.”

***Mr. Alexander Gafin***

Born in 1954 in Petropavlovsk – Kamchatskiy, Alexander Gafin graduated from the College for Hotel Business in 1980. He holds a number of awards in the field of public relations, fine arts and literature. He joined Alfa-Bank in 1994, and has served as a Member of the Board of Directors since 2003. He also holds the position of Director for Public Relations and Marketing at Alfa-Bank. In this capacity, he is responsible for PR-support, marketing and the organization of social and charitable events. He also is the Executive Director of the Bolshoi Theater Foundation.

***Mr. Andrei Kosogov***

Born in 1961 in Sillamae, Estonia, Andrej Kosogov graduated from the Moscow Energy Institute in Moscow in 1987. He began his career in banking in 1992 as Chairman of the Board of Directors and CEO of Alfa Capital, an investment company which merged with Alfa-Bank in 1998. From 1992 to 1995 he was Chairman of Alfa Capital Investment Fund, a forerunner of the Bank's mutual fund. From 2001 until 2005 he was a first deputy Chairman of the Executive Board of Alfa-Bank OJSC and was responsible for investment activities and asset management. Currently, he is Chairman of the Board and the Investment Committee of Alfa Capital Partners. He also serves as Chairman of Alfa-Bank's Investment Committee and Chairman of Alfa Asset Management.

***Mr. Pyotr Aven***

Born in 1955 in Moscow, Pyotr Aven received his Ph.D. in economics in 1981 and MS in economics in 1980 from the Moscow State University. He is recognized internationally as a respected economist. From 1991 to 1992, he was the Minister of Foreign Economic Relations of Russia. He became the President of Alfa-Bank in 1993. As President of Alfa-Bank, Mr. Aven liaises with high-ranking government officials and business leaders. In addition to his position with Alfa-Bank, he also acts as the Chairman of the Board of Directors of Golden Telecom, Chairman of the Board of Directors of STS Television and Member of the Board of Alfa Finance Holdings S.A.

*Executive Board and Chairman of the Executive Board*

The day-to-day management of Alfa-Bank is carried out by the Executive Board and the Chairman of the Executive Board of Alfa-Bank.

Together with the Executive Board, the Chairman of the Executive Board is responsible for implementing decisions of the General Shareholders' Meeting and the Board of Directors. The Chairman of the Executive Board is authorized, among other things, to act on behalf of Alfa-Bank without any express grant of authority, to dispose of Alfa-Bank's property in accordance with Alfa-Bank's charter, to determine the guidelines of the internal audit and control systems in Alfa-Bank and to issue internal orders concerning Alfa-Bank's day-to-day operations. The Members of the Executive Board are elected by the Board of Directors for a term of two years. On July 14, 2005, the Board of Directors elected Mr. Rushan Khvesyuk as the Chairman of the Executive Board of Alfa-Bank.

The Executive Board is Alfa-Bank's collective executive body. Its members are appointed by the Board of Directors for the period of two years. Together with the Chairman of the Executive Board, the Executive Board is responsible for Alfa-Bank's day-to-day management and administration. Its activities are coordinated by the Chairman of the Executive Board and are regulated by applicable Russian law, Alfa-Bank's charter and regulations on the Executive Board. The Executive Board meets at least weekly and makes its decisions by a simple majority vote (subject to a quorum requirement of two thirds of its members).

Functions that are not allocated to the General Shareholders' Meeting, the Board of Directors or the Chairman of the Executive Board remain within the purview of the Executive Board. In particular, the Executive Board is charged, among other things, with the following functions:

- developing principles for Alfa-Bank's management,
- implementing strategies determined by Alfa-Bank's shareholders and the Board of Directors,

- preparing and submitting reports on Alfa-Bank’s activities to the General Shareholders’ Meeting, the Board of Directors and to the Central Bank,
- submitting proposals on amendments and alterations to Alfa-Bank’s charter,
- considering the results of operations of Alfa-Bank’s divisions for the relevant reporting period,
- approving instructions, rules, regulations and other internal documents, including without limitation, credit, accounting, marketing, labor, financing and other policies except for those that are within the responsibility of other governing bodies of Alfa-Bank, and
- functions that are delegated to the Executive Board by the Board of Directors or the Chairman of the Executive Board.

Currently, the Executive Board consists of nine members. The name, position and certain other information for each member of the Executive Board are set out below.

<b>Executive Board</b>	<b>Position</b>
Rushan Khvesyuk .....	Chairman of the Executive Board
Petr Smida .....	Deputy Chairman of the Board of Directors, Member of the Executive Board and Chief Executive Officer
Andrey Sokolov .....	Deputy Chairman of the Executive Board
Vladimir Tatarchuk .....	Deputy Chairman of the Executive Board and Head of Corporate Banking
Viktor Bashkirov .....	Member of the Executive Board and Head of Retail Banking
Miroslav Boublik .....	Member of the Executive Board and Chief Operations Officer
Todd Esposito .....	Member of the Executive Board and Director of Financial Planning and Analysis
Andrew Baxter .....	Member of the Executive Board and Chief Financial Officer
Tomasz Kazmierowski .....	Member of the Executive Board and Head of Consumer Finance

The business address of Messrs. Sokolov, Tatarchuk, Bashkirov and Kazmierowski is 11 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Messrs. Khvesyuk, Smida, Boublik, Esposito and Baxter is 12 Acad. Sakharova Prospect, 107078, Moscow, Russia.

A brief biographical description of the members of Alfa-Bank’s Executive Board is set forth below.

***Mr. Rushan Khvesyuk***

Born in 1969 in Zagorsk Moscow Region, Rushan Khvesyuk graduated from the Moscow State Academy of Law in 1994. From 1995 until 2002, he headed Alfa-Bank’s Legal Department. Since 2002 he has served as the Chairman of the Executive Board of Alfa-Bank and he became a Member of the Board of Directors on February 27, 2006. In 2001, Russian Career Magazine named Mr. Khvesyuk as one of 50 best Russian corporate lawyers.

***Mr. Petr Smida***

Born in 1963 in Mestets Kralove, Czech Republic, Petr Smida graduated from the University of Economics in Prague in 1988. Before joining Alfa-Bank in 2003, he was the Chairman and CEO at GE Capital Bank, Prague and Senior Vice-President at GE Consumer Finance, USA. Currently, he serves as a Deputy Chairman of the Board of Directors of Alfa-Bank, a member of the Executive Board of Alfa-Bank and as Chief Executive Officer of Alfa-Bank. He has served as Deputy Chairman of the Board of Directors since 2003 and as Chief Executive Officer since 2004. In his current position, Mr. Smida is responsible for Alfa-Bank's general management and strategy.

***Mr. Andrey Sokolov***

Born in 1955 in Moscow, Andrey Sokolov graduated from the Moscow State University in 1977. Formerly, he was the Chairman of the Board of Resso-Garantia, the Deputy Chairman of the Board of Directors of MDM Commercial Bank and the Deputy Chairman of the Board of Konversbank. He joined Alfa-Bank in 1995 and has served as Deputy Chairman of the Executive Board since 2003.

***Mr. Vladimir Tatarchuk***

Born in 1975 in Solikamsk Perm Region, Vladimir Tatarchuk received his MA in law from the Moscow State University in 1997. From 1995 to 1997 he was the Legal Adviser and Head of the Legal Department of CJSC "Alfa Capital," and from 1997 until 1998 he served as Head of the Legal Department of JSC "Alfa Capital." Currently, he is the Head of Corporate Banking of Alfa-Bank.

***Mr. Viktor Bashkirov***

Born in 1971 in Moscow, Viktor Bashkirov graduated from Moscow State Institute of International relations in 1994. He began his career with Citibank in 1993, where he served as President of retail banking, Citibank (Egypt) and later served as Chairman of the Executive Board of Citibank, St. Petersburg Branch. In the latter capacity he headed Citibank's retail division in Russia. He joined Alfa-Bank on September 1, 2004, and currently serves as Head of Retail Banking for Alfa-Bank.

***Mr. Miroslav Boublik***

Born in 1970 in Celadna, Czech Republic, Miroslav Boublik received his MBA from Harvard University in 1998 and his Bachelor of Science in computer engineering from Brown University in 1993. Before joining Alfa-Bank, he was the Engagement Manager and Consultant for the Business Technology Office at McKinsey & Company and the President and CEO of Amient Inc. (USA). He joined Alfa-Bank in 2004 and serves as the Chief Operations Officer for Alfa-Bank.

***Mr. Todd Esposito***

Born in 1971 in New York, New York, Todd Esposito received his Bachelor of Science degree from Syracuse University in 1993 and conducted coursework at the London School of Economics in 1991 and received his German Language Level II certificate from the Goethe Institute (Vienna). Previously, he was the Marketing Leader and E-Business Leader at GE Capital Global Consumer Finance, the Chief Financial Officer at GE Capital GCF Multiservis and the FP&A Manager/Sales Marketing Finance Manager at GE Capital Mercurbank. He joined Alfa-Bank in 2004 and currently serves as Director of Financial Planning and Analysis for Alfa-Bank and sits as a Member of the Executive Board of Alfa-Bank.

***Mr. Andrew Baxter***

Born in 1966 in South Africa, Andrew John Baxter graduated from the University of the Witwatersrand (Johannesburg) in 1988 with Bachelors degrees in Commerce and Accountancy. He later qualified as a Chartered Accountant (S.A.), having passed the South African Institute of Chartered Accountants' final qualifying examination and completed his Articles of Clerkship with Deloitte & Touche in December 1990. Before joining

Alfa-Bank in 2005, he was Chief Financial Officer of SUN Capital beginning in 2000 and Partner in charge of the Moscow Office of SUN Group beginning in 1999. Prior to his work with the SUN Group, he worked at Renaissance Capital as Finance Director/CFO, The US Russia Investment Fund, CS First Boston and Deloitte & Touche, all based either in Moscow or Johannesburg. He is a member of the Executive Board and Chief Financial Officer of Alfa-Bank.

***Mr. Tomasz Kazmierowski***

Tomasz Kazmierowski was born in 1967 in Zlotov, Poland. He holds a diploma in law from the University of Poznan, Poland, and in business from Ecole Superieure de Commerce in France. Before joining Alfa-Bank, Mr. Kazmierowski was a Member of the Board and then CEO of Eastern Europe's most successful direct bank, Inteligo, in Poland. Prior to Inteligo, he worked in senior managerial positions with Pepsi and Nestle and served as Vice President for Citibank in Poland (Retail). Mr. Kazmierowski is a member of the Executive Board and Head of Consumer Finance at Alfa-Bank.

**Supervisory Bodies**

In addition to the managerial bodies described above, Alfa-Bank has various supervisory bodies to facilitate corporate governance, including the Audit Commission and the Audit Committee.

*Audit Commission*

The Audit Commission is a supervisory body established pursuant to the requirements of Russian legislation and Alfa-Bank's charter that facilitates shareholder control over financial and business activities, as well as management. As a rule, such control is limited to the annual review of the results of activities. A positive opinion of the Audit Commission is required for the annual General Shareholders' Meeting to approve the balance sheet and income statements.

The Audit Commission consists of three members who are elected annually by the annual General Shareholders' Meeting. The members of the Audit Commission are independent in their activities and report only to the shareholders. Members of the Audit Commission may not simultaneously serve as members of the Board of Directors or hold any other position within Alfa-Bank.

*Audit Committee*

Internal control is a process performed by the Board of Directors, Executive Board and other Alfa-Bank employees to provide reasonable assurance regarding the reliability of financial reporting, safeguarding of assets, effectiveness and efficiency of operations and compliance with applicable laws, regulations and internal policies and procedures.

The key element of Alfa-Bank's internal control system is the Audit Committee, which reports to the Board of Directors and carries out internal audit functions by identifying risks and making recommendations to improve control procedures and thereby reduce risks to manageable levels. The Audit Committee consists of three members who are elected by the Board of Directors.

**The Guarantor**

*Management of the Guarantor*

According to the Memorandum and Articles of Association of the Guarantor, the minimum numbers of directors shall be one and the maximum number shall be seven. As of February 2006, two directors manage the business affairs of the Guarantor. The directors may pass resolutions to have the Guarantor incur debt, mortgage its assets, issue debt instruments, debenture stock and other securities. In addition, the directors may create various governing committees from time to time and appoint officers and agents of the Guarantor. There exist no conflicts of interest between the duties of the Directors toward the Guarantor and the Directors' private interests or other duties.

The directors of the Guarantor may convene a meeting of the members of the Guarantor at such times and in such manner and places within or outside the British Virgin Island as the directors consider necessary or desirable. Upon the written request of members holding 50% or more of the outstanding voting shares, the directors shall convene a meeting of members.

The current members of the Board of Directors of the Guarantor are:

***Mr. Pavel Nazarian***

Born in 1972 in former USSR, Pavel Nazarian received his Masters in Engineering from the Bauman State Technical University in Moscow in 1995 and Masters of Economics from Moscow's International Marketing and Management Academy in 1996. Before joining the Guarantor, he worked at CTF Holdings Ltd (Gibraltar) and Alfa-Bank Holdings Ltd. (Gibraltar). He first began working for the Guarantor in 1999 and joined the Board of Directors in 1999.

***Mr. Joseph Louis Moss***

Born in 1962 in Gibraltar, Joseph Louis Moss received his Master of Arts from Open University, Walton Hall in 1996. Before joining the Guarantor, he worked at Crown Trade and Finance Ltd. He joined the Guarantor's Board of Directors in 2000.

The business address of the above members of the Board of Directors of the Guarantor is 22, Grand Rue, 2nd Floor, Luxembourg, L-1661.



## OWNERSHIP

### Overview

As of the date of this Offering Circular, ABH Holdings Corporation, a company incorporated in the British Virgin Islands, was the sole shareholder of the Guarantor, a company incorporated in the British Virgin Islands, which in turn was the sole shareholder of both OJSC AB Holding, a Russian joint-stock company, and Alfa Capital Holdings (Cyprus) Limited, a company incorporated in Cyprus, which collectively own 100% of Alfa-Bank's outstanding shares.

### ABH Holding Corporation

As of the date of this Offering Circular, the share capital of ABH Holdings Corporation was 490,882 in ordinary registered shares with a nominal value of US\$0.01 each.

The following table sets forth the shareholders of ABH Holdings Corporation as of the date of this Offering Circular.

Shareholder	Number of Ordinary Shares	Nominal Value (US\$)	%
Mikhail Fridman .....	177,221	0.01	36.1025
German Khan .....	113,063	0.01	23.0326
Alexei Kuzmichev .....	88,030	0.01	17.9331
Others .....	112,568	0.01	22.9318
<b>Total</b> .....	<b>490,882</b>	<b>0.01</b>	<b>100.0000</b>

### The Guarantor

As of the date of this Offering Circular, the share capital of the Guarantor was 160,800,000 in ordinary registered shares with a nominal value of US\$1.00 each.

Shareholder	Number of Ordinary Shares	Nominal Value (US\$)	%
ABH Holding Corporation .....	160,800,000	1.00	100.00

### Alfa-Bank

As of the date of this Offering Circular, the share capital of Alfa-Bank was RUR1,000,820,000 in ordinary registered shares with a nominal value of RUR1,000 each.

The following table sets forth the shareholders of Alfa-Bank as of the date of this Offering Circular.

Shareholder	Number of Ordinary Shares	Nominal Value (RUR)	%
OJSC AB Holding .....	998,216	1,000	99.74
Alfa Capital Holdings Limited (Cyprus) .....	2,604	1,000	0.26
<b>Total</b> .....	<b>1,000,820</b>	<b>1,000</b>	<b>100.00</b>

## RISK MANAGEMENT

### Overview

The Alfa Banking Group's asset, liability and risk management strategy aims to increase its profitability over time subject to specific parameters and business needs. The Alfa Banking Group monitors and manages its asset and liability position principally through its ALCO.

ALCO is chaired by the Chief Executive Officer of the Alfa Banking Group, and its ten additional members include, among others: the Chief Financial Officer, the head of treasury, the head of corporate banking, the director of retail banking, the head of investment banking, the head of risk management, the treasurer and director of corporate credit. ALCO meets every two weeks to review the Alfa Banking Group's asset and liability position including maturities and interest rates and yields; the size of the Alfa Banking Group's loan and investment portfolios; the Alfa Banking Group's net foreign currency position; operational ratios including, in the case of Alfa-Bank, ratios relative to Central Bank regulations; exchange rates, inflation rates and other factors; and general national, political and economic trends. Based upon its reviews, ALCO assesses the Alfa Banking Group's risk profile and determines its short-term strategy.

ALCO is supported by a number of other departments of the Alfa Banking Group in carrying out its functions, including, among others: (a) the ALM unit of the Treasury, with respect to the analysis and monitoring of the Alfa Banking Group's liquidity position, foreign currency position, and interest rate position, (b) the analytical department of the investment bank, with respect to the analysis and monitoring of the Alfa Banking Group's securities portfolio position and general market trends and (c) the Market Risk Management department, with respect to the assessment of the Alfa Banking Group's market risk position and interest rate risk position.

Certain regulatory requirements described in this section of the Offering Circular, in particular the regulatory requirements established by the Central Bank, apply only to Alfa-Bank and not to the Alfa Banking Group on a consolidated basis.

### Financial Risk Management

The risk management function within the Alfa Banking Group is carried out in respect of credit, market and operational risks. The primary objectives of the Alfa Banking Group's risk management function are to prevent the Alfa Banking Group from taking on risks that could threaten its survival and to assist it in achieving an optimal level of risk-return trade-off in connection with its various transactions.

#### *Credit Risk*

The Alfa Banking Group takes on exposure to credit risk, which is the risk that a counterparty will be unable or unwilling to meet its payment obligations in full when due. The Alfa Banking 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. Alfa-Bank also complies with exposure limits for single borrowers and groups of related borrowers established by the Central Bank. See "Regulatory Environment" in [Appendix C](#). Such credit risks are monitored on a revolving basis and subject to regular review by the Corporate Credit Directorate of Alfa-Bank and the credit risk management department. Credit limits are established and monitored in accordance with Alfa-Bank's lending policy. Such limits include industry limits, individual borrower limits (based on the borrower's internal credit rating) and collateral limits. See "Selected Statistical and Other Information—Lending Policy and Procedures."

Exposure to credit risk is managed by the Alfa Banking Group's Credit Department and the credit risk management department 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. See "Selected Statistical and Other Information—Lending Policy and Procedures."

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 Alfa Banking 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.

See also Note 24 to the Interim Financial Statements and Note 22 to the Annual Financial Statements for information regarding the main geographical segments of the Alfa Banking Group.

#### *Market Risk*

The Alfa Banking Group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements.

The Alfa Banking Group manages its market risk through risk-based (value at risk (“*VaR*”) and extreme loss) limits for the Alfa Banking Group’s overall position and for individual trading desks, sub-limits for types of exposures to various types of securities (including both equity and fixed income securities) and markets and position limits for issuers and individual instruments. Limits on securities are approved by ALCO based on analyses performed by the market risk management (“*MRM*”) department. Additional issuer limits on fixed income securities are approved separately by the Credit Committees (as described below) or certain relevant subcommittees. Both the Alfa Banking Group’s proprietary and trading portfolios consist predominantly of liquid, traded securities, and its liquidity portfolio contains only debt instruments of Russian sovereign and highly-rated corporate borrowers. The Alfa Banking Group’s derivative operations are driven by two major factors: (a) the need of the Alfa Banking Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (b) customer demand, principally for foreign currency, securities and commodities derivatives. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Contingencies Commitments and Derivative Financial Instruments.”

Risk based limits are monitored on a daily basis by the MRM department with respect to individual trading desks. The overall VaR of the Alfa Banking Group is monitored on a weekly basis by the MRM department. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As noted above, for the purpose of quantifying the Alfa Banking Group’s market risks, the Alfa Banking Group uses a VaR model. The daily market VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under certain circumstances if the current positions of the Alfa Banking Group were to be held unchanged for one business day. During 2005, the Alfa Banking Group started calculating and monitoring its consolidated market exposure through the VaR model in addition to monitoring VaR for separate departments/financial instruments.

#### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Alfa Banking Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Alfa Banking Group’s ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the ALM unit of the Treasury Department and the middle office, which provides additional position and limit control to support ALCO.

The Alfa Banking Group’s exposure to currency risk is measured on the basis of its open currency position, the limit of which is set by ALCO. The Alfa Banking Group has adopted two limits: the first limit, which aims to maintain the structural currency position of the Alfa Banking Group essentially neutral, is set as a band within plus or minus US\$20 million; the second limit, which limits the speculative currency positions of the Alfa Banking Group’s trading desks, is set in risk-based terms for the foreign currency trading desks and currently comprises a VaR limit of US\$2 million and an extreme market loss limit of US\$20 million.

Alfa-Bank's exposure to currency risk is measured on the basis of its open currency position, the limit of which is set by the Central Bank under RAR and may not exceed 20% of the Alfa-Bank's aggregate capital in all currencies, or 10% of capital denominated in any single currency, including the balancing Russian Ruble-denominated position. Alfa-Bank's open currency position is monitored by the Central Bank on a daily basis, and Alfa-Bank believes it currently meets the requirements of the Central Bank with respect to control of its open currency position.

As a whole, the Alfa Banking Group is exposed to potentially significant risk from sudden fluctuations in the exchange rates of currencies in which the Alfa Banking Group has significant net balance sheet positions. The Alfa Banking Group's major net balance sheet positions are concentrated in U.S. Dollars, Russian Ruble and Euro.

The tables below summarize the Alfa Banking Group's exposure to foreign currency exchange rate risk as of the dates indicated. Included in the table are the Alfa Banking Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments. The structure of the Alfa Banking Group's assets and liabilities denominated in various currencies and translated into U.S. Dollars as of June 30, 2005 was as follows:

	US\$	RUR	Euro	Other currencies	Total
	<i>(US\$ thousands)</i>				
<b>Assets</b>					
Cash and cash equivalents.....	647,409	356,258	137,821	35,830	1,177,318
Mandatory cash balances with central banks.....	-	137,755	26,974	6,694	171,423
Trading securities.....	426,038	194,657	20,055	10,556	651,306
Due from other banks.....	388,858	197,617	-	18,799	605,274
Loans and advances to customers.....	2,781,200	1,751,482	279,932	75,307	4,887,921
Investments.....	130,032	-	-	-	130,032
Other assets and receivables.....	213,396	101,293	38,669	16,798	370,156
Premises and equipment and intangible assets.....	-	110,696	1,080	29,492	141,268
Deferred tax asset.....	-	16,251	-	-	16,251
<b>Total assets.....</b>	<b>4,586,933</b>	<b>2,866,009</b>	<b>504,531</b>	<b>193,476</b>	<b>8,150,949</b>
<b>Liabilities</b>					
Due to other banks.....	216,629	146,452	141,196	33,877	538,154
Customer accounts.....	2,270,969	1,857,793	455,774	105,544	4,690,080
Promissory notes issued.....	81,784	224,983	4,057	4	310,828
Other borrowed funds.....	1,242,946	2,086	-	5,007	1,250,039
Other liabilities and payables.....	375,449	144,073	32,648	3,375	555,545
Deferred tax liability.....	-	30,168	-	-	30,168
<b>Total liabilities.....</b>	<b>4,187,777</b>	<b>2,405,555</b>	<b>633,675</b>	<b>147,807</b>	<b>7,374,814</b>
<b>Net balance sheet position.....</b>	<b>399,156</b>	<b>460,454</b>	<b>(129,144)</b>	<b>45,669</b>	<b>776,135</b>
<b>Off-balance sheet net notional position.....</b>	<b>532,604</b>	<b>(309,785)</b>	<b>(10,520)</b>	<b>(298,780)</b>	<b>(86,481)</b>
<b>Credit related commitments.....</b>	<b>609,151</b>	<b>182,510</b>	<b>157,994</b>	<b>3,989</b>	<b>953,644</b>

The structure of the Alfa Banking Group's assets and liabilities denominated in various currencies and translated into U.S. Dollars as of December 31, 2004 was as follows:

	US\$	RUR	Euro <i>(US\$ thousands)</i>	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents.....	217,780	606,365	107,935	65,198	997,278
Mandatory cash balances with central banks.....	–	107,920	28,756	2,873	139,549
Trading securities.....	544,129	128,792	21,861	22,268	717,050
Due from other banks.....	344,921	205,011	–	20,710	570,642
Loans and advances to customers.....	2,483,357	1,326,943	246,962	42,827	4,100,089
Investments.....	60,933	–	–	–	60,933
Other assets and receivables.....	155,174	61,172	19,796	39,548	275,690
Premises and equipment.....	–	132,685	1,138	13,068	146,891
Deferred tax asset.....	–	16,587	–	–	16,587
<b>Total assets.....</b>	<b>3,806,294</b>	<b>2,585,475</b>	<b>426,448</b>	<b>206,492</b>	<b>7,024,709</b>
<b>Liabilities</b>					
Due to other banks.....	260,142	114,391	97,925	27,500	499,958
Customer accounts.....	1,957,069	2,063,067	354,133	117,803	4,492,072
Promissory notes issued.....	46,924	155,997	2,740	562	206,223
Other borrowed funds.....	638,646	68,309	–	–	706,955
Other liabilities and payables.....	291,104	32,516	52,914	4,034	380,568
Deferred tax liability.....	–	28,501	–	–	28,501
<b>Total liabilities.....</b>	<b>3,193,885</b>	<b>2,462,781</b>	<b>507,712</b>	<b>149,899</b>	<b>6,314,277</b>
<b>Net balance sheet position.....</b>	<b>612,409</b>	<b>122,694</b>	<b>(81,264)</b>	<b>56,593</b>	<b>710,432</b>
<b>Off-balance sheet net notional position.....</b>	<b>688,362</b>	<b>(389,629)</b>	<b>57,645</b>	<b>(435,562)</b>	<b>(79,184)</b>
<b>Credit related commitments.....</b>	<b>768,746</b>	<b>173,645</b>	<b>132,303</b>	<b>901</b>	<b>1,075,595</b>

The structure of the Alfa Banking Group's assets and liabilities denominated in various currencies and translated into U.S. Dollars as of December 31, 2003 was as follows:

	US\$	RUR	Euro <i>(US\$ thousands)</i>	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents.....	293,596	372,767	242,111	14,717	923,191
Mandatory cash balances with the Central Bank and other local central banks.....	–	278,976	13,623	695	293,294
Trading securities.....	566,228	101,528	23,973	2,846	694,575
Due from other banks.....	60,859	65,876	3,321	1,565	131,621
Loans and advances to customers.....	1,997,240	1,305,161	101,744	36,535	3,440,680
Investments.....	65,443	–	–	–	65,443
Other assets and receivables.....	105,656	44,356	10,863	24,734	185,609
Premises and equipment.....	–	136,356	985	12,380	149,721
<b>Total assets.....</b>	<b>3,089,022</b>	<b>2,305,020</b>	<b>396,620</b>	<b>93,472</b>	<b>5,884,134</b>
<b>Liabilities</b>					
Due to other banks.....	515,948	225,587	30,014	24,752	796,301
Customer accounts.....	1,652,194	1,453,457	275,640	19,115	3,400,406
Promissory notes issued.....	171,661	394,669	28,610	–	594,940
Other borrowed funds.....	307,214	16,703	–	–	323,917
Other liabilities and payables.....	164,390	22,523	7,345	7,259	201,517
Deferred tax liability.....	–	13,448	–	–	13,448
<b>Total liabilities.....</b>	<b>2,811,407</b>	<b>2,126,387</b>	<b>341,609</b>	<b>51,126</b>	<b>5,330,529</b>
<b>Net balance sheet position.....</b>	<b>277,615</b>	<b>178,633</b>	<b>55,011</b>	<b>42,346</b>	<b>553,605</b>
<b>Off-balance sheet net notional position.....</b>	<b>(34,973)</b>	<b>(26,026)</b>	<b>70,659</b>	<b>374</b>	<b>10,034</b>
<b>Credit related commitments.....</b>	<b>541,296</b>	<b>93,694</b>	<b>60,531</b>	<b>784</b>	<b>696,305</b>

#### *Interest rate risk*

The Alfa Banking Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and other borrowed funds at fixed or variable interest rates. Due to changes in interest rates, the Alfa Banking Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa.

The Alfa Banking Group's interest rate risk is managed by the Treasury department within limits set by ALCO. Such limits are monitored on a weekly basis by the ALM unit of the Treasury department. ALCO sets sensitivity limits in terms of "present value to 1% interest rate shift" which measures the impact of a 1% rise of interest rates along the various maturities on the yield curve on the present value of the Alfa Banking Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Alfa Banking Group's Russian Ruble, U.S. Dollar and Euro positions and for the Alfa Banking Group's overall exposure. The Treasury department also uses foreign exchange forwards to manage interest rate positions in different currencies, but does not frequently use other interest rate derivatives such as Eurodollar futures and interest swaps.

The table below summarizes the effective interest rates by major currencies for the Alfa Banking Group's major monetary financial instruments using period-end effective contractual rates as of June 30, 2005:

	US\$	RUR	Euro	Other currencies
<b>Assets</b>				
Correspondent accounts and overnight placements with other banks.....	2.5%	8.1%	2.0%	2.2%
Mandatory cash balances with central banks.....	–	0.0%	0.0%	0.0%
Debt trading securities.....	6.9%	8.2%	4.1%	8.4%
Due from other banks.....	3.1%	7.4%	–	4.1%
Loans and advances to customers.....	11.4%	12.7%	8.0%	12.4%
<b>Liabilities</b>				
Due to other banks.....	4.2%	5.7%	3.5%	2.2%
Customer accounts				
current and settlement accounts.....	0.4%	0.0%	1.1%	0.0%
term deposits.....	4.7%	4.2%	3.9%	10.3%
Promissory notes issued.....	4.7%	3.5%	5.7%	0.0%
Other borrowed funds.....	8.3%	7.5%	–	–

The table below summarizes the effective interest rates by major currencies for the Alfa Banking Group's major monetary financial instruments using period-end effective contractual rates as of December 31, 2004:

	US\$	RUR	Euro	Other currencies
<b>Assets</b>				
Correspondent accounts and overnight placements with other banks.....	1.4%	0.5%	0.0%	2.1%
Mandatory cash balances with central banks.....	–	0.0%	0.0%	0.0%
Debt trading securities.....	7.9%	10.2%	4.9%	7.8%
Due from other banks.....	5.4%	2.1%	–	11.7%
Loans and advances to customers.....	11.2%	13.6%	8.1%	14.3%
<b>Liabilities</b>				
Due to other banks.....	2.8%	2.3%	3.3%	0.9%
Customer accounts				
current and settlement accounts.....	0.6%	1.1%	0.9%	1.0%
term deposits.....	5.7%	5.2%	5.5%	9.8%
Promissory notes issued.....	3.8%	6.6%	6.7%	13.0%
Other borrowed funds.....	8.2%	7.4%	–	–

The table below summarizes the effective interest rates by major currencies for the Alfa Banking Group's major monetary financial instruments using period-end effective contractual rates as of December 31, 2003:

	US\$	RUR	Euro	Other currencies
<b>Assets</b>				
Correspondent accounts and overnight placements with other banks.....	4.0%	2.3%	2.3%	0.0%
Mandatory cash balances with central banks.....	–	0.0%	0.0%	0.0%
Debt trading securities.....	7.5%	11.1%	5.7%	5.1%
Due from other banks.....	3.7%	4.3%	6.5%	5.0%
Loans and advances to customers.....	11.9%	16.1%	9.6%	14.2%
<b>Liabilities</b>				
Due to other banks.....	3.2%	7.1%	3.8%	1.0%
Customer accounts				
current and settlement accounts.....	1.8%	0.5%	0.2%	0.0%
term deposits.....	3.9%	6.2%	3.3%	4.8%
Promissory notes issued.....	4.0%	12.5%	2.7%	–
Other borrowed funds.....	9.6%	7.5%	–	–

### *Liquidity Risk*

Liquidity risk is the risk resulting from a difference in the maturities of assets and liabilities, which may result in the Alfa Banking Group being unable to meet its obligations in a timely manner. The Alfa Banking 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 derivative instruments. The Alfa Banking 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. Liquidity risk is supervised by ALCO, which sets liquidity risk limits that are monitored on a daily basis by the ALM unit of the Treasury department.

Alfa-Bank is subject to liquidity requirements set by the Central Bank. See “Regulatory Environment” in [Appendix C](#). The Central Bank exercises control over liquidity risk by establishing instant (N2) and current (N3) liquidity standards. The risk related to sources of funding is controlled by the Central Bank in accordance with the capital adequacy (N1) standard and the long-term (N4) liquidity standard. For the six months ended June 30, 2005 and the years ended December 31, 2004 and 2003, Alfa-Bank was in compliance with all four standards.

To manage its current and mid-term liquidity, the Alfa Banking Group assesses liquidity on the basis of its payment calendar, which it generates regularly, as well as the effects on liquidity of major transactions, into which the Alfa Banking Group intends to enter. Statistical analysis of current, short- and long-term liquidity is based upon quantitative models and is carried out by the ALM unit of the Treasury department on a daily basis. If a liquidity shortfall occurs, liquidity needs may have to be met from various sources, including:

- disposition of a portion of its most liquid assets,
- entering into a securities repurchase transaction with the Central Bank,
- limiting the growth of assets in a specific line of business,
- adjusting its rates and fees, and/or
- securing more long-term and short-term funding from its major clients, other banks and counterparties.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Alfa Banking Group. It is unusual for banks ever to be completely matched since business is transacted often for 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 Alfa Banking Group and its exposure to changes in interest and exchange rates.

The entire portfolio of trading securities is classified within the “demand and less than 1 month” column, as the portfolio is of a trading nature and the Alfa Banking Group’s management believes this classification is a fair portrayal of its liquidity position. Mandatory cash balances with central banks are included within “demand and less than 1 month” as the majority of liabilities to which these balances relate is also included in this category.

The table below shows assets and liabilities as of June 30, 2005 according to their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
	<i>(US\$ thousands)</i>					
<b>Assets</b>						
Cash and cash equivalents .....	1,177,318	–	–	–	–	1,177,318
Mandatory cash balances with central banks .....	171,423	–	–	–	–	171,423
Trading securities .....	651,306	–	–	–	–	651,306
Due from other banks .....	575,707	28,721	–	846	–	605,274
Loans and advances to customers .....	284,001	1,120,201	1,688,270	1,795,449	–	4,887,921
Investments .....	–	–	–	–	130,032	130,032
Other assets and receivables .....	68,114	208,745	1,071	39	92,187	370,156
Premises and equipment and intangible assets .....	–	–	–	–	141,268	141,268
Deferred tax asset .....	–	–	–	–	16,251	16,251
<b>Total assets .....</b>	<b>2,927,869</b>	<b>1,357,667</b>	<b>1,689,341</b>	<b>1,796,334</b>	<b>379,738</b>	<b>8,150,949</b>
<b>Liabilities</b>						
Due to other banks .....	235,783	118,709	26,364	157,298	–	538,154
Customer accounts .....	2,370,771	1,863,284	327,223	128,802	–	4,690,080
Promissory notes issued .....	53,268	171,684	70,953	14,923	–	310,828
Other borrowed funds .....	17,449	302,790	531,089	398,711	–	1,250,039
Other liabilities and payables .....	289,300	261,988	1,381	2,876	–	555,545
Deferred tax liability .....	–	–	–	–	30,168	30,168
<b>Total liabilities .....</b>	<b>2,966,571</b>	<b>2,718,455</b>	<b>957,010</b>	<b>702,610</b>	<b>30,168</b>	<b>7,374,814</b>
<b>Net liquidity gap .....</b>	<b>(38,702)</b>	<b>(1,360,788)</b>	<b>732,331</b>	<b>1,093,724</b>	<b>349,570</b>	<b>776,135</b>
<b>Cumulative liquidity gap .....</b>	<b>(38,702)</b>	<b>(1,399,490)</b>	<b>(667,159)</b>	<b>426,565</b>	<b>776,135</b>	

The following table shows the Alfa Banking Group’s assets and liabilities by remaining contractual maturity, as well as information regarding its liquidity exposure, as of December 31, 2004.



	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
	<i>(US\$ thousands)</i>					
<b>Assets</b>						
Cash and cash equivalents.....	997,278	–	–	–	–	997,278
Mandatory cash balances with the Central Bank and other local central banks.....	139,549	–	–	–	–	139,549
Trading securities.....	717,050	–	–	–	–	717,050
Due from other banks.....	536,875	22,718	10,062	987	–	570,642
Loans and advances to customers.....	199,596	1,267,077	1,237,619	1,395,797	–	4,100,089
Investments.....	–	–	–	–	60,933	60,933
Other assets and receivables.....	163,216	38,613	227	1,622	72,012	275,690
Premises and equipment.....	–	–	–	–	146,891	146,891
Deferred tax asset.....	–	–	–	–	16,587	16,587
<b>Total assets</b> .....	<b>2,753,564</b>	<b>1,328,408</b>	<b>1,247,908</b>	<b>1,398,406</b>	<b>296,423</b>	<b>7,024,709</b>
<b>Liabilities</b>						
Due to other banks.....	260,592	141,421	17,185	80,760	–	499,958
Customer accounts.....	2,168,374	1,619,914	664,396	39,388	–	4,492,072
Promissory notes issued.....	59,509	76,305	53,497	16,912	–	206,223
Other borrowed funds.....	42,400	178,037	241,378	245,140	–	706,955
Other liabilities and payables.....	246,541	98,991	10,555	24,481	–	380,568
Deferred tax liability.....	–	–	–	–	28,501	28,501
<b>Total liabilities</b> .....	<b>2,777,416</b>	<b>2,114,668</b>	<b>987,011</b>	<b>406,681</b>	<b>28,501</b>	<b>6,314,277</b>
<b>Net liquidity gap</b> .....	<b>(23,852)</b>	<b>(786,260)</b>	<b>260,897</b>	<b>991,725</b>	<b>267,922</b>	<b>710,432</b>
<b>Cumulative liquidity gap</b> .....	<b>(23,852)</b>	<b>(810,112)</b>	<b>(549,215)</b>	<b>442,510</b>	<b>710,432</b>	

The following table shows the Alfa Banking Group's assets and liabilities by remaining contractual, as well as information regarding its liquidity exposure, as of December 31, 2003.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
	<i>(US\$ thousands)</i>					
<b>Assets</b>						
Cash and cash equivalents.....	923,191	–	–	–	–	923,191
Mandatory cash balances with central banks.....	293,294	–	–	–	–	293,294
Trading securities.....	694,575	–	–	–	–	694,575
Due from other banks.....	120,298	885	10,438	–	–	131,621
Loans and advances to customers.....	170,325	956,856	1,405,910	907,589	–	3,440,680
Investments.....	–	–	–	–	65,443	65,443
Other assets and receivables.....	97,553	47,146	5,539	14,113	21,258	185,609
Premises and equipment.....	–	–	–	–	149,721	149,721
<b>Total assets</b> .....	<b>2,299,236</b>	<b>1,004,887</b>	<b>1,421,887</b>	<b>921,702</b>	<b>236,422</b>	<b>5,884,134</b>
<b>Liabilities</b>						
Due to other banks.....	616,669	132,485	33,689	13,458	–	796,301
Customer accounts.....	1,751,938	1,322,406	286,524	39,538	–	3,400,406
Promissory notes issued.....	181,361	256,652	140,258	16,669	–	594,940
Other borrowed funds.....	–	59,452	90,746	173,719	–	323,917
Other liabilities and payables.....	158,853	37,149	1,017	4,498	–	201,517
Deferred tax liability.....	–	–	–	–	13,448	13,448
<b>Total liabilities</b> .....	<b>2,708,821</b>	<b>1,808,144</b>	<b>552,234</b>	<b>247,882</b>	<b>13,448</b>	<b>5,330,529</b>
<b>Net liquidity gap</b> .....	<b>(409,585)</b>	<b>(803,257)</b>	<b>869,653</b>	<b>673,820</b>	<b>222,974</b>	<b>553,605</b>
<b>Cumulative liquidity gap</b> .....	<b>(409,585)</b>	<b>(1,212,842)</b>	<b>(343,189)</b>	<b>330,631</b>	<b>553,605</b>	

The Alfa Banking Group's management believes that in spite of a substantial portion of customer accounts being of a short-term nature, diversification of these deposits by number and type of depositors, and the past experience of the Alfa Banking Group, would indicate that these customer accounts provide a long-term and stable source of funding for the Alfa Banking Group. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the Alfa Banking Group's commitments because the Alfa Banking Group generally does not expect the third party to draw funds under such arrangements.

#### *Securities portfolio risk*

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or market price movements. The Alfa Banking Group's main source of securities portfolio risk is its corporate equity trading securities portfolio which amounted to 39.7% of the Alfa Banking Group's total securities portfolio (trading securities and investment securities available for sale) as of June 30, 2005 and 52.5% as of December 31, 2004. For its trading securities portfolio, the Alfa Banking Group has in place limits on various types of securities and securities transactions, including limits on foreign currency and Russian Ruble-denominated Russian government securities, Russian regional and municipal securities, Russian corporate equity and debt securities, foreign investment-grade corporate debt securities, limits on derivative, repo and reverse-repo transactions, as well as single issuer limits, which allow it to maintain its securities portfolio risk at a level that the Alfa Banking Group deems acceptable given its current level of capital. The ALCO also assigns stop-loss limits and open position limits as well as VaR and stress test limits for the Alfa Banking Group's overall position. The head of the Investment Banking department has the right to reallocate overall limits across different trading desks, subject to the approval of the Risk Management department, within the overall limits of the Alfa Banking Group set by ALCO. If these limits are violated, the Alfa Banking Group takes appropriate measures, including, but not limited to, selling securities, closing out positions and halting the transactions that led to such limit violations. No material limit violations have taken place in the past three years.

#### *Operational Risk*

In line with the proposed Basel II banking regulatory reforms, the Alfa Banking Group defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Examples of events that are included under this definition of operational risk are losses from fraud, computer system failures, settlement errors, model errors or natural disasters. An effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk. Promptly detecting and addressing these deficiencies can substantially reduce the potential frequency and/or severity of a loss event. The Alfa Banking Group is focused on regular monitoring of its operational risk profiles and material exposures to operational losses. The Alfa Banking Group's system of regular reporting of information to senior management and the Board of Directors supports the proactive management of operational risk, which the Basel Committee has required in its "sound practices" paper.

The operational risk management ("*ORM*") department carries out risk-audit activities and assessments of operational risks and prepares recommendations for risk mitigation. ORM has implemented a number of tools recommended by the Basel committee including: internal loss collection and reporting, key risk indicators, external loss data collection and control and risk self-assessments. ORM is responsible for analyzing new products and intra-bank regulations. Alfa-Bank received Incisive Media's Operational Risk Achievement Award for two consecutive years (in 2004 and 2005) for "Best operational risk framework at an institution based in an emerging market."

Each year, the Alfa Banking Group obtains an international comprehensive banking risk insurance policy, a "banker's blanket bond" ("*BBB*") that covers its professional activities world-wide and insures it against, among other things, forgery, electronic and computer crimes and employees' unlawful actions. In September 2005, the Alfa Banking Group renewed the BBB until September 2006. The amount of indemnity coverage provided by the policy is limited to US\$50 million for BBB coverage and computer crime and US\$25 million for professional indemnity including liability to third parties arising from negligence or error on the part of the Alfa Banking Group.

#### *Anti-Money Laundering Measures*

As a member state of the FATF, Russia adopted The Anti-Money Laundering Law. This law remains the principal legislative source in Russia for combating money-laundering. Subsequent to the passage of the Anti-

Money Laundering Law, the Central Bank promulgated a number of regulations (the “*Regulations*”) in this field specifically for the banking sector.

Alfa-Bank’s management believes that Alfa-Bank’s internal policies and procedures, which have been approved by the Central Bank, comply fully with the provisions of the Anti-Money Laundering Law and applicable Regulations.

Alfa-Bank’s anti-money laundering policy requires, among other things: risk-based identification of every client, verification of each client’s documents, monitoring of each client’s operations, detection and reporting of operations according to suspicious/obligatory control criteria, record keeping, and staff training. All detected suspicious operations and operations that are subject to obligatory control must be reported by Alfa-Bank’s compliance department on a daily basis to the Central Bank for further reporting to the Russian State Committee for Financial Monitoring and Control (State Financial Intelligence Unit).

*Anti-Terrorism Measures.* Every new customer of Alfa-Bank is screened against the Russian State Committee for Financial Monitoring and Control List of Designated Extremists. In addition, all outgoing international payments are checked by Alfa-Bank’s compliance department against the lists of all the major sanctioning bodies, such as the United Nations, the U.S. Office of Foreign Asset Controls, the European Union and the Bank of England, law enforcement agencies and financial regulators around the world.

## SELECTED STATISTICAL AND OTHER INFORMATION

The following selected statistical and other financial information is derived, where applicable, from the audited consolidated financial statements of the Alfa Banking Group.

### **Average Balance Sheet and Interest Rate Data**

The following table sets forth the consolidated average balances of assets and liabilities of the Alfa Banking Group for the periods indicated and, for interest-earning assets and interest-bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening and closing balances for the six month period ended June 30, 2005 and the opening, mid-year and closing balances for each of the years 2003 and 2004. The results of this analysis would likely be different if alternative averaging balance methods were used.

	For the year ended						For the six months ended		
	December 31, 2003			December 31, 2004			June 30, 2005		
	Average Balance	Income / Expense	Average Interest Rate <sup>(2)</sup>	Average Balance	Income / Expense	Average Interest Rate <sup>(2)</sup>	Average Balance	Income / Expense	Average Interest Rate <sup>(1)(2)</sup>
<i>(US\$ thousands)</i>									
<b>Assets</b>									
<b>Interest earning assets</b>									
Correspondent accounts and overnight placements with other banks .....	354,286			426,046			594,359		
Due from other banks <sup>(3)</sup>	186,338			306,872			587,958		
Due from other banks, including correspondent accounts and overnight placements with other banks.....	540,624	18,369	3.4%	732,918	14,138	1.9%	1,182,317	15,399	2.6%
Loans and advances to customers <sup>(3)</sup> .....	3,012,586	410,218	13.6%	4,066,560	489,311	12.0%	4,708,147	287,780	12.2%
Trading securities <sup>(4)</sup> .....	529,029	55,713	10.5%	513,158	45,018	8.8%	324,839	17,305	10.7%
<b>Total interest-earning assets .....</b>	<b>4,082,239</b>	<b>484,300</b>	<b>11.9%</b>	<b>5,312,636</b>	<b>548,467</b>	<b>10.3%</b>	<b>6,215,303</b>	<b>320,484</b>	<b>10.3%</b>
<b>Non-interest earning assets</b>									
Cash on hand and cash balances with central banks .....	288,411			446,312			492,940		
Mandatory cash balances with central banks .....	266,110			219,782			155,486		
Provisions for loan impairment.....	(154,650)			(188,482)			(214,142)		
Investments .....	142,565			355,384			454,822		
Premises and equipment and intangible assets ...	145,540			148,776			144,080		
Other assets and receivables .....	229,389			244,486			322,921		
Deferred tax asset .....	-			5,529			16,419		
<b>Total average assets.....</b>	<b>4,999,604</b>			<b>6,544,423</b>			<b>7,587,829</b>		
<b>Liabilities and shareholders' equity</b>									
<b>Interest bearing liabilities</b>									
Due to other banks .....	753,853	38,592	5.1%	623,864	27,274	4.4%	519,056	11,914	4.6%
Customer accounts .....	2,715,400	126,913	4.7%	4,040,653	141,854	3.5%	4,591,076	78,915	3.4%
Promissory notes issued	567,197	52,736	9.3%	414,041	26,530	6.4%	258,526	7,314	5.7%
Other borrowed funds ..	241,909	24,249	10.0%	514,257	40,485	7.9%	978,497	34,268	7.0%
<b>Total interest bearing liabilities .....</b>	<b>4,278,359</b>	<b>242,490</b>	<b>5.7%</b>	<b>5,592,815</b>	<b>236,143</b>	<b>4.2%</b>	<b>6,347,155</b>	<b>132,411</b>	<b>4.2%</b>
Other liabilities.....	218,465			308,007			468,055		
Deferred tax liability ...	11,011			17,805			29,335		
Minority interest.....	4,509			3,830			2,504		
Shareholders' equity ...	487,260			621,966			740,780		
<b>Total average liabilities and shareholders' equity .....</b>	<b>4,999,604</b>			<b>6,544,423</b>			<b>7,587,829</b>		
Net interest spread <sup>(5)</sup> .....			6.2%			6.1%			6.1%
Net interest income .....		241,810			312,324			188,073	
Net interest margin <sup>(6)</sup> ...			5.9%			5.9%			6.1%

(1) Average interest rate for the six months ended June 30, 2004 and 2005 has been annualized.

(2) Average rate on interest-earning assets was calculated as total interest income divided by interest-earning assets representing the average of the opening and closing balances for the six month period ended June 30, 2005 and the opening, mid-year and closing balances for each of 2003 and 2004. Average rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the opening and closing balances for the six month period ended June 30, 2005 and the opening, mid-year and closing balances for each of 2003 and 2004.

(3) Before provision for loan impairment.

(4) Excludes equity securities, as these securities are not interest-earning.

(5) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest bearing liabilities.

(6) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

## Net Changes in Interest Income and Expense—Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest earned and interest paid by reference to changes in average volume and rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as the change in volume multiplied by the current rate, while rate change is calculated as the change in rate multiplied by the previous volume. Average balances represent the average of the opening and closing balances for the six month periods ended June 30, 2004 and 2005 and the opening, mid-year and closing balances for each of the years 2003 and 2004.

	For the year ended December 31, 2004/2003			For the six months ended June 30, 2005/2004		
	Increase (decrease) due to changes in Volume	Rate	Net Change	Increase (decrease) due to changes in Volume <sup>(1)</sup>	Rate	Net Change
	<i>(US\$ thousands)</i>			<i>(US\$ thousands)</i>		
<b>Interest Income</b>						
Due from other banks, including correspondent accounts and overnight placements with other banks.....	(3,709)	7,940	(4,231)	13,120	(3,870)	9,250
Loans and advances to customers.....	126,820	(47,727)	79,093	46,287	(1,166)	45,121
Trading securities.....	(1,392)	(9,303)	(10,695)	(15,487)	6,663	(8,824)
<b>Total interest income .....</b>	<b>121,719</b>	<b>(49,090)</b>	<b>64,167</b>	<b>43,920</b>	<b>1,627</b>	<b>45,547</b>
<b>Interest Expense</b>						
Due to other banks .....	(5,683)	(5,635)	(11,318)	(3,828)	(102)	(3,930)
Customer accounts .....	46,525	(31,584)	14,941	13,341	(6,828)	6,513
Promissory notes issued.....	(9,814)	(16,392)	(26,206)	(7,339)	(6,127)	(13,466)
Other borrowed funds .....	21,441	(5,205)	16,236	19,632	(3,464)	16,168
<b>Total interest expense .....</b>	<b>52,469</b>	<b>(58,816)</b>	<b>(6,347)</b>	<b>21,806</b>	<b>(16,521)</b>	<b>5,285</b>
<b>Net change in net interest income.....</b>	<b>69,250</b>	<b>9,726</b>	<b>70,514</b>	<b>22,114</b>	<b>18,148</b>	<b>40,262</b>

(1) For the six month periods ended June 30, 2005 and June 30, 2004, the rate used is the average annualized rate divided by 2.

## Investment Portfolio

The following table sets out information relating to the Alfa Banking Group's gross securities portfolio by investment category as of December 31, 2003 and 2004 and June 30, 2005:

	December 31, 2003	December 31, 2004	June 30, 2005
	<i>(US\$ thousands)</i>		
<b>Trading securities</b>			
ADRs and GDRs .....	6,297	17,506	3,832
Corporate bonds .....	72,698	109,664	121,898
Corporate Eurobonds .....	183,300	79,653	104,070
Corporate shares .....	35,119	331,152	287,602
Eurobonds of other states .....	52,644	12,457	20,787
Municipal bonds .....	23,975	15,335	45,575
Promissory Notes .....	12,138	—	28,138
Russian Federation Eurobonds.....	305,759	91,272	20,829
Other .....	2,645	60,011	18,575
<b>Total trading securities .....</b>	<b>694,575</b>	<b>717,050</b>	<b>651,306</b>
<b>Investments</b>			
ADRs and GDRs .....	—	—	45,000
Corporate bonds .....	—	—	—
Corporate Eurobonds .....	—	—	—
Corporate shares .....	65,443	60,933	85,032
Eurobonds of other states .....	—	—	—
Municipal bonds .....	—	—	—
Promissory Notes .....	—	—	—
Russian Federation Eurobonds.....	—	—	—
Other .....	—	—	—
<b>Total securities investments .....</b>	<b>65,443</b>	<b>60,933</b>	<b>130,032</b>

See Notes 8 and 11 to the Alfa Banking Group's Interim Financial Statements for additional information on the Alfa Banking Group's trading securities portfolio and investment portfolio.

## Loan Portfolio

The Alfa Banking Group's loan portfolio includes loans to banks and loans to corporate and retail customers. The following table provides a breakdown of the Alfa Banking Group's loan portfolio as of December 31, 2003 and 2004 and June 30, 2005:

	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ millions	%	US\$ millions	%	US\$ millions	%
Loans to customers.....	3,642.0	96.5	4,297.9	88.3	5,118.4	89.4
Due from other banks <sup>(1)</sup> .....	131.6	3.5	570.6	11.7	605.3	10.6
<b>Subtotal</b> .....	<b>3,773.6</b>	<b>100.0</b>	<b>4,868.5</b>	<b>100.0</b>	<b>5,723.7</b>	<b>100.0</b>
Provision for loan impairment <sup>(2)</sup> .....	(175.7)		(197.8)		(230.4)	
<b>Total</b> .....	<b>3,597.9</b>		<b>4,670.7</b>		<b>5,493.3</b>	

(1) Not including mandatory cash balances with the Central Bank or other central banks and correspondent accounts and overnight placements with other banks.

(2) This provision for loan impairment relates to both loans to customers and balances due from other banks.

### Economic Sector Concentration

The following table sets forth the structure of the Alfa Banking Group's gross loans to customers portfolio by economic sector:

Sector	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ millions	%	US\$ millions	%	US\$ millions	%
Manufacturing and construction .....	1,482.3	40.7	1,881.5	43.8	2,374.4	46.4
Energy and oil and gas .....	1,052.2	29.0	1,065.9	24.8	1,107.1	21.6
Trade and commerce .....	529.5	14.5	643.0	15.0	799.3	15.6
Telecommunications .....	205.7	5.6	198.9	4.6	232.6	4.5
Finance and investment companies .....	98.8	2.7	86.6	2.0	117.0	2.3
Individuals .....	49.9	1.4	46.1	1.1	60.0	1.2
Other .....	223.6	6.1	375.9	8.7	428.0	8.4
<b>Total loans and advances to customers (aggregate amount) ....</b>	<b>3,642.0</b>	<b>100.0</b>	<b>4,297.9</b>	<b>100.0</b>	<b>5,118.4</b>	<b>100.0</b>

### Geographic Area

The following table sets forth the Alfa Banking Group's net loans to customers by geographic area:

Region	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ thousands	%	US\$ thousands	%	US\$ thousands	%
Russia .....	3,266.2	94.9	3,710.5	90.5	4,291.9	87.8
CIS (excluding Russia) .....	129.2	3.8	268.0	6.6	454.0	9.3
Europe .....	39.4	1.1	116.6	2.8	101.5	2.1
United States .....	5.9	0.2	4.9	0.1	34.2	0.7
Other .....	-	-	0.1	-	6.3	0.1
<b>Total</b> .....	<b>3,440.6</b>	<b>100.0</b>	<b>4,100.1</b>	<b>100.0</b>	<b>4,887.9</b>	<b>100.0</b>

### Maturity

The following table sets forth the structure of the Alfa Banking Group's net loans to customers by their remaining contractual maturity:

	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ millions	%	US\$ millions	%	US\$ millions	%
Demand and less than one month ....	170.3	4.9	199.6	4.9	284.0	5.8
1-6 months .....	956.9	27.6	1,267.1	30.9	1,120.2	22.9
6-12 months .....	1,431.5	41.3	1,237.6	30.2	1,688.3	34.5
More than one year .....	907.6	26.2	1,395.8	34.0	1,795.4	36.8
<b>Total loans to customers .....</b>	<b>3,466.3</b>	<b>100.0</b>	<b>4,100.1</b>	<b>100.0</b>	<b>4,887.9</b>	<b>100.0</b>

### Loan Amounts

As of June 30, 2005, the Alfa Banking Group had 24 borrowers with aggregate loan amounts equal to or above US\$50.0 million. The aggregate amount of these loans was US\$2,421.1 million or 47.3% of the gross loans to customers' portfolio.

The following table sets forth the structure of the Alfa Banking Group's net customer loan portfolio by loan amount:

	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ millions	%	US\$ millions	%	US\$ millions	%
Up to US\$5 million .....	761.0	20.8	1,030.4	24.0	752.6	14.7
US\$5 million up to US\$10 million .....	302.5	8.3	308.1	7.2	428.9	8.4
US\$10 million up to US\$20 million .....	234.5	6.4	290.6	6.7	682.1	13.3
US\$20 million up to US\$30 million .....	180.4	5.0	259.8	6.0	455.9	8.9
US\$30 million up to US\$40 million .....	285.5	7.9	205.4	4.8	202.5	4.0
US\$40 million up to US\$50 million .....	135.2	3.7	274.6	6.4	175.3	3.4
Over US\$50 million .....	1,742.9	47.9	1,929.0	44.9	2,421.0	47.3
<b>Total loans outstanding gross .....</b>	<b>3,642.0</b>	<b>100.0</b>	<b>4,297.9</b>	<b>100.0</b>	<b>5,118.3</b>	<b>100.0</b>
Provision for loan impairment .....	(175.7)		(197.8)		(230.4)	
<b>Total loans outstanding net .....</b>	<b>3,466.3</b>		<b>4,100.1</b>		<b>4,887.9</b>	

### Currency

The loan portfolio comprises loans denominated in Dollars, Russian Rubles, Euro and other foreign currencies. The following table provides a breakdown of the Alfa Banking Group's net customer loan portfolio by currency:

	As of December 31, 2003		As of December 31, 2004		As of June 30, 2005	
	US\$ millions	%	US\$ millions	%	US\$ millions	%
Dollars .....	2,022.9	58.3	2,483.4	60.6	2,781.2	57.0
Russian Rubles .....	1,305.2	37.7	1,326.9	32.4	1,751.5	35.8
Euro .....	101.7	2.9	247.0	6.0	279.9	5.7
Other Currency .....	36.5	1.1	42.8	1.0	75.3	1.5
<b>Total .....</b>	<b>3,466.3</b>	<b>100.0</b>	<b>4,100.1</b>	<b>100.0</b>	<b>4,887.9</b>	<b>100.0</b>



### Customer Concentration

The following table shows the Alfa Banking Group's ten principal non-bank customers (by gross loan exposure) as of June 30, 2005, which together accounted for 28.3% of the Alfa Banking Group's total gross loans and advances to customers:

<b>Customer</b>	<b>Loans</b>
	<i>(US\$ millions)</i>
RAO UES Group .....	309.4
Svyazinvest Group .....	205.1
Rusneft .....	150.2
Suek .....	143.7
EAM Group .....	125.6
Urals Steel Group .....	123.4
Kuzbasrazresugol .....	106.0
Azovstal .....	99.1
Severnaya Verf .....	93.1
UGMK Group .....	92.4
<b>Total .....</b>	<b>1,448.0</b>

### Lending Policies And Procedures

#### *Lending Policies*

One of Alfa-Bank's fundamental operating policies is to have established parameters that support the expansion of Alfa-Bank's operations while preserving the quality of its loan portfolio. In structuring and implementing its lending policy, Alfa-Bank has the following guidelines:

- *Diversification of lending across industry and economic sectors.* Alfa-Bank focuses on loans to customers in key sectors such as manufacturing, construction, fuel and energy, financial services, trade and telecommunications,
- *Regional diversification.* Alfa-Bank expands business operations in the Russian regions where the branches of Alfa-Bank are based, as well as opening new branches in the Russian regions where Alfa-Bank does not have a presence but intends to develop its client base,
- *Creditworthiness of customers.* Alfa-Bank thoroughly assesses the creditworthiness of customers before extending credit and continues to monitor the customer after it has issued a loan, and
- *Quality of collateral to secure the loan.* Alfa-Bank carefully assesses the quality and enforceability of collateral securing potential loans.

#### *Central Bank Guidelines*

The Central Bank sets certain guidelines for loan approval, which are designed to ensure the good financial standing of Russian banks and due protection of their creditors. In particular, Alfa-Bank is required to maintain certain mandatory economic ratios represented by a set of limitations relating to the maximum amount of exposure in the loan portfolio, as well as a minimum capital adequacy and liquidity of Alfa-Bank. One of these ratios limits a bank's exposure to a single borrower or a group of related borrowers to 25% of the ratio between the total amount of the bank's claims to a single borrower or a group of related borrowers in respect of loans (including interbank deposits), placed deposits (including interbank loans), discounted bills of exchange, loans and deposits in precious metal and the amounts not collected by the bank on its guarantees, to the capital of the bank (*i.e.*, the bank's own resources). Alfa-Bank believes that its procedures for the approval and monitoring of loans and collateral currently comply with the Central Bank guidelines and are set out in a clearly-defined credit policy approved by the Board of Directors of Alfa-Bank and its Main Credit Committee.

As with all other Russian banks, Alfa-Bank reports to the Central Bank on a regular basis on its compliance with the Central Bank's mandatory economic ratios on a regular basis and is monitored by the Central Bank. Although Russian legislation does not empower the Central Bank to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the Central Bank may approve a set of measures that a bank plans to use to comply with the required limit on single-borrower exposure.

If the mandatory economic ratios are not met, then the Central Bank may impose sanctions on a bank for such non-compliance. Such sanctions could include a fine, placing the bank into temporary administration by the Central Bank or the revocation of its banking license. Under Russian law, the Central Bank may appoint a temporary administrator for a term of up to six months if a bank has failed to comply with the Central Bank's orders to remedy breaches or if breaches by a bank have created an actual threat to the interests of its creditors (depositors). A bank's banking license may be revoked after repeated imposition of sanctions on that bank during a calendar year. To date, Alfa-Bank has not breached any of the Central Bank's mandatory economic ratios and no sanctions have been imposed on Alfa-Bank by the Central Bank for breach of such ratios. See "Regulatory Environment" in [Appendix C](#).

### *Lending Procedures*

Alfa-Bank has defined procedures for approving and monitoring loan quality and handling amendments, extensions and refinancing of existing loans. In addition, it pays heightened attention to the extension and monitoring of loans to affiliated companies and loans on special terms. Key to the lending and approval process are the credit committees ("*Credit Committees*"), which are comprised of the Main Credit Committee (as described below) and the Supplementary Credit Committee (as described below).

The creditworthiness of a potential borrower is assessed by using a thorough pre-approval loan grading process and monitored systematically after the loan has been issued. Loan applications and the associated collateral are assessed by the credit department of the local branch. This local credit department assigns a score between zero and 100% and transfers the application to Alfa-Bank's Corporate Credit Directorate (which consists of the lending department and the collateral and problem indebtedness department), which reviews the application and the collateral. For new clients, applications are also approved in this second stage review by Alfa-Bank's security department. Alfa-Bank's credit risk management department provides an independent assessment of the loan application and upon initial approval the application is then submitted to one of the two Credit Committees for final approval.

Alfa-Bank determines lending limits for any given customer using: (a) Alfa-Bank's credit risk assessment system, (b) a system of limits prescribed by the Executive Board and (c) Central Bank loan concentration regulations. Alfa-Bank has three categories of branches with different aggregate lending limits. The Credit Committees must approve any loan that exceeds the relevant threshold for the branch. Branch loan limits are reviewed by the Credit Committees on a quarterly basis. Industry sector limits are set by the Executive Board once a year.

The Main Credit Committee is composed of members of the Executive Board and the heads of the risk management, legal, treasury, credit, capital markets and security departments. The Supplementary Credit Committee is headed by the Head of the Corporate Credit Directorate and comprised of the heads/deputy heads of the following departments: the executive secretariat, credit risk management, legal, treasury, economic security service departments and two individuals from the corporate client department. The Supplementary Credit Committee makes the final decision on all loans with a maturity of less than two years and an amount that is not greater than 2.5% of the Alfa Banking Group's consolidated shareholder equity and loans with a maturity of less than three years and an amount that is not greater than 0.25% of Alfa-Bank's shareholder equity. All other loans are within the purview of the Main Credit Committee. The Credit Committees convene weekly to ensure the timely review of loan applications.

When assessing the creditworthiness of an applicant, the Credit Committees examine factors such as the management of the borrower, the main business activities of the borrower, the geographical location of the borrower, its suppliers and customers, information on previously received credits, the financial indices of the borrower including its financial stability and turnover and an economic appraisal of the risk-weighted return on the loan. The Credit Committees also evaluate a customer's credit history, the quality of collateral offered, the

customer's financial condition (taking into account such matters as indebtedness ratios and cash flows) and Alfa-Bank's own analysis of sector and regional risk. The Credit Committees then make a determination on a credit limit based upon these criteria. For retail loans regarding revolving credit customers and consumer finance customers, the Alfa Banking Group has implemented a separate automated scoring model.

Estimating the probability that a customer will default on a loan is difficult as credit history information is difficult to obtain in Russia. Moreover, accurate evaluations of the financial condition of small- and medium-sized customers who do not report in accordance with IFRS are not easy to attain. However, the financial statements of most of the major commercial customers of Alfa-Bank are prepared in accordance with IFRS and/or audited in accordance with international standards on auditing.

Related party loans are extended to companies in the Alfa Consortium at rates in accordance with the tariffs set by ALCO, such rates have been determined on an arm's length basis in accordance with market rates.

### *Loan Collateral*

A fundamental principle of the Alfa Banking Group's lending business is that the Alfa Banking Group's interests are protected by requiring the borrower to provide adequate collateral to secure the performance of its obligations. The Alfa Banking Group carefully reviews the financial condition of the borrower in determining the degree to which it can lend on an unsecured basis. In particular, the Alfa Banking Group maintains an internal rating system for borrowers through which it classifies borrowers into five categories according to financial strength. Borrowers in the highest category have a permitted maximum unsecured lending limit of 51%, while borrowers in the lowest category can only borrow on a fully secured basis. The Alfa Banking Group has a collateral and problem indebtedness department that values and monitors collateral taken by the Alfa Banking Group and also assesses both the value and enforceability of collection of the collateral. The Alfa Banking Group's credit policy contains a description of preferred and unacceptable (*i.e.*, collateral prohibited by law) types of collateral and sets out the proportion for secured-to-unsecured lending in the Alfa Banking Group's loan portfolio as well as the proportion for various collateral types in Alfa Banking Group's loan portfolio.

The principal stages of Alfa-Bank's collateral management process are the following:

- preliminary examination and appraisal of property offered as collateral,
- execution of a collateral agreement, insuring the collateral and compiling the collateral file,
- monitoring of collateral, and
- termination and possible liquidation/forfeiture of collateral.

The Central Bank does not regulate the type of collateral required, although the amount of provisioning under Central Bank guidelines will depend in part on the collateral received. The frequency of a collateral review will depend on the type of collateral taken. Collateral with a market quotation, such as securities, is monitored on a daily basis. All other collateral is generally reviewed either on a ten-day, monthly or quarterly basis. Alfa-Bank can usually foreclose on and then dispose of liquid collateral, such as shares, promissory notes and bonds, within a few days but it may require up to 180 days to foreclose on and then sell other types of collateral. The realization of certain collateral, such as state-owned property, may require a longer period of time.

Retail and corporate loans are extended primarily against the following types of collateral:

- pledges of assets, including real estate, goods and inventory, stocks, bills, certificates, bonds, governmental and other securities trading at stable prices, and in certain cases insurance of assets pledged as collateral,
- unconditional and irrevocable payment guarantees issued by first-class foreign banks and reliable Russian banks,

- sureties and commitments issued by solvent commercial and governmental entities possessing funds or reliable sources of funds that are sufficient to meet loan repayment and interest payment obligations,
- pledges of the right to claim under investment contracts (*e.g.*, pledges of rights to apartments in buildings under construction),
- individual guarantees,
- pledges of rights (claims) to monetary funds maintained on deposit with Alfa-Bank, and
- other forms of security.

An opinion on such collateral usually is prepared by the collateral and problem indebtedness department, in cases where the collateral relates to tangible assets such as real estate, goods or inventory, or the corporate finance department in cases where the collateral relates to a pledge of securities. Where an independent appraisal of the market value of the collateral is required by law or agreed between Alfa-Bank and the pledgor, a third-party appraiser is engaged. As of December 31, 2005, over 60% of the principal amount of the Alfa Banking Group's gross loan portfolio was secured by collateral. Under Russian law, foreclosure generally requires a court order and a public sale of the collateral. A court may delay such public sale for a period of up to a year upon a pledgor's application. In addition, Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. See "Risk Factors—Risk Factors Relating to Russia—Russian Bankruptcy Law."

### **Assessment of Provision For Loan Impairment**

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

Loan impairment estimation follows certain steps and procedures, as described below:

1. Identification of loans that individually are significant, *i.e.*, those loans that if fully impaired would have a material impact on the expected average level of operating profit of the Alfa Banking Group.

2. Determination of whether an individually significant loan shows objective evidence of impairment. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Alfa Banking Group expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment exercise is performed. Other impairment indicators include, but are not limited to: any significant financial difficulty of the borrower; an actual breach of the loan contract; a high probability of bankruptcy or other financial reorganization of the borrower; recognition of an impairment loss on that asset in a prior financial reporting period; or an historical pattern of collections of loans that indicates that the entire principal and interest amount of the loan portfolio will not be collected.

3. Review for impairment of individually significant loans that shows objective evidence of impairment is conducted. An impairment review requires an estimate of the expected timing and amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting these cash flows at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired loan that is individually significant is recorded.

4. All remaining loans that have not been identified as individually significant should be assessed on a portfolio basis if there are signs that impairment is present in those portfolios. For the purpose of such a review, the loan portfolio should be grouped in pools, based on similar credit risk characteristics. Such pools should be assessed further for impairment as if they were a single asset. Additionally, separate pools of loans may be identified that, for example, by virtue of belonging to a particular industry, have more chances of being impaired than other categories of loans.

#### Loan Provisions

The following table sets out details of changes in the provision for loan impairment of loans to customers that are not banks:

	For the year ended December 31,		For the six
	2003	2004	months ended
		(US\$ thousands)	June 30, 2005
Provision for loan impairment at the beginning of the period.....	134,921	175,723	197,846
Provision for loan impairment during the period.....	42,119	23,971	32,715
Loans written off during the year as uncollectible .....	(1,317)	(1,848)	(124)
<b>Provision for loan impairment at the end of the period.....</b>	<b>175,723</b>	<b>197,846</b>	<b>230,437</b>

The following table shows a distribution of the Alfa Banking Group's gross loan portfolio according to provisioning categories based upon the application of the Alfa Banking Group's loan impairment assessment procedures described above. The provisioning categories are shown only for presentation purposes and are not intended to reflect the methodology of the Alfa Banking Group in applying its loan impairment estimation procedures:

Impairment provision percentage group	As of June 30, 2005		
	Principal amount outstanding (US\$ millions)	Impairment provision (US\$ millions)	Effective provisioning rate (%)
0-5% .....	4,569.9	162.1	3.5
6-20% .....	518.9	41.8	8.1
21-50% .....	0.9	0.5	55.6
51-100% .....	28.7	26.0	90.6
<b>Total.....</b>	<b>5,118.4</b>	<b>230.4</b>	<b>4.5</b>

Impairment provision percentage group	As of December 31, 2004		
	Principal amount outstanding (US\$ millions)	Impairment provision (US\$ millions)	Effective provisioning rate (%)
0-5% .....	3,344.5	104.5	3.1
6-20% .....	927.1	70.5	7.6
21-50% .....	—	—	—
51-100% .....	26.3	22.8	86.7
<b>Total.....</b>	<b>4,297.9</b>	<b>197.8</b>	<b>4.6</b>

Impairment provision percentage group	As of December 31, 2003		
	Principal amount outstanding (US\$ millions)	Impairment provision (US\$ millions)	Effective provisioning rate (%)
0-5% .....	2,616.8	76.5	2.9
6-20% .....	994.0	68.0	6.8
21-50% .....	—	—	—
51-100% .....	31.2	31.2	100.0
<b>Total.....</b>	<b>3,642.0</b>	<b>175.7</b>	<b>4.8</b>

While the Alfa Banking Group expects provisions for loan impairment to increase in the future with the expected growth of the Alfa Banking Group's loan portfolio, management believes that its overall provisioning levels as a percentage of its loan portfolio will decrease due to: (a) the expected improvement in the credit quality of borrowers as the Russian economy continues to expand and (b) the expected improvement in the reliability of the credit histories of Russian borrowers and the expansion of the availability of reliable tools used to analyze the credit histories of Russian borrowers. Management further believes that its retail loan portfolio will continue to have higher provisioning levels than its corporate loan portfolio but that, for the foreseeable future, its retail loan portfolio will continue to remain a relatively small portion of its overall loan portfolio. Its expected growth does not alter management's belief that the Alfa Banking Group's overall provisioning level as a percentage of its loan portfolio will decrease.

#### *Problem Loans*

The Alfa Banking Group may classify a loan product as a problem loan based on a number of factors. In certain cases the Alfa Banking Group may classify a loan as a problem loan in the event of certain occurrences that do not relate to the directly to the borrower's creditworthiness. Such events include the receipt of information: (a) that reflects negatively on the business reputation of the borrower, such as a deterioration of the reputation of the borrower's management or material change in management, (b) that indicates increased shareholder risks, such as unfavorable changes in the borrower's shareholder structure, material changes in management or shareholder structure, (c) that indicates greater industry risk for the borrower, such as evidence of increasing competition in the borrower's industry, (d) that indicated higher regulatory risks, such as greater taxation for the industry, and (e) that indicate a change in the nature of the borrower's business.

The Alfa Banking Group may also classify a loan as a problem loan in the occurrences that relate directly to the borrower's creditworthiness or the quality of the collateral. Such events include: (a) the financial condition of the borrower deteriorates for two successive calendar quarters, resulting in a downgrade the Alfa Banking Group's internal credit rating of the borrower, (b) any payments of principal or interest on the Alfa Banking Group's loans or other credit products is overdue for a period of more than ten calendar days, (c) the borrower has overdue indebtedness to other banks, (d) the borrower has an overdue tax liability, (e) the borrower experiences negative cash flow for three successive business plan periods, (the length of such periods to be agreed in advance with the Alfa Banking Group), (f) in certain cases where the value of the collateral declines or the collateral is damaged or lost, (g) bankruptcy proceedings with respect to the borrower are initiated or (h) the borrower or a third party takes steps to invalidate the collateral provided to secure the loan.

In the event that a commercial loan satisfies any of the criteria of a problem loan, the head of the corporate credit department creates a working group, typically from the collateral and problem indebtedness department, the economic security department and the legal department, that is charged with the responsibility of recovering the loan. The working group analyzes why the loan was classified as a problem loan, examines the financial and business status of the borrower (involving third-party consultants as needed), evaluates the relevant legal and financial issues related to debt recovery and then formulates and implements a plan to recover the outstanding debt. The collateral and problem indebtedness department then typically contacts the borrower and attempts to restructure the loan so that the borrower can resume interest payments or repay the loan. The restructuring arrangements may include rescheduling of interest payments, term prolongation, obtaining additional security and other ways to restore the borrower's payment capacity. If a loan is restructured, the collateral and problem indebtedness department monitors the borrower's compliance with the terms of the restructured loan.

If a loan restructuring is not possible or not successful, the collateral and problem indebtedness department and the legal department may bring legal actions against the borrower and/or any guarantors, as foreclosure under Russian law generally requires a court order and a public sale of collateral. In the event that the loan cannot be recovered successfully, the indebtedness is written off.

The following table sets out loans and advances to customers as of the dates indicated:

	<u>As of December 31, 2003</u>	<u>As of December 31, 2004</u>	<u>As of June 30, 2005</u>
		<i>(US\$ thousands)</i>	
Current loans .....	3,585,253	4,185,006	4,975,297
Net investment in lease .....	25,626	79,967	95,150
Overdue loans.....	31,150	32,962	47,911
Less: Provision for loan impairment.....	(175,723)	(197,846)	(230,437)
<b>Total loans and advances to customers.....</b>	<b><u>3,466,306</u></b>	<b><u>4,100,089</u></b>	<b><u>4,887,921</u></b>

The following table sets out overdue customer loans by economic sector as of the dates indicated

	<u>As of December 31, 2003</u>			<u>As of December 31, 2004</u>			<u>As of June 30, 2005</u>		
	<u>Gross loans</u>	<u>Provision</u>	<u>%</u>	<u>Gross loans</u>	<u>Provision</u>	<u>%</u>	<u>Gross loans</u>	<u>Provision</u>	<u>%</u>
	<i>(US\$ millions)</i>			<i>(US\$ millions)</i>			<i>(US\$ millions)</i>		
Individuals .....	6.3	(6.3)	100	10.6	(9.3)	88	21.0	(7.5)	35
Trade .....	7.2	(7.2)	100	8.9	(7.4)	83	10.9	(8.4)	77
Food .....	0.3	(0.3)	100	—	—	—	4.9	(3.8)	77
Construction .....	3.4	(3.4)	100	2.8	(1.7)	61	3.6	(2.8)	77
Agriculture.....	0.1	(0.1)	100	0.1	(0.1)	100	0.1	(0.1)	78
Finance .....	1.1	(1.1)	100	1.1	(0.6)	55	—	—	—
Machine .....	1.3	(1.3)	100	—	—	—	—	—	—
Other .....	11.5	(11.5)	100	9.5	(8.9)	94	7.4	(5.7)	77
<b>Total .....</b>	<b><u>31.2</u></b>	<b><u>(31.2)</u></b>	<b><u>100</u></b>	<b><u>33.0</u></b>	<b><u>(28.0)</u></b>	<b><u>85</u></b>	<b><u>47.9</u></b>	<b><u>(28.3)</u></b>	<b><u>59</u></b>

In the table above, loan provision levels decreased between 2003 and 2005 due to a low level of problem loans and write-offs and the continued stability of the Russian economy. Currently, the corporate portfolio is much larger than the retail portfolio, and therefore, the retail portfolio has a negligible effect on the provisioning level. The Alfa Banking Group's management believes that as the retail portfolio increases in size, the provisioning level will similarly increase to account for the greater risk associated with retail loans.

## RELATED PARTY TRANSACTIONS

The Alfa Banking Group traditionally has conducted and continues to conduct significant business with related parties. However, the Alfa Banking Group has pursued a strategy of diversifying its customer base since 1997. As of June 30, 2005, the Alfa Banking Group's gross exposure (comprising loans and guarantees) to related parties was US\$245.3 million (representing 4.3% of the Alfa Banking Group's total credit exposure as of such date) and customer accounts from related parties were US\$798.7 million (representing 17.0% of the Alfa Banking Group's total customer accounts as of such date). Related parties are defined in accordance with IFRS. See Note 28 to the Interim Financial Statements and Note 26 to the Annual Financial Statements.

The Alfa Banking Group has continued to set lower limits for related party transactions over the years. As of the date of this Offering Circular, the Alfa Banking Group has limited total related party lending and credit-related commitments to 40% of the Alfa Banking Group's shareholder capital. As of June 30, 2005, the Alfa Banking Group's total related party lending and credit-related commitments was 32.1% of shareholder capital.

The following tables describe related party transactions as of the years ended December 31, 2003 and 2004 and as of the six month period ended June 30, 2005.

	<u>As of December 31, 2003</u>		<u>As of December 31, 2004</u>		<u>As of June 30, 2005</u>	
	<u>US\$ thousands</u>	<u>% of total</u>	<u>US\$ thousands</u>	<u>% of total</u>	<u>US\$ thousands</u>	<u>% of total</u>
Trading Securities .....	33,099	4.8	12,603	1.8	11,648	1.8
<b>Gross loans and advances.....</b>	<b>104,482</b>	<b>2.9</b>	<b>90,418</b>	<b>2.1</b>	<b>115,522</b>	<b>2.3</b>
Other assets and receivables .....	10,252	5.5	16,083	5.8	4,743	1.3
<b>Customer accounts .....</b>	<b>562,982</b>	<b>16.6</b>	<b>1,199,046</b>	<b>26.7</b>	<b>798,655</b>	<b>17.0</b>
Promissory notes issued.....	49,982	8.4	3,848	1.9	20,938	6.7
Other assets and payables.....	15,495	7.7	12,119	3.2	2,455	0.4
Off balance sheet items:						
Guarantees issued.....	46,004	11.9	96,901	16.2	129,784	24.0
Import letters of credit.....	13,536	18.0	6,101	4.0	2,972	1.7

	<u>For the year ended December 31, 2003</u>		<u>For the year ended December 31, 2004</u>		<u>For the six months ended June 30, 2005</u>	
	<u>US\$ thousands</u>	<u>% of total</u>	<u>US\$ thousands</u>	<u>% of total</u>	<u>US\$ thousands</u>	<u>% of total</u>
Fee and commission income .....	24,347	17.9	5,983	4.1	2,809	3.8
Fee and commission expense.....	1,684	4.1	–	–	–	–
Interest income .....	37,909	7.9	7,938	1.4	8,942	2.8
Interest expense.....	7,953	3.3	28,684	12.1	16,725	12.6
Other income .....	2,126	N/A	7,218	N/A	136	N/A
Other expenses .....	6,108	N/A	1,307	N/A	224	N/A

The following table sets out information on loans, guarantees and customer accounts with respect to individual related parties as of December 31, 2003 and 2004 and June 30, 2005:



	As of December 31,		As of June 30,
	2003	2004	2005
<b>Loans</b>	<i>US\$ thousands</i>		
Perekriostock .....	31,584	5,070	65,232
Alfa Telecom .....	–	20,460	23,532
CTC Media .....	–	24,000	18,169
Alfa Eco Group .....	–	18,054	700
TNK Gro/up and affiliated companies .....	52,369	12,785	–
Gum Holdings Limited .....	17,259	–	–
Other .....	3,270	10,049	7,889
<b>Total</b> .....	<b>104,482</b>	<b>90,418</b>	<b>115,522</b>
	As of December 31,		As of June 30,
	2003	2004	2005
<b>Guarantees</b>	<i>US\$ thousands</i>		
TNK Group and affiliated companies .....	45,119	96,883	128,859
Other .....	885	18	925
<b>Total guarantees</b> .....	<b>46,004</b>	<b>96,901</b>	<b>129,784</b>
	As of December 31,		As of June 30,
	2003	2004	2005
<b>Customer accounts</b>	<i>US\$ thousands</i>		
CTF Holdings Limited .....	–	221,717	191,592
Individual Shareholders .....	–	221,223	191,423
TNK Group and affiliated companies .....	153,690	165,598	169,432
Alfa Telecom .....	–	–	109,160
Alfa Finance Holdings S.A. ....	–	–	46,554
Alfa Eco Group .....	88,491	22,201	17,615
Alfa Petroleum Holdings Limited .....	250,625	490,821	5,990
Vimplecom Group .....	22,186	22,144	1,534
Other .....	47,990	55,342	65,355
<b>Total</b> .....	<b>562,982</b>	<b>1,199,046</b>	<b>798,655</b>

## CAPITAL ADEQUACY

### Alfa Bank

Alfa-Bank is required to comply with a number of mandatory economic ratios set by the Central Bank. In particular, the Central Bank establishes capital adequacy and risk diversification ratios. As of April 1, 2004, the former system of mandatory economic ratios was replaced by new requirements, which include the following changes:

- daily basis control (previously, banks' compliance was tested on a monthly basis),
- elimination of eight ratios from the list of the generally applicable ratios, and
- changes in ratio limits, such as reducing the N2 and N3 limits from 20% and 70% to 15% and 50%, respectively; and repeal of N8, N9, N10, N11, N11.1, N13 and N14 ratios.

In April 2005, the Central Bank repealed the general liquidity ratio (N5). See "Regulatory Environment" in [Appendix C](#) for a more detailed discussion of these requirements.

The methods by which capital adequacy is calculated in Russia differ in some significant respects from the methods used in those countries that have adopted BIS Guidelines. Alfa-Bank is required to comply with the capital adequacy requirements of the Central Bank. For the purposes of calculating Alfa-Bank's capital adequacy ratio in accordance with Central Bank requirements, the principal component of Alfa-Bank's share capital and Alfa-Bank's assets are divided into five categories with different risk weightings. The minimum capital adequacy ratio required by the Central Bank currently is 10% for banks whose capital is €5 million or more and 11% for banks whose capital is less than €5 million. If the capital adequacy ratio of a bank drops below 2%, then the Central Bank will revoke its banking license. Alfa-Bank's capital adequacy ratio calculated on the basis of the statutory RAR audited financial statements of Alfa-Bank adjusted for post-balance sheet events (as prescribed by the Instructions of the Central Bank of the Russian Federation No. 1530-U Procedures for the Compilation of Annual Report of a Credit Organization of December 17, 2004) amounted to 12.4% as of December 31, 2004 and 10.6% as of June 30, 2005. As of December 31, 2002 and December 31, 2003, the corresponding capital adequacy ratios were 15.4% and 13.7% respectively. For purposes of calculating Alfa-Bank's Central Bank capital adequacy ratios, Alfa-Bank had equity capital of RUR24,655.5 million as of January 1, 2004, RUR24,216.5 million as of January 1, 2005 and RUR24,442.2 million as of July 1, 2005. As an unregulated bank holding company, the Guarantor currently does not have an obligation to meet specific international or Russian regulatory capital ratios. See "Management's Discussion and Analysis—Capital Adequacy."

The following table sets out Alfa-Bank's mandatory economic ratios calculated in accordance with the requirements of the Central Bank as of January 1, 2003, 2004 and 2005 and as of July 1, 2005 and based upon RAR:

	Central Bank minimum/ maximum ratio requirements	Alfa-Bank Ratios as of January 1,			Unaudited values as of July 1, 2005
		2003	2004	2005	
<b>Mandatory Economic Ratios</b>					
Capital adequacy ratio (N1) .....	N1 – Min 10	15.4	13.7	12.4	10.6
Bank liquidity ratios (N2, N3, N4 and N5).....	N2 – Min 15	47.7	69.0	35.5	31.3
	N3 – Min 50	83.8	89.4	65.9	58.1
	N4 – Max 120	50.5	47.4	62.4	64.2
	N5 – Min 20	44.9	45.9	25.3	–
Maximum amount of risk per borrower or per group of related borrowers (N6).....	N6 – Max 25	24.6	21.1	23.6	25.0
Maximum amount of large credit risks (N7) .....	N7 – Max 800	376.4	393.4	297.1	423.8
Maximum amount of risk per single creditor (depositor) (N8, N9 and N9.1).....	N8 – Max 25	20.0	47.1	–	–
	N9 – Max 20	0	0	–	–
	N9.1 – Max 50	0	0	0	0
Maximum amount of credits and loans extended by the bank to its shareholders (participants) and insiders.....	N10 – Max 2	0	0.1	–	–
(N10 and N10.1).....	N10.1 – Max 3	0	0.1	0	0
Maximum amount of bank deposits attracted from individuals .....	N11 – Max 100	108.5	139.8	–	–
(N11 and N11.1).....	N11.1 – Max 400	70.5	116.2	–	–
Ratio for the use of the bank's own resources (capital) to acquire participation interests.....	N12 – Max 25	0	0	0	0
(shares) in other legal entities (N12).....	N12.1 – Max 5	0	0	–	–
Maximum amount of the bank's bill-of-exchange liabilities (N13).....	N13 – Max 100	86.9	70.1	–	–
Liquidity ratios under transactions with precious metals (N14).....	N14 – Min 10	N/A	N/A	–	–

Note: All figures are in percentages. In this table, "0" means that Alfa-Bank had no exposure and "-" signifies that in 2005, certain normatives were abolished.

If Alfa-Bank were required to calculate its capital adequacy based upon IFRS financial statements, according to the BIS Guidelines regarding solvency and capitalization, no assurances can be given that, without any appropriate remedial action, Alfa-Bank's capital adequacy would satisfy such guidelines.

## The Alfa Banking Group

The Alfa Banking Group also meets international standards with respect to capital adequacy. Details of the Alfa Banking Group's capital adequacy as of December 31, 2003, December 31, 2004 and June 30, 2005, calculated in accordance with the BIS Guidelines and based on the IFRS consolidated financial statements, are set out below:

	As of December 31		As of June 30
	2003	2004	2005
	<i>(US\$ millions, except percentages)</i>		
Paid up share capital.....	160.8	160.8	160.8
Retained earnings .....	358.2	542.6	609.0
Tier I Capital .....	519.0	703.4	769.8
Tier II Capital <sup>(1)</sup> .....	14.7	4.1	3.9
Total Capital.....	533.7	707.5	773.7
Risk weighted assets .....	5,186.8	6,812.8	7,846.3
<b>Capital adequacy ratios</b>			
Tier I capital adequacy ratio (%) <sup>(2)</sup> .....	10.0	10.3	9.8
Total capital adequacy ratio (%) <sup>(2)</sup> .....	10.3	10.4	9.9

Notes:

- (1) Revaluation reserve for premises and equipment plus adjusted fair value reserve for investments available for sale.
- (2) Net available capital as a percentage of risk weighted assets.

## SELECTED FINANCIAL AND OTHER RATIOS OF THE ALFA BANKING GROUP

	Period ended		
	December 31,		June 30,
	2003	2004	2005
<b>Combined Key Ratios</b>			
Return on shareholders' equity <sup>(1)</sup> .....	21.6	24.4	23.6 <sup>(4)</sup>
Operating expenses/operating income before provision for loan impairment .....	65.9	64.3	56.2
Provision for loan impairment for loans to customers/loans to customers .....	4.8	4.6	4.5
<b>Profitability Ratios</b>			
Operating expenses/net interest income.....	126.4	112.3	90.2
Profit after taxation/total assets.....	1.8	2.2	2.1 <sup>(4)</sup>
<b>Balance Sheet Ratios</b>			
Customer accounts/total assets.....	57.8	63.9	57.5
Total net loans to customers/total assets.....	58.9	58.4	60.0
Total shareholders' equity/total assets .....	9.3	10.1	9.5
Liquid assets <sup>(2)</sup> /customer accounts.....	51.1	50.1	51.3
Liquid assets <sup>(2)</sup> /liabilities of up to one month .....	64.2	81.1	81.0
<b>Capital Adequacy Ratios<sup>(3)</sup></b>			
Total capital adequacy ratio .....	10.3	10.4	9.9
Tier 1 capital adequacy ratio .....	10.0	10.3	9.8
<b>Credit quality ratios</b>			
Overdue loans to customers/total loans to customers.....	0.9	0.8	0.9
Provisions for loan impairment for loans to customers/ overdue loans to customers .....	564.1	600.2	481.0

Notes:

- (1) Calculated as net profit/average shareholders' equity (calculated as sum of opening and closing balances divided by two).
- (2) Liquid assets comprise cash and cash equivalents, due from other banks (with a maturity of less than one month) and trading securities.
- (3) Calculated in accordance with the BIS Guidelines.
- (4) This number has been annualized.

## THE GUARANTOR

### Overview

The Guarantor was incorporated as a private company with limited liability under the laws of the British Virgin Islands on November 3, 1995, and is the parent company of the Alfa Banking Group. The Guarantor's registered office is Geneva Place, 2nd Floor, #333 Waterfront Drive, P.O. Box 3339 Road Town, Tortola, British Virgin Islands and is registered with the Registrar of Corporate Affairs of the British Virgin Islands under No. 165196 (originally named Alfa Capital Holdings Limited). Subject to certain exceptions, the Guarantor is authorized to engage in any act or activity that is not prohibited under the laws of the British Virgin Islands. For a further description of the Guarantor, see "Description of the Alfa Banking Group—History and Structure of the Alfa Banking Group."

As of March 27, 2006, the Guarantor had two directors: Mr. Pavel Nazarian and Mr. Joseph Moss, who also acts as secretary of the company.

### Auditors

The auditors of the Alfa Banking Group (the Guarantor and its subsidiaries) are ZAO PricewaterhouseCoopers Audit, whose registered office is at Kosmodamianskaya Nab. 52, Bld. 5, Moscow, Russia 115054. The Auditor audited financial statements of the Alfa Banking Group for the years ended December 31, 2003 and 2004 and for the six months ended June 30, 2005. The Auditor is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*) and The Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*).

### British Virgin Islands Legal and Regulatory System

Investors should note that the corporate affairs of the Guarantor are regulated by the laws governing International Business Companies in the British Virgin Islands and by the Guarantor's Memorandum and Articles of Association. The rights of shareholders and the responsibilities of members of the Board of Directors and Executive Board under British Virgin Islands' law may be different from and subject to certain requirements not generally applicable to corporations organized in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and other countries is to promote the full and fair disclosure of all material corporate information to the public. The Guarantor is subject to British Virgin Islands law requirements, which oblige it to publish, *inter alia*, annual financial statements and information on material events relating to the company (such as major acquisitions and increases in charter capital). However, such information is published under British Virgin Islands accounting standards and there is less publicly available or other information about the Guarantor than the information regularly published by or about listed companies in the United States, the United Kingdom and certain other jurisdictions.

#### *British Virgin Islands Bankruptcy Law*

British Virgin Islands bankruptcy law, although based to a significant degree upon English bankruptcy law, differs from comparable law in the United States or Western Europe. Assets subject to security fall outside the estate of a company that is available for distribution to ordinary creditors in the event of a liquidation. The right of unsecured creditors to *pari passu* distribution of assets during an insolvency also is subject to the prior ranking of a number of preferential creditors, including the British Virgin Islands government and (subject to a cap) unpaid employment obligations. Given the absence of tax in the British Virgin Islands, the government preference is unlikely to be significant. As well as the protection given to secured creditors, it should be noted that British Virgin Islands bankruptcy law gives a high degree of protection to quasi-security, such as rights of set-off, and such protections may operate to the detriment of unsecured creditors.

Although bankruptcy legislation provides for a debtor rehabilitation regime (administration), the relevant provisions are not currently in force. The administration provisions of the legislation may be brought into effect at any time. There are no debtor-in-possession bankruptcy proceedings akin to Chapter 11 in the United States.

As with most developed insolvency laws, certain transactions may be challenged during a liquidation if they were entered into during specified periods and at a time when the company was insolvent; such voidable transactions include unfair preferences and undervalued transactions.

## DESCRIPTION OF THE OFFERED NOTES AND THE OTHER TRANSACTION DOCUMENTS

The following summary of certain provisions of the Loan Agreement, the Loan Supplement for the Series 2006-A Loan, the Pledge Agreement, the Indenture, the Indenture Supplement for the Offered Notes and the Offered Notes (with the Account Agreements and any other Loan Supplements, other Indenture Supplements, other Notes, the Certificates, the Enhancements, the Enhancement Agreements and certain other agreements entered into in connection with the above, the “*Transaction Documents*”) does not purport to be complete and is qualified in its entirety by reference to the provisions of the applicable Transaction Documents. The Noteholders and Note Owners of the Offered Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of all of the provisions of the Transaction Documents other than certain documents (such as premium letters with Enhancers) that may be confidential. Copies of the Transaction Documents (other than such confidential documents) will be on file with the Indenture Trustee, the SPC and, with respect to the Offered Notes, the Initial Purchasers and may be inspected by prospective Investors at the corporate trust office of JPMorgan Chase Bank, N.A. (4 New York Plaza, New York, New York 10004), at the offices of the SPC and at the offices of the Initial Purchasers and, so long as the guidelines of the Irish Stock Exchange so require, the Transaction Documents for such Series to which the SPC, Alfa-Bank and the Guarantor, among others, are signatories will be available for inspection through the Irish Listing and Paying Agent, with whom the Transaction Documents will be deposited in both electronic and hardcopy form, for the life of the Prospectus.

### Status of Offered Notes

The Offered Notes will constitute secured indebtedness of the SPC. The Offered Notes will be secured on a *pari passu* basis with any other Senior Series by substantially all of the assets of the SPC, consisting primarily of the SPC’s right, title and interest in, to and under its pledge over the Loan Collateral (including the Diversified Payment Rights existing on or generated after the Closing Date through and including the Pledge Termination Date). The SPC will pay Additional Amounts (if any) payable with respect to the Offered Notes. The Offered Notes will constitute unconditional and unsubordinated obligations of the SPC.

### Offered Notes and the Related Indenture Supplement

Each of the Offered Notes offered hereby and issued pursuant to the Indenture and the related Indenture Supplement will represent the right of the applicable Noteholders to receive: (a) a *pro rata* share of the interest paid on the Offered Notes on each Payment Date (or Early Amortization Payment Date, if applicable), which interest is equal to the Interest paid on the Series 2006-A Loan, and (b) payment of principal on such Offered Notes (whether made on a Payment Date after the Interest-Only Period (if any) for such Loan, on an Early Amortization Payment Date during any Early Amortization Period for such Loan or otherwise), which principal is equal to the Quarterly Amortization Amount or other principal payment on such Loan.

The Offered Notes will represent obligations of the SPC. The Offered Notes will not represent interests in or obligations of Alfa-Bank, the Guarantor, the Indenture Trustee or any other person. Under the Loan Agreement and the applicable Loan Supplement, Alfa-Bank will have an obligation to pay interest and the Quarterly Amortization Amount on the Series 2006-A Loan and, if applicable, the Default Payment with respect thereto as described herein (with such payment obligations being guaranteed by the Guarantor). The Indenture Trustee will have the right to institute a direct cause of action against Alfa-Bank (and the Guarantor) if it fails to satisfy its obligations to make any payment to the SPC under the Transaction Documents.

#### *Interest*

Interest on each Note (including the Offered Notes) will be paid on each Payment Date (or, if applicable, Early Amortization Payment Date or Prepayment Date for the corresponding Loan) to the applicable Noteholder who is of record as of the most recent Record Date. Interest will be paid quarterly with respect to the preceding Interest Period on each Payment Date (or, if applicable, monthly or daily in arrears on any Early Amortization Payment Date). Interest on each Series will (subject to certain portions thereof that may be payable to any applicable Enhancer) equal the Interest paid on the corresponding Loan.

The amount of Interest on each Loan (and, hence, the amount of interest to be paid by the SPC on the corresponding Series) on each Payment Date (or any Early Amortization Payment Date, as applicable) will be as set forth in the applicable Loan Supplement. The Noteholders will also be entitled to the payment by the SPC of Additional Amounts (if any) with respect to each payment of interest (except to the extent that such amounts are paid directly by the SPC to the applicable taxing authorities).

So long as the Offered Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, the SPC will give notice to the Irish Stock Exchange and the applicable Noteholders by the morning of the first day before each Interest Period of the Series 2006-A Loan Interest Rate for such Interest Period, the Payment Date for such Interest Period, the amount of interest on the Series 2006-A Loan to be paid on such Payment Date and the Loan Balance of the Series 2006-A Loan outstanding during such Interest Period. See “Summary of Terms—Listing” above.

### *Principal*

Unless an Early Amortization Period with respect to a Loan has occurred prior thereto, or the Prepayment Amount with respect thereto is paid as a result of a Default or otherwise, no principal will be payable on any Loan (and, thus, on any Series) until the end of the Interest-Only Period applicable thereto to the extent such period exists. On each Payment Date thereafter (or, in the event that there is no Interest-Only Period with respect to a Loan, on each Payment Date), the applicable Noteholders will be entitled to receive (in the aggregate) a quarterly principal payment in an amount equal to the Quarterly Amortization Amount for each Payment Date for the applicable Loan.

Principal payments (as well as interest) on each Series will be funded from: (a) payments under the corresponding Loan (including the deemed payments thereon made from the Collections, any amounts paid from the Deposit Account and payments of any Default Payment or Prepayment Amount therefor) and (b) amounts available under any corresponding Enhancement(s), and will be paid to the applicable Noteholder(s) (or to the Indenture Trustee on their behalf) on each Payment Date (or, if applicable, Early Amortization Payment Date for the corresponding Loan) as provided in the Transaction Documents.

If any amounts are not paid for a Loan or if any other Early Amortization Event with respect to such Loan occurs, then the Early Amortization Period may commence for such Loan. See “Summary of Terms—Early Amortization Period” above or “—Loan Agreement—Early Amortization Period” below. Commencing on the first Early Amortization Payment Date after the commencement of an Early Amortization Period with respect to a Loan and on each Early Amortization Payment Date thereafter continuing to and including the date on which the Prepayment Amount for such Loan (including all principal of and interest on such Loan, and all amounts (including any amounts payable to each Enhancer providing Enhancements related thereto and any Additional Amounts) due to Note Secured Parties under the Transaction Documents in connection with the Series corresponding to such Loan) has been paid in full (or on an earlier date as the Controlling Party of the Series corresponding to such Loan may determine), the Collections (after application to pay all trustee fees, certain other amounts, all accrued interest, all scheduled Quarterly Amortization Amounts and potentially sharing a certain amount thereof with Alfa-Bank as described in “Summary of Terms—Allocation of Amounts in the Concentration Accounts” above) allocated to the corresponding Loan Payment Account will be applied to pay all outstanding principal of such Series.

The final distribution of principal, interest and Additional Amounts (if any) with respect to each Series is expected to be made on the Maturity Date of the corresponding Loan.

So long as the Offered Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, if full payment on the Offered Notes will not occur on the Series 2006-A Maturity Date, then the SPC will provide notice of such non-payment to the applicable Noteholders and the Irish Stock Exchange on or before the Series 2006-A Maturity Date. See “Summary of Terms—Listing” above.

### *Additional Amounts*

All payments by the SPC in respect of the Offered Notes and all other payments to Note Secured Parties under the Transaction Documents, whether in respect of principal, interest, premiums, fees or otherwise, will be



made without deduction or withholding for any current or future Taxes imposed, levied, collected, withheld or assessed by (or on behalf of) any taxing authority unless such Taxes are required by applicable law to be deducted or withheld. If any such Taxes are required to be deducted or withheld, then the SPC, subject to the exceptions described below, will pay to the Indenture Trustee (for the benefit of the applicable recipient(s) of such payment) such Additional Amounts as may be necessary so that the recipient(s) thereof will receive the full amount otherwise payable in respect of such payments had no such Taxes (including any Taxes payable in respect of such Additional Amounts) been required to be so deducted or withheld. Notwithstanding the preceding sentences, no such Additional Amounts will be payable with respect to any payment under the Transaction Documents (including under the Offered Notes):

(a) in the case of any Tax assessed or imposed by any taxing authority of any jurisdiction to the extent that such Tax would not have been assessed or imposed but for any present or former connection between the applicable recipient of such payment and such jurisdiction including such recipient being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than its participation in the transactions effected by the Transaction Documents and the receipt of payments thereunder,

(b) for any estate, inheritance, gift, personal property, sales, transfer or other similar Tax,

(c) to the extent that any such Taxes would not have been imposed but for the failure of the applicable recipient of such payment to comply with any certification, identification, information, documentation or other reporting requirement to the extent: (i) such compliance is required by Applicable Law as a precondition to exemption from, or reduction in the rate of deduction or withholding of, such Taxes, and (ii) at least 30 days before the first Payment Date (or Early Amortization Payment Date) with respect to which the SPC shall apply this clause (c), the SPC shall have notified such recipient in writing that such recipient will be required to comply with such requirement (which notice the SPC will deliver upon the request of Alfa-Bank),

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48EC (or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000) on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, or

(e) due to any combination of the circumstances described in clauses (a) through (d),

nor will any Additional Amounts be paid with respect to any payment to a recipient who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor or with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been in the place of such recipient.

Upon request and to the extent available, the SPC will provide the Indenture Trustee with documentation reasonably satisfactory to it evidencing the payment of Taxes in respect of which the SPC has paid any Additional Amounts. Copies of such documentation will be made available to the applicable recipients upon written request therefor to the Indenture Trustee.

As of the Series 2006-A Borrowing Date, the payment of interest and principal on the Offered Notes payable by the SPC will not be subject to taxation in Russia or the British Virgin Islands, and no withholding for Russian or British Virgin Islands taxes will be required on any payments on the Offered Notes by the SPC to the applicable Noteholders or Note Owners. For Luxembourg tax implications in respect of the payment of interest and principal on the Offered Notes, please see “Taxation—Certain Luxembourg Tax Considerations.”

The SPC’s obligation to pay Additional Amounts will survive the Pledge Termination Date and the sale or transfer of the Notes or Certificates (or beneficial interests therein) by any Investor.

### *Mandatory Redemption*

The Notes may be subject to mandatory redemption, in whole but not in part. As described in “—Loan Agreement—Defaults” below, in certain circumstances Alfa-Bank will be obligated to pay to the SPC the Default Payment for a Loan after the occurrence of a Default with respect thereto. If such Default Payment shall not have been paid in full on the date required, then the SPC and the Indenture Trustee will have a direct cause of action against Alfa-Bank (and the Guarantor) to collect such unpaid amount and will be entitled to use any legally available remedies in connection therewith. From the Default Payment, the SPC will make payment to the Noteholders (or Note Owners) of the corresponding Series in an amount in the applicable currency equal to the sum of: (a) the Series Balance of the applicable Series, (b) all accrued and unpaid interest (if any) on such Series to but excluding the Prepayment Date, (c) all unpaid Additional Amounts with respect to such Series and (d) all other amounts (if any) then due and payable to such Noteholders (or Note Owners) under the Transaction Documents in connection with such Series. Upon payment of the Default Payment for each outstanding Loan, the Pledge Termination Date will occur.

### *Optional Prepayment*

As described in “Summary of Terms—Optional Prepayment” above, Alfa-Bank or its designee may, by payment to the SPC of the Prepayment Amount for any Loan (or a portion thereof that it wishes to prepay), prepay any Loan (or a portion thereof), thereby resulting in the SPC redeeming the corresponding Series in whole or in part, on a selected Prepayment Date. If Alfa-Bank elects to make such a prepayment before the second anniversary of the Series 2006-A Borrowing Date, then the Prepayment Amount for the Series 2006-A Loan will include the Optional Prepayment Premium (and the SPC will pay an equivalent amount to the Noteholders of the Offered Notes).

### *Form, Denomination and Registration*

The Offered Notes (or beneficial interests therein) will be offered for purchase in minimum authorized denominations in the amounts indicated in “Summary of Terms—Denominations” above. Each other Series will be issued in the denominations specified in the applicable Indenture Supplement. No service charge will be made for any registration of transfer or exchange of Offered Notes, but the Indenture Trustee may require payment of a sum sufficient to cover any tax or other government charge payable in connection therewith. The Offered Notes (or beneficial interests therein) may not be transferred unless the principal amount so transferred is in an authorized denomination.

Offered Notes (or beneficial interests therein) offered and sold in the United States pursuant to Rule 144A will be represented by beneficial interests in the Rule 144A Note. Offered Notes (or beneficial interests therein) offered and sold outside the United States to non-U.S. persons pursuant to Regulation S will be represented by beneficial interests in the Regulation S Note. The Global Notes will be deposited on or about the Series 2006-A Borrowing Date with the Indenture Trustee as custodian for, and registered in the name of, Cede & Co. as nominee of DTC. Except as described in this Offering Circular, beneficial interests in the Global Notes will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC, Euroclear and Clearstream. Investors may elect to hold interests in the Regulation S Note through Euroclear or Clearstream in Europe, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Except as described in this Offering Circular, owners of beneficial interests in the Global Notes will not be entitled to have the Offered Notes registered in their names, will not receive or be entitled to receive physical delivery of the Offered Notes in definitive form and will not be considered holders of the Offered Notes under the Offered Notes, the Indenture or the applicable Indenture Supplement.

### *Definitive Notes*

All Offered Notes will be delivered in the form of the applicable Global Note. If any depository of any Global Note is at any time unwilling or unable to continue as a depository for the reasons set forth under “Clearing and Settlement” below, and a replacement depository is not available, then the SPC will issue, and the Indenture Trustee will authenticate, new Notes in definitive, fully registered, non-global form without interest coupons in exchange for the applicable Global Note(s). In all cases, definitive Notes delivered in exchange for any Global Notes

or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the applicable depository (whether DTC or a successor thereto).

In the case of definitive Offered Notes issued in exchange for a Global Note, such definitive Offered Notes will bear the legend referred to under “Notice to U.S. Investors” or “Notice to Investors in the International Offering,” as applicable (unless counsel to the SPC and the Indenture Trustee determine otherwise in accordance with applicable law), subject to the provisions of such legend. The holder of a definitive Offered Note may transfer such Offered Note, subject to compliance with the provisions of such legend, by surrendering it at the office or agency maintained by the Indenture Trustee for such purpose in New York City, New York. Upon the transfer, exchange or replacement of definitive Offered Notes bearing the legend, or upon specific request for removal of the legend on a definitive Offered Note, the Indenture Trustee will deliver only Offered Notes that bear such legend or will refuse to remove such legend, as the case may be, unless there is delivered to the Indenture Trustee such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the SPC and/or the Indenture Trustee that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any definitive Offered Note may be transferred to a person who takes delivery in the form of an interest in any Global Note, the transferor will be required to provide the Indenture Trustee with a transfer certificate (forms of which are attached to the applicable Indenture Supplement).

In addition to the above, at any time during the existence of a Default with respect to the Series 2006-A Loan, any Note Owner of the Offered Notes may, by delivery of notice to the Indenture Trustee through the applicable Clearing System(s), request the delivery of a definitive note with respect to all or any portion of the beneficial interests in the Notes of such Series owned by such Note Owner. Any such notice must be accompanied by related registration instructions and the surrender of the applicable Global Note. Upon receipt of such notice and Global Note, the Indenture Trustee will: (a) issue definitive notes (which will be in definitive, fully registered, non-global form without interest coupons) to such Note Owner in an amount equal to such beneficial interests in such Series, (b) to the extent that any principal of such Series will still be held by the applicable Clearing System(s), issue a new Global Note to such Clearing System(s) for such amount, and (c) revise the Register accordingly.

#### *Mutilated, Destroyed, Lost or Stolen Notes*

In case any Note shall become mutilated, defaced, destroyed, lost or stolen, the SPC will execute and the Indenture Trustee will, upon direction by the SPC, authenticate, register and deliver a new Note of like tenor (including the same date of issuance) and equal principal amount registered in the same manner, dated the date of its authentication and bearing interest from the date to which interest has been paid on such Note, in exchange and substitution for such Note (upon surrender and cancellation thereof) or in lieu of and in substitution for such Note. In case a Note is destroyed, lost or stolen, the applicant for a substitute Note will furnish the SPC and the Indenture Trustee: (a) satisfactory evidence of the destruction, loss or theft of such Note and of the ownership thereof and (b) in the case of a Note that has been destroyed, lost or stolen, subject to the terms of the Indenture, such security or indemnity as may be required by them to save each of them harmless. Upon the issuance of any substituted Note, the Indenture Trustee may require the payment by the registered holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any fees and expenses (including those of the Indenture Trustee) connected therewith.

Notwithstanding any statement herein, the SPC and the Indenture Trustee reserve the right to impose such transfer, certificate, exchange or other requirements, and to require such restrictive legends, on Notes as they may determine are necessary to ensure compliance with the securities laws of the United States and the states therein and any other applicable laws.

#### *Payments; Registration of Transfer*

The Indenture Trustee will be responsible for (among other things): (a) maintaining a record of the aggregate holdings of Notes and accepting Notes for exchange and registration of transfer, (b) ensuring that payments in respect of the Notes are duly paid to the applicable Noteholders to the extent funds are available therefor and (c) transmitting notices to the applicable Noteholders and from such Noteholders to the SPC (in each case, as contemplated by the Indenture and the applicable Indenture Supplement). In the event of a partial transfer of

a definitive Note, new Notes will be obtainable at the office of the Indenture Trustee in connection with such transfer.

The Indenture Trustee will keep at its office a register (the “*Register*”) in which, subject to such reasonable regulations as it may prescribe, it will provide for the registration of the Notes and registration of transfers and exchanges of the Notes. The Indenture Trustee will, upon at least five Business Days’ prior written notice and during regular business hours of the Indenture Trustee, permit each Noteholder to inspect and copy the Register and other books and records of the Indenture Trustee to the extent relating to the relevant Series.

Under certain circumstances described in the Indenture, the SPC may vary or terminate the appointment of the Indenture Trustee and the Indenture Trustee may appoint additional trustees or other such agents. The SPC will cause notice of any resignation, termination or appointment of the Indenture Trustee, and of any change in the office through which any such agent will act, to be provided to Noteholders in accordance with “—Notices; Meetings of Noteholders” below.

#### *Investment Company Act Required Disposition*

Notwithstanding any other provision hereof, if the SPC determines that a Noteholder or Note Owner of an Offered Note was a U.S. person (or, if a holder of a beneficial interest in the Rule 144A Note, any person) but was not a Qualified Purchaser at the time of its acquisition of the Offered Notes (or a beneficial interest therein), then the SPC will have the right, at its option, to require such investor to dispose of such Offered Notes (or a beneficial interest thereon) to a person or entity that is qualified to hold such Offered Notes (or a beneficial interest therein) and: (a) except with respect to an investment in the Rule 144A Note, is either: (i) a U.S. person and a Qualified Purchaser or (ii) a non-U.S. person at the time of its acquisition of an Offered Note (or of a beneficial interest therein), and (b) with respect to an investment in the Rule 144A Note, is a Qualified Purchaser at the time of its acquisition of the Rule 144A Note (or of a beneficial interest therein). Each Noteholder and Note Owner of an Offered Note may be requested to provide the Indenture Trustee and/or the SPC with such additional information as may be reasonably requested to substantiate such Investor’s status as either a Qualified Purchaser or a non-U.S. person that does not have an interest in the Rule 144A Note.

#### *Distributions*

Amounts on deposit in the Concentration Accounts and the Loan Payment Accounts will be allocated on each New York Business Day by the Indenture Trustee in the order of priority set forth in the Indenture and the related Indenture Supplement as described in “Summary of Terms—Allocation of Amounts in the Concentration Accounts” and “Summary of Terms—Distribution of Amounts in the Loan Payment Accounts,” respectively.

Payments on the Notes will be made by the Indenture Trustee directly to the registered Noteholders in accordance with the procedures set forth in the Indenture and the related Indenture Supplement. Payments of interest, principal and Additional Amounts (if any) will be made on each Payment Date (or Early Amortization Payment Date, if applicable) to the Noteholders in whose names the Notes were registered as of the preceding Record Date. Payments to Noteholders will be made by check sent by first-class mail to the address of such Noteholder appearing on the Register as of the relevant Record Date or, if transfer instructions have been provided to the Indenture Trustee, by electronic funds transfer in immediately available funds to an account maintained by such Noteholder with a bank having electronic funds transfer capability in accordance with the most recent transfer instructions provided by (or on behalf of) such Noteholder to the Indenture Trustee no less than five Business Days prior to the relevant Record Date; *provided* that the final payment in respect of any Note will be made only against surrender of such Note at the corporate trust office of the Indenture Trustee (or such other location as the Indenture Trustee will notify the applicable Noteholder) unless otherwise provided in the applicable Indenture Supplement. Unless such designation for payment by electronic funds transfer is revoked, any such designation made by a Noteholder with respect to a Note will remain in effect with respect to any future payments in respect of such Note. The SPC will pay any wiring or similar administrative costs that are imposed in connection with making payments by wire transfer.

On or before January 31 of each year, the Indenture Trustee will furnish to each person who at any time during the preceding calendar year was a Noteholder a statement prepared by the Indenture Trustee containing such

customary information as the Indenture Trustee deems necessary or desirable to enable the Noteholders (and the Note Owners) to prepare their tax returns.

Subject to the terms of the Indenture, claims against funds held at the Indenture Trustee in respect of the Offered Notes will become void unless made within three years (or such lesser time as the Indenture Trustee shall be satisfied, after notice from the SPC, that is one month before the escheat period provided under applicable law) from the relevant due date in respect thereof. Thereafter, the applicable Noteholders may look only to the SPC for any payment that they may be entitled to collect.

#### *Notices; Meetings of Noteholders*

All notices to Noteholders will be deemed to have been duly given: (a) upon the mailing of such notices by first-class mail to such Noteholders at their registered addresses as recorded in the Register maintained by the Indenture Trustee and (b) in addition, so long as the Offered Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, any notice or communication to the applicable Noteholders will be delivered by either: (i) publication of such notice in a leading daily newspaper having general circulation in Ireland or (ii) sending an electronic notice to the Irish Stock Exchange for release on its Regulatory News Network (or successor), in each case not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed in the Indenture (or the Series 2006-A Indenture Supplement) for the giving of such notice or communication.

Meetings of Noteholders of a Series may be held at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture and the applicable Indenture Supplement to be made, given or taken by such Noteholders. The Indenture Trustee may at any time call a meeting of such Noteholders for any such purpose and the SPC or Noteholders holding at least 10% of the aggregate Note Balance of the applicable Series can, by written request setting forth in reasonable detail the action proposed to be taken at such meeting, require the Indenture Trustee to call a meeting for such a purpose.

Notwithstanding anything in the Indenture or in the other Transaction Documents to the contrary, should any Notes (or beneficial interests therein) be owned by the SPC, Alfa-Bank, the Guarantor or any of their respective affiliates, then any vote participated in by Investors in respect of the applicable Series (including in determining any Controlling Party or Majority Controlling Party) will exclude from such voting the vote relating to (and principal amount of) the Notes or Certificates (or beneficial interests therein) of any such person in the manner described in “Summary of Terms—Controlling Party” above. In addition, while any Senior Series remains outstanding, any vote participated in by the Controlling Party(ies) of the Senior Series and/or Investors therein will exclude from such voting the vote relating to (and principal amount of) any Subordinated Series (and any Certificates relating thereto).

#### **Indenture**

On the Series 2006-A Borrowing Date, the SPC and the Indenture Trustee will enter into the Indenture and the Indenture Supplement for the Offered Notes pursuant to which the SPC will issue the Offered Notes. The Notes (including the Offered Notes) will be secured by the Note Collateral, which consists primarily of the SPC’s pledge over the Diversified Payment Rights and Collections thereon.

#### *Note Collateral*

On the Closing Date, the SPC will grant to the Indenture Trustee for the benefit of the Note Secured Parties a security interest in all of the Note Collateral (including its pledge over the Diversified Payment Rights, the Collections and the other items of Loan Collateral) to secure its obligations to the Note Secured Parties under the Transaction Documents. Payments on the Offered Notes will be funded from payments under the Series 2006-A Loan (including the deemed payments thereon made from the Collections and (if funded) from the Deposit Account and payments of any Default Payment or Prepayment Amount therefor).

### *Representations and Warranties of the SPC*

On the Closing Date, and on each Borrowing Date (including the Series 2006-A Borrowing Date), the SPC will make certain representations and warranties in the Indenture as set forth in “Summary of Terms—Representations and Warranties of the SPC” above.

### *Application of Collections*

Each Designated Depository Bank pursuant to an Account Agreement (described in “—Account Agreements” below) will transfer all amounts received in its Collection Accounts in the manner described in “Summary of Terms—Concentration Accounts” above.

Pending application in accordance with the Indenture and the Indenture Supplements, amounts in the Concentration Accounts and the Loan Payment Accounts will be invested by the Indenture Trustee in Eligible Investments that are both denominated and payable in the applicable currency; *provided* that, in the absence of any such investment instruction, all such amounts will be invested by the Indenture Trustee in a previously specified Eligible Investment.

### *Certain Covenants of the SPC*

Pursuant to the Indenture, the SPC will make, among other covenants, certain covenants relating to the conduct of its business, including those set forth in “Summary of Terms—Covenants of the SPC” above.

### *Issuance of Additional Series by the SPC*

Alfa-Bank may from time to time request the SPC to make an Additional Loan under the Loan Agreement, which Additional Loan the SPC would fund by its issuance (either to a trust or one or more other Noteholder(s)) of an additional Senior Series or Subordinated Series (as applicable) provided that certain financial and other conditions are fulfilled as set forth in “Summary of Terms—Issuance of Additional Series by the SPC” above.

### *Issuance of Additional Notes of the Same Series as Notes of an Existing Series*

Alfa-Bank may from time to time request the SPC to increase an existing Loan, which increase would be funded by the SPC’s issuance of additional Notes of the corresponding Series provided that certain conditions are fulfilled as set forth in “Summary of Terms—Issuance of Additional Notes of the Same Series as the Offered Notes” above unless provided otherwise in the applicable Loan Supplement.

### *Amendments to the Notes, the Indenture and the Indenture Supplements*

The SPC and the Indenture Trustee may (subject to certain limited exceptions in which such consent is not required, only with the written consent of the Majority Controlling Parties and Alfa-Bank), from time to time and at any time, enter into a written Indenture Supplement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture, any Indenture Supplement or any Note (or Series of Notes) or of modifying in any manner the rights of the Note Secured Parties in respect thereof; *provided* that, for any such amendments of any Note (or Series of Notes) or the Indenture Supplement relating thereto, only the consent of the applicable Controlling Party, the applicable Enhancer (if so specified in the applicable Indenture Supplement), the SPC, the Indenture Trustee and Alfa-Bank will be required; *and provided further* that no Indenture Supplement that changes or otherwise modifies the Indenture may adversely affect any Note (or Series of Notes) or any related Enhancer without the consent of the Controlling Party of such Series.

Notwithstanding the foregoing, no such amendment to the Indenture, any Indenture Supplement or any Note (or Series of Notes) may, without the consent of every Noteholder and Enhancer of each Series adversely affected thereby:

(a) reduce in any manner the amount of, or delay the timing of or alter the priority of, any payments that are required to be made on any Note (or Series of Notes), or change any date of payment on any Note (or Series of Notes), or change the place of payment where, or the coin or currency in which, any Note (or Series of Notes) is payable, or impair the Indenture Trustee's right to institute suit for the enforcement of any such payment,

(b) permit the disposition of the Note Collateral or any portion thereof,

(c) reduce the percentage of the aggregate Series Balance of such Series that is required for any such amendment or reduce such percentage required for any waiver or instruction provided for in the Indenture or Indenture Supplement,

(d) modify specified provisions of the Indenture, or

(e) materially increase the discretionary authority of the Indenture Trustee.

#### *The Indenture Trustee*

JPMorgan Chase Bank, N.A., a national banking association, will be the Indenture Trustee under the Indenture. JPMorgan Chase Bank, N.A.'s corporate trust office is at 4 New York Plaza, New York, New York 10004. The SPC, Alfa-Bank and their respective affiliates may from time to time enter into normal banking and trustee relationships with the Indenture Trustee and its affiliates; *provided* that, except in a fiduciary capacity, the Indenture Trustee may not hold Notes (or beneficial interests therein) in its own name. In addition, the Indenture Trustee may appoint co- or separate trustees to the extent required to meet the legal requirements of a particular jurisdiction.

The Indenture Trustee may resign at any time and the Controlling Parties of Series corresponding to Loans representing more than 50% of the sum of the aggregate Loan Balances of all Loans may, subject to “—Offered Notes and the Related Indenture Supplement—Notices; Meetings of Noteholders” above, remove the Indenture Trustee by notice thereof in writing, in either of which events the SPC will be obligated to appoint a successor Indenture Trustee. The SPC or any Controlling Party may also remove the Indenture Trustee if the Indenture Trustee ceases to be eligible to continue as such under the Indenture or if the Indenture Trustee becomes insolvent. Any such resignation or removal will not become effective until acceptance of appointment by an eligible successor Indenture Trustee.

#### **Loan Agreement**

In the Loan Agreement, the SPC will agree to make Loans to Alfa-Bank secured by Alfa-Bank's pledge of the Loan Collateral (including the Diversified Payment Rights) (each thereafter generated Diversified Payment Right being subject to the pledge to the SPC automatically upon its generation) through and including the Pledge Termination Date. The pledge of the Loan Collateral will be effected by the execution and delivery by Alfa-Bank of the Pledge Agreement on the Closing Date. For the purpose of clarification, the pledged Diversified Payment Rights include those relating to all Dollar- and Euro-denominated Payment Orders received (or to be received) by Alfa-Bank from and after the Closing Date, including any other currency(ies) that replace(s) any such currencies in any relevant jurisdiction(s) (*e.g.*, “New Euro” in replacement of Euro or “New Dollars” in the United States in replacement of Dollars, in each case including any further replacements of any such replacement currencies).

#### *The Loans*

The gross proceeds of the Offered Notes will be used by the SPC to make an initial loan to Alfa-Bank on the Closing Date (*i.e.*, the Series 2006-A Loan). In addition, should the SPC issue any additional Series, the gross proceeds of such issuance also will be lent by the SPC to Alfa-Bank as Additional Loans secured by the pledge of the Diversified Payment Rights and the other Loan Collateral. Each Loan will be further documented by a Loan Supplement therefor.

### *Repayment of Loans*

Except upon the occurrence of a Default, the principal of each Loan will be repaid by Alfa-Bank on each Payment Date in an amount equal to the Quarterly Amortization Amount for such Loan for such Payment Date. The final such payment will be required to be made on the Maturity Date for such Loan.

Upon the occurrence of an Early Amortization Period with respect to any Loan, the outstanding amount of such Loan will immediately and automatically be reduced in an amount equivalent to the amount of the corresponding Series prepaid as a result of such Early Amortization Period pursuant to the Indenture.

Upon the occurrence of a Default with respect to any Loan that results in the requirement for the payment by Alfa-Bank of the Default Payment with respect to such Loan, the entire amount of such Loan outstanding shall become due and payable by Alfa-Bank. Alfa-Bank's payment in full of the Default Payment for any Loan to the Indenture Trustee (for the benefit of the SPC) will constitute Alfa-Bank's repayment of such Loan.

### *Interest and Additional Interest*

Each Loan will bear interest in the manner set forth in the Loan Agreement and the applicable Loan Supplement, including Interest at the applicable Loan Interest Rate, payable to the SPC in the manner described in "Summary of Terms—Interest" above. In addition to such Interest, interest payable by Alfa-Bank with respect to each Loan will include Additional Interest payable to the SPC in the manner set forth in "Summary of Terms—Additional Interest" above.

### *Early Amortization Period*

During an Early Amortization Period with respect to a Loan, Collections allocable to the applicable Loan Payment Account will, on each Early Amortization Payment Date, be applied as described in "Summary of Terms—Distribution of Amounts in the Loan Payment Accounts" above.

Upon the occurrence of an Early Amortization Event for any Loan, an Early Amortization Period with respect to such Loan may commence in the manner provided in "Summary of Terms—Early Amortization Events" above.

### *Defaults*

Upon the occurrence of any Default with respect to any Loan, such Loan will be subject to mandatory prepayment, in whole but not in part, by Alfa-Bank on a Prepayment Date in the manner provided in "Summary of Terms—Defaults" above. Any such prepayment on a Loan would result in a similar prepayment by the SPC of the corresponding Series.

In addition, so long as the Offered Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, the SPC will provide notice to the applicable Noteholders and the Irish Stock Exchange of the occurrence of a Default with respect to the Series 2006-A Loan within five Business Days of becoming aware thereof. See "Summary of Terms—Listing" above.

### *Acknowledgement of Pledge of Diversified Payment Rights*

In the Loan Agreement, Alfa-Bank will acknowledge the SPC's pledge to the Indenture Trustee under the Indenture of all of its rights under Alfa-Bank's pledge to the SPC of the Loan Collateral (including the Diversified Payment Rights then existing or thereafter created through and including the Pledge Termination Date) pursuant to the Pledge Agreement.



### *Representations and Warranties of Alfa-Bank and the Guarantor*

On the Closing Date and on each Borrowing Date (including the Series 2006-A Borrowing Date), Alfa-Bank and the Guarantor each will make certain representations and warranties in the Loan Agreement as set forth in “Summary of Terms—Representations and Warranties of Alfa-Bank” and “Summary of Terms—Representations and Warranties of the Guarantor” above.

### *Covenants of Alfa-Bank and the Guarantor*

Alfa-Bank and the Guarantor each will agree in the Loan Agreement (among other things) to certain covenants set forth in “Summary of Terms—Covenants of Alfa-Bank” and “Summary of Terms—Covenants of the Guarantor” above.

### *The Guaranty*

As provided in the Loan Agreement, the Guarantor, as primary obligor and not merely as surety, will agree to unconditionally guarantee the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of Alfa-Bank’s payment obligations (howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, whenever existing, or due or to become due) under the Transaction Documents. The obligations of the Guarantor under the Loan Agreement will constitute a guaranty of payment and not merely a guaranty of collection and such obligations will be unconditional and absolute. The Guarantor’s obligations will remain in full force and effect until all of Alfa-Bank’s payment obligations under the Transaction Documents are paid in full and all of the Transaction Documents have been terminated.

### *Reports*

Pursuant to the Loan Agreement, Alfa-Bank will agree to deliver (or cause to be delivered) to the SPC and the Indenture Trustee copies of the Servicing Reports as set forth in “Summary of Terms—Covenants of Alfa-Bank” above. Pursuant to the Indenture, the Indenture Trustee will deliver a copy of each Servicing Report to the Noteholders and each Rating Agency.

### *Withholding Taxes*

Pursuant to the Loan Agreement, Alfa-Bank will: (a) with respect to any payments by it (or the Guarantor on its behalf) under the Loan Agreement or a Loan Supplement for which any Taxes are required to be deducted or withheld, increase such payments to such amount as may be necessary to ensure that the recipient of such payment shall receive the full amount otherwise payable in respect of such payments had no such Taxes (including any Taxes payable in respect of such increased amounts) been required to be so deducted or withheld, and (b) pay to the Indenture Trustee (for the benefit of the SPC) an amount equal to the Additional Amounts payable by the SPC promptly (and, in any event, within two Business Days) after its receipt of an invoice therefor from (or on behalf of) the SPC.

Upon payment and to the extent available, Alfa-Bank will provide the SPC and Indenture Trustee with documentation reasonably satisfactory to the SPC evidencing the payment of Taxes in respect of which Alfa-Bank has paid any amounts pursuant to the previous paragraph. Copies of such documentation will be made available to the applicable recipients upon written request therefor to the SPC.

As of the Series 2006-A Borrowing Date, the payment by Alfa-Bank (or the Guarantor on its behalf) of Interest, Additional Interest and principal on the Series 2006-A Loan will not be subject to taxation in Russia (subject to certain requirements stated below) or the British Virgin Islands, and no withholding for Russian or British Virgin Islands taxes will be required on any payments by Alfa-Bank (or the Guarantor on its behalf) under the Transaction Documents.

The interest payments on the Series 2006-A Loan payable by Alfa-Bank are exempt from Russian withholding income tax subject to timely (before the first payment of interest in each calendar year) submission of

tax residence confirmation by the SPC and to the extent the interest is within the limitations imposed by the Russian thin capitalization rules. See “Taxation—Certain Russian Tax Considerations.”

For Luxembourg tax implications in respect of the payment of Interest, Additional Interest and principal on the Series 2006-A Loan, please see “Taxation—Certain Luxembourg Tax Considerations.”

Alfa-Bank’s obligation to pay such amounts will survive the Pledge Termination Date.

### **Pledge Agreement**

Pursuant to the Pledge Agreement, Alfa-Bank will pledge to the SPC all of its current and future Diversified Payment Rights and the other Loan Collateral as collateral for the Loans (including the Series 2006-A Loan made by the SPC with the gross proceeds of the offering of the Offered Notes) made under the Loan Agreement and the Loan Supplements. The pledge over any property rights forming the Loan Collateral will become effective immediately upon Alfa-Bank becoming the legal owner of such rights in accordance with applicable law. While the SPC will have certain remedies as set forth in the Pledge Agreement and in the Loan Agreement upon the occurrence of an Early Amortization Event, the SPC’s rights to exercise such remedies will be granted to the Indenture Trustee (on behalf of the Note Secured Parties) pursuant to the Indenture.

### **Account Agreements**

Alfa-Bank will agree in the Loan Agreement to sign Account Agreements with specified Depository Banks as provided in clause (n) of “Summary of Terms—Covenants of Alfa-Bank” above. Pursuant to the corresponding Account Agreement, each Designated Depository Bank is directed to: (a) convert Alfa-Bank’s (including, in certain circumstances, certain of its branches’) existing *nostro* account(s) maintained with it into one or more Collection Account(s), into which account such Designated Depository Bank is expected to deposit all Collections received (or paid) by it in respect of any Diversified Payment Rights, and (b) establish and/or maintain a new *nostro* account for Alfa-Bank. The Indenture Trustee will control each Collection Account in the manner described in the applicable Account Agreement. Under certain circumstances described in “Summary of Terms—Collection Accounts” above, an Account Agreement may provide for an alternative account structure. Transfers from each Collection Account to Alfa-Bank’s new *nostro* account at the applicable Designated Depository Bank or to the applicable Concentration Account, as the case may be, are described in “Summary of Terms—Concentration Accounts” above.

## CLEARING AND SETTLEMENT

The information set out below in connection with DTC, Euroclear and Clearstream (together, the “*Clearing Systems*”) is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that Alfa-Bank believes to be reliable, but none of the SPC, Alfa-Bank, the Indenture Trustee and the Initial Purchasers takes any responsibility for the accuracy of the information. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the applicability of the rules, regulations and procedures of the relevant Clearing System. None of the SPC, Alfa-Bank, the Indenture Trustee or the Initial Purchasers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interests in, the Offered Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### The Clearing Systems

#### *DTC*

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system also is available to indirect DTC participants such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Transfers of ownership or other interests in Offered Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Offered Notes. DTC’s records reflect only the identity of the DTC participants to whose accounts the Offered Notes are credited, which may not be the beneficial owners. DTC participants are responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Offered Notes to their customers.

So long as DTC, or its nominee, is a registered owner of the Global Notes, payments of principal, interest, Additional Amounts (if any) and any other payments on the Offered Notes will be made in immediately available funds to DTC. DTC’s practice is to credit DTC participants’ accounts on the applicable payment date in accordance with their respective holdings shown on the depository’s records, unless DTC has reason to believe that it will not receive payment on that date. Payments by DTC participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of the DTC participants and not of DTC, the Indenture Trustee or the SPC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the SPC (including through the Indenture Trustee). Disbursement of payments to DTC participants will be DTC’s responsibility, and disbursements of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

The ability of an owner of a beneficial interest in the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest because DTC can act only on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and certain banks. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Global Notes to such persons may be limited. In addition, beneficial owners of Offered Notes through the DTC system will receive distributions of principal, interest, Additional Amounts (if any) and any other payments on the Global Notes only through DTC participants.

Ownership of interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, the DTC participants and the indirect DTC participants.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

#### *Clearstream*

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for Clearstream participants (as defined below) and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of securities. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the Initial Purchaser (“*Clearstream participants*”). Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

The ability of an owner of a beneficial interest in the Regulation S Note held by Clearstream (through DTC) to pledge such interest to persons or entities that do not participate in the Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream can act only on behalf of Clearstream participants, who in turn act on behalf of indirect Clearstream participants and certain banks.

Distributions with respect to the Offered Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

#### *Euroclear*

Euroclear was created as a cooperative in 1968 to hold securities for Euroclear participants (as defined below) and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. All operations are conducted by the Euroclear Bank, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Bank, not the cooperative. The cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchaser (“*Euroclear participants*”). Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with Euroclear participants, either directly or indirectly.

Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “*Euroclear Terms and Conditions*”). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payment with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear Bank acts under the Euroclear Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

The ability of an owner of a beneficial interest in the Regulation S Note held by Euroclear (through DTC) to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear participants, who in turn act on behalf of indirect Euroclear participants and certain banks.

Distributions with respect to the Offered Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Bank and by Euroclear.

### **DTC, Euroclear and Clearance Arrangements**

So long as DTC is the registered holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Offered Notes represented by such Global Notes for all purposes under the Offered Notes and the other Transaction Documents. Payments of principal, interest, Additional Amounts (if any) and any other payments in respect of the Global Notes will be made to DTC or such nominee, as the case may be, as registered holder thereof. None of the SPC, Alfa-Bank, the Indenture Trustee, the Initial Purchasers and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Holders of book-entry interests in the Global Notes for the Offered Notes will receive, to the extent received by DTC, all distributions of principal, interest, Additional Amounts (if any) and any other payments with respect to the Global Notes in the applicable currency. Distributions by DTC will be subject to relevant United States tax laws and regulations. Distributions of principal, interest, Additional Amounts (if any) and any other payments with respect to the Regulation S Note will be credited in the applicable currency, to the extent received by Euroclear or Clearstream from DTC (as participants in DTC with respect to the Regulation S Note) from DTC, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

The holdings of book-entry interests in the Global Notes through DTC, Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution.

### **Initial Settlement**

Investors holding beneficial interests in the Offered Notes through DTC (other than through accounts at Euroclear or Clearstream) will follow the settlement practices applicable to U.S. corporate debt obligations. The securities custody accounts of such Investors will be credited with their holdings against payment in same-day funds on the settlement date.

Investors holding beneficial interests in the Offered Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Beneficial interests in the Offered Notes will be credited to the securities custody accounts of Euroclear and Clearstream holders on the settlement date against payment for value on the settlement date.

### **Secondary Market Trading**

It is important to establish at the time of trading of any of the Offered Notes (or beneficial interests therein) where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date because the purchaser's location determines the place of delivery.

*Trading Between DTC Participants*

Secondary market sales of book-entry interests in the Global Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

*Trading Between Euroclear and/or Clearstream Participants*

Secondary market sales of book-entry interests in the Offered Notes held through Euroclear and Clearstream to purchasers of book-entry interests in the Offered Notes through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional eurobonds in same-day funds.

*Trading Between DTC Seller and Euroclear or Clearstream Purchaser*

When book-entry interests in the Rule 144A Note is to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Note to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in the Regulation S Note, the DTC participant must deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12:00 noon (New York City time) on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder. On the settlement date, the Indenture Trustee will: (a) decrease the amount of the Rule 144A Note and (b) increase the amount of the Regulation S Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date back-valued to the settlement date.

*Trading Between Euroclear or Clearstream Seller and DTC Purchaser*

When book-entry interests in the Regulation S Note is to be transferred from the accounts of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Note, the Euroclear or Clearstream participant must send to Euroclear or Clearstream, delivery free of payment, instructions by 7:45 p.m. (Luxembourg/Brussels time, as the case may be) one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to DTC to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear and Clearstream accountholder, as the case may be. On the settlement date, DTC will: (a) reflect such transfer in its records and (b) transmit appropriate instructions to the Indenture Trustee to: (i) decrease the amount of the Regulation S Note and (ii) increase the amount of the Rule 144A Note.

## **CERTAIN LEGAL ASPECTS RELATING TO THE DIVERSIFIED PAYMENT RIGHTS UNDER RUSSIAN, NEW YORK, LUXEMBOURG AND BRITISH VIRGIN ISLANDS LAW**

### **General**

The following is a general discussion of certain Russian, New York, Luxembourg and British Virgin Islands legal aspects relating to the pledge of the Diversified Payment Rights by Alfa-Bank to the SPC and is based upon the advice of Baker & McKenzie – CIS, Limited, Russian counsel to the Initial Purchasers, White & Case LLC, Russian counsel to Alfa-Bank, Mayer, Brown, Rowe & Maw LLP, New York counsel to the Initial Purchasers, Bonn Schmitt Steichen, special Luxembourg counsel, and Harney, Westwood & Riegels, special British Virgin Islands counsel. The discussion is based upon the laws of Russia, New York, Luxembourg and the British Virgin Islands in effect on the date hereof, all of which are subject to change, and does not constitute, and should not be considered, legal advice to the Indenture Trustee or the Investors.

### **Governing Law Clauses**

The parties to the Offered Notes, the Indenture, the Indenture Supplements, the Loan Agreement, the Loan Supplements and the Pledge Agreement have chosen the laws of the State of New York to govern such documents. The Account Agreements are expected to be governed by the laws of the jurisdiction in which the corresponding Collection Account is maintained.

### **Jurisdiction**

Alfa-Bank, the Guarantor and the SPC will submit to the jurisdiction of federal and state courts in the City of New York in connection with the transactions described herein. Each of Alfa-Bank and the Guarantor will appoint Alfa Capital Markets (USA) Inc., with offices at the date hereof at 540 Madison Avenue, 30th Floor, New York, New York 10022, and the SPC will appoint National Registered Agents, Inc., with offices at the date hereof at 875 Avenue of the Americas, Suite 501, New York, New York 10001, as their authorized agent for the service of process in New York. In addition, process may be served in any other manner permitted by law.

Judgments against Alfa-Bank and/or the Guarantor obtained in a non-Russian court may be enforced in Russia against it if there is a treaty in effect between the respective foreign jurisdiction and Russia or a federal law providing for reciprocal recognition and enforcement of foreign judgments. There is no such treaty currently in effect between the Russian Federation and the United States of America. The Loan Agreement, the Loan Supplements, the Indenture, the Indenture Supplements and the Pledge Agreement will be governed by the laws of the State of New York and will permit disputes, controversies and causes of action brought by any party thereto against Alfa-Bank to be settled by the arbitration in accordance with the International Arbitration Rules of the American Arbitration Association. The Russian Federation is a party to the New York Convention. Therefore, arbitration awards obtained in the United States in relation to the Transaction Documents would be recognized and enforced against Alfa-Bank in the Russian Federation in accordance with the terms of the New York Convention. See “Enforcement of Judgments and Arbitral Awards and Service of Process.”

Subject to certain customary qualifications and assumptions, Mayer, Brown, Rowe & Maw LLP, special New York counsel to the Initial Purchasers, will opine that the Transaction Documents to which Alfa-Bank, the Guarantor and/or the SPC is/are a party and that are governed by New York law are enforceable against Alfa-Bank, the Guarantor and/or the SPC (as applicable) under New York law.

Subject to certain customary qualifications and assumptions, White & Case LLC, special Russian counsel to Alfa-Bank, will opine that the choice by Alfa-Bank of the law of the State of New York as the governing law of the Transaction Documents to which it is a party is a valid choice of law that should be given effect by Russian courts. For a discussion of the application of the foreign governing law by a Russian court, see “Risk Factors—Risk Factors Related to the Offered Notes—Choice of Law.”

## **Pledge of Diversified Payment Rights**

### *Russian Law*

Russian counsel will opine that, assuming Alfa-Bank was not insolvent on the Closing Date, by executing the Pledge Agreement, Alfa-Bank will have effected a New York law-governed pledge of the Loan Collateral (including the Diversified Payment Rights) to the SPC that should be recognizable under Russian law as an agreement validly governed by the law of the State of New York, U.S.A. Although various arguments could be made that the pledge of the Loan Collateral under the Pledge Agreement should be upheld, the validity, enforceability and effectiveness of the pledge cannot be guaranteed, and it is possible that such pledge will not be upheld, particularly should Alfa-Bank become subject to a temporary administration and/or become insolvent. The opinions of Russian counsel with respect to the foregoing will be subject to certain qualifications and assumptions. Alfa-Bank will represent and warrant in the Loan Agreement that it is not insolvent on the Closing Date. See “—Insolvency of Alfa-Bank” below.

### *United States Law*

Mayer, Brown, Rowe & Maw LLP will opine that, under New York law, the SPC will hold a perfected security interest in Alfa-Bank’s interest in the Diversified Payment Rights and the Collection Accounts at the Designated Depository Banks held in New York and that the Indenture Trustee will hold a perfected security interest in the SPC’s interest therein. Alfa-Bank, by entering into the Loan Agreement, the Pledge Agreement and the Account Agreements and making required filings in the District of Columbia, will have taken all action required under New York and United States federal law to perfect the security interest of the SPC as pledgee of the Diversified Payment Rights and the other Loan Collateral against third parties, and the SPC, by entering into the Indenture and the Account Agreements and making required filings in the District of Columbia, will have taken all action required under New York and United States federal law to perfect the security interest of the Indenture Trustee in the Diversified Payment Rights and the Collection Accounts against third parties. Notwithstanding the above: (a) no such perfection may exist with respect to Collections at banks other than Designated Depository Banks and (b) such security interests will be subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors’ rights generally and to general principles of equity (whether considered in a proceeding in equity or at law), including concepts of commercial reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief. With respect to the Diversified Payment Rights, the opinions of New York counsel with respect to the foregoing will apply to both Alfa-Bank’s right to receive and Alfa-Bank’s right to retain for itself all payments made in connection with Payment Orders. The opinions of Mayer, Brown, Rowe & Maw LLP with respect to the foregoing will be subject to certain customary qualifications and assumptions.

### *Luxembourg Law*

Luxembourg counsel will opine that no further action is required under Luxembourg law to perfect the SPC’s pledge of the Note Collateral to the Indenture Trustee.

### *British Virgin Islands Law*

British Virgin Islands counsel will opine that no further action is required under British Virgin Islands law to effect the Guarantor’s obligations under the Loan Agreement.

### *Diversion*

In the event of an attempted diversion by Alfa-Bank of Collections on the Diversified Payment Rights from the Collection Accounts or otherwise (which diversion would constitute a breach of the Loan Agreement), the Indenture Trustee (in its capacity as pledgee of the SPC’s rights as pledgee under the Pledge Agreement) could seek to recover such sums from Alfa-Bank. As a general rule under New York law, money damages are considered to be an adequate remedy for breach of contract in a transaction involving a determinable amount and, therefore, injunctive relief, such as an order to seize assets or compel the deposit of funds, may not be easily obtained.



However, if it could be established that money damages were not an adequate remedy due to the unlikelihood of collecting a judgment from Alfa-Bank (such as during a period of moratorium or other financial distress), then a New York court would be more likely to determine that the Collections, to the extent they were “identifiable,” could be seized and kept for the benefit of the SPC and the Indenture Trustee pending formal determination as to the rightful possession thereof.

### **Insolvency of Alfa-Bank**

Russian bankruptcy law often differs from comparable law in the United States or Western European countries and is subject to varying interpretations. There is little precedent to predict how claims against Alfa-Bank under the Transaction Documents would be resolved in the case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Offered Notes.

Bankruptcy of any Russian entity is governed by the Bankruptcy Law. In addition to the Bankruptcy Law, the bankruptcy of banks, such as Alfa-Bank, is regulated by the Bank Insolvency Law.

Foreign creditors participate in the distribution of the assets of a bankrupt Russian entity in the same way as Russian creditors. Foreign currency claims against corporate entities are converted into Russian Rubles at the Central Bank’s exchange rate in effect on the date of the commencement of the relevant bankruptcy procedure introduced following the date when the relevant claim fell due. Foreign currency claims against banks are recorded in Russian Rubles at the Central Bank’s exchange rate in effect on the date of the revocation of their banking license.

There are four bankruptcy procedures applicable to Russian entities generally: “supervision,” “external management,” “competition management” and “amicable settlement agreement.” Of these, Russian banks, including Alfa-Bank, may be subject only to the “competition management” procedure. “Competition management” (*konkursnoye proizvodstvo*) is a bankruptcy procedure that is introduced for the purpose of satisfying creditors’ claims via distribution from the bankruptcy estate on a proportionate basis after a debtor has been declared bankrupt.

Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the Central Bank of its banking license. Following revocation of the bank’s license, *inter alia*, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has “signs” of insolvency described in the Bank Insolvency Law (*i.e.*, the overall amount of the undisputed obligations and/or obligations upheld by a court decision is not less than 1,000 times the statutory minimum wage amount (currently 100,000 Russian Rubles or approximately US\$3,584) and the bank has failed to perform such obligations within fourteen days after their due date, or, after the revocation of the bank’s license, its total assets do not cover all of its outstanding obligations).

In the event of Alfa-Bank’s bankruptcy, the claims of its creditors (including the claims of the SPC and/or the Indenture Trustee under the Transaction Documents) to recover any amounts from Alfa-Bank may not be satisfied outside the bankruptcy proceedings. The recovering parties would be subject to specific requirements of Russian bankruptcy legislation with respect to presenting and confirming their claims. Should any such event occur, then Alfa-Bank’s obligations under the Transaction Documents would be so affected.

Prior to the institution of bankruptcy proceedings, the Central Bank, on its own initiative or upon the application of the authorized body of the bank, has the right to take action aimed at preventing the bank’s bankruptcy. Such action may include: (a) financial rehabilitation of the bank (*e.g.*, financial support of the bank by its founders (shareholders) and third parties, changing the structure of assets and liabilities, changing the organizational structure of the bank, etc.), (b) appointment of a temporary administration to the bank or (c) reorganization of the bank in the form of its merger or accession.

Temporary administration is aimed at financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the Central Bank in certain negative financial circumstances listed in Article 17 of the Bank Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and the bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficiency of funds in its correspondent accounts. The announcement of the appointment of a temporary administration is required to be published by the Central Bank within ten days following such appointment.

Introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of the bank. The temporary administration can manage the bank and is further entitled to request that the Central Bank impose a three month moratorium on all payments of the bank to counterparties and creditors. The temporary administration may also refuse performance of agreements or challenge transactions of the bank under the Bank Insolvency Law.

Under Russian law, any obligation that Alfa-Bank may incur under the Transaction Documents would in an Alfa-Bank bankruptcy be subordinated to the following obligations:

- creditors claiming for compensation for personal injury or death, employee salaries, severance and similar payments,
- individual creditors (*i.e.*, natural persons who are depositors) of the bank,
- the Agency for Insurance of Deposits in relation to claims of individual depositors (*i.e.*, natural persons who are depositors of the bank) that have been transferred to the Agency in accordance with the Deposits Insurance Law, and
- the Central Bank in relation to claims that have been transferred to it in accordance with federal laws as result of payments by the Central Bank of the deposits of natural persons who are depositors of a bank that is not a participant of the mandatory Deposit Insurance System and that was declared bankrupt (*it being understood* that Alfa-Bank is a participant of the mandatory Deposit Insurance System and, unless such participation is terminated, this clause is not applicable).

The claims under "current" obligations of the bank also enjoy priority in relation to all other creditors' claims in an Alfa-Bank bankruptcy, including:

- claims for "repayment of indebtedness" for services and works required for the continuity of functioning of the bank that arose before the revocation of the banking license of such bank (within the estimate approved by the Central Bank),
- claims under monetary obligations the grounds for which arose after the revocation of the banking license but before the termination of the competition management procedure (including, but not limited to, payment of salaries, payment of consideration to the bankruptcy manager, court expenses),
- claims to make mandatory payments for the period from the date of revocation of the banking license but before the commencement of the competition management procedure, and
- claims under the obligation to withhold relevant amounts from employee salaries.

In the event of Alfa-Bank's insolvency, this subordination may substantially decrease the amounts available for payment of its obligations under the Transaction Documents (and hence the amount available to the SPC for payments of its obligations on the Offered Notes).

Furthermore, under the Bankruptcy Law, pledged assets are separated from the other assets of an insolvent entity, and claims of creditors secured by pledges are settled with the money received from the sale of pledged assets. Claims of creditors secured by pledged assets will be subordinated to the following obligations: (a) personal injury and “moral harm” obligations and (b) severance pay, employment-related obligations and copyright royalty obligations. Claims of creditors secured by pledged assets remaining unsatisfied upon the sale of the pledged assets would be ranked as claims of unsecured creditors.

Russian law is not clear on whether a foreign law-governed security interest (such as that created under New York law in the Pledge Agreement) would be treated as a pledge in the bankruptcy proceedings of Alfa-Bank. It may be argued that to be deemed a pledge for the purpose of such proceedings, the security interest should comply with all Russian law requirements for a pledge. Thus, there is a possibility that the claims of the SPC (and the Indenture Trustee, as appropriate) would be deemed to be unsecured claims in Russian bankruptcy proceedings. Alfa-Bank has been advised by Russian counsel that during the term of appointment of the temporary administrator or liquidation of a Russian bank in bankruptcy proceedings, the temporary administrator appointed by the Central Bank or a bankruptcy manager (liquidator) may unilaterally refuse, on behalf of the bank, to perform the bank’s transactions that were not performed by the parties (in full or in part) if: (a) the execution of such transactions may result in losses for the debtor compared with analogous transactions or (b) in relation to rehabilitation only, with the goal of preventing the bankruptcy of the bank and restoring its solvency. A refusal to perform such a transaction results in a termination of the relevant agreement. It is not clear whether a temporary administrator or a bankruptcy manager of a Russian bank may refuse to perform an agreement creating a pledge of such bank’s property. However, it may be argued that by enacting these provisions the Russian legislature intended to excuse the refusal to perform the debtor’s current and future obligations that arise under executory contracts and prevent restoration of the debtor’s solvency (or cause exceptional losses), rather than to unwind the parts of transactions that have been performed by the debtor before such refusal to continue performance becomes effective (and, in particular, to terminate pledges that were created as encumbrances of the debtor’s property before such refusal).

Under the Bank Insolvency Law, various grounds exist to invalidate transactions to which a Russian bank is a party when the bank in question is subject to Russian bankruptcy proceedings (including temporary administration). The Bank Insolvency Law provides that the temporary administration appointed by the Central Bank or a creditor of a Russian bank may seek to invalidate past transactions of the bank if these transactions:

- (a) were concluded in violation of Russian federal law - under Russian conflict-of-law rules the grounds for invalidation of a transaction would be determined in accordance with the law governing such transaction. Consequently the laws of the State of New York would be applied to determine the validity of the Pledge Agreement and the other Transaction Documents, as applicable (which would not overcome the application of “mandatory (imperative) provisions” of Russian law that generally include bankruptcy rules (see “Risk Factors—Risk Factors Relating to the Offered Notes—Choice of Law” above), or
- (b) were concluded within three years prior to the appointment of the temporary administration of the bank, and in which the terms are significantly worse for the bank than those for analogous transactions.

Furthermore, it is held within the Russian legal community that the general grounds for invalidation of transactions set forth in the Insolvency Law should equally apply to transactions entered into by banks. Under the Insolvency Law a transaction may also be invalidated upon a claim of the bankruptcy trustee if: (a) the transaction is aimed at preferential satisfaction of certain creditors; *provided* that the transaction was concluded not more than six months prior to the filing of the bankruptcy application to the court, (b) if it is an interested party transaction for the purposes of the Insolvency Law that results (or may result) in losses for the credit organization or its creditors or (c) the transaction is connected with the apportionment of a participatory share in the credit organization’s assets to its founder or participant.

## Cancellation of Banking License

Grounds for revocation of a banking license are set out in the Federal Law “On Banks and Banking Activities” No. 395-1, dated 2 December 1990 (the “*Banking Law*”), which distinguishes between the situations in which the Central Bank *may* and *must* revoke the license.

Revocation of a banking license can be completed relatively quickly. Typically, however, the period leading to a revocation will be preceded by the Central Bank issuing prescriptions and orders to a bank, and attempting to apply rehabilitation measures. The revocation of a banking license will cause a termination of bank activities and the SWIFT membership of the bank, and subsequently, no additional Diversified Payment Rights will be generated.

The Central Bank must revoke the banking license within 15 days from the date of receipt from its responsible bodies of substantiated information as to any of the following circumstances:

- (a) the capital adequacy ratio of the bank falls below two percent,
- (b) the net worth (capital) of the bank is below the minimum charter capital requirement established by the Central Bank as of the date of the bank’s registration,
- (c) the bank has not, within the timeframe established in the Bank Insolvency Law, satisfied the demand of the Central Bank to bring its net worth in line with the amount of its charter capital, or
- (d) the bank has failed to discharge creditors’ claims and/or to make tax payments within 14 days from their due date, if the amount of such claims constitutes not less than 1,000 times the minimum monthly wage (currently 100,000 Russian Rubles or approximately US\$3,584).

The Central Bank also may revoke a bank’s banking license under the following circumstances if the Banking Law does not provide for a specific timing of revocation of license in such circumstances:

- (a) it determines that the banking license was granted on the basis of false information,
- (b) the bank delays the start of banking operations for a year or more after the issuance of the license,
- (c) the Central Bank discovers substantially false information in the bank’s periodic reporting,
- (d) the bank delays regular reports for more than 15 days past their due date,
- (e) the bank engages in banking operations not permitted by the relevant banking license (including even a single such operation),
- (f) the bank violates any federal laws and other bank regulations, and *provided* that penalties specified in the federal law “On the Central Bank of the Russian Federation (the Bank of Russia)” of December 2, 1990 (as edited on April 26, 1995) have been applied to the bank in the past year, or if in the past year the bank has committed repeated violations of the provisions of the Law on Combating Money Laundering and the Financing of Terrorism,
- (g) the bank has willfully failed, on multiple occasions, to comply with court orders to return funds to depositors or current account clients,
- (h) by the end of the term of a temporary administration established by the Bank Insolvency Law, the grounds for its appointment have not been removed,

(i) the bank fails to provide to the Central Bank the updated information required for the State Register of Legal Entities (except for information related to received licenses), or

(j) failure to perform by the bank that manages the mortgage coverage of the requirements of the Federal Law on the Mortgage Backed Securities, and applicable implementing legislation, and a failure to rectify the violation within the established timeframe (subject to repetitive application of the administrative sanctions to the bank within one year).

A banking license is revoked only by an order of the Central Bank. The Administrative Department of the Central Bank sends a copy of the Central Bank's decision to all territorial agencies of the Central Bank and the state tax and customs authorities within one day after the order is issued. The respective territorial department of the Central Bank must send the order on revocation of the license to the bank on the same date the order was issued. No later than 15 days after the revocation of the license the bank must return the original of its banking license to the Central Bank.

Upon receipt of the Central Bank's order revoking its license, a bank is required to suspend almost all operations except collecting receivables, making payments to individuals under a limited range of court orders in force prior to the revocation of the banking license, returning securities and other property kept by the bank as a depositary, paying salaries to employees, and making certain other payments vital for its continued operation as a legal entity.

No later than the next day after the revocation of the banking license, the Central Bank should appoint the temporary administration of the bank.

Pursuant to the Banking Law, one of the results of the revocation of a banking license is the liquidation of the bank. Such liquidation may take place at the initiative of the Central Bank under the Banking Law ("forced liquidation"). Alternatively, the bank could be declared bankrupt through the procedures established by the Bank Insolvency Law.

The Central Bank is required to file with a Russian arbitrazh court, a state institutional court competent to consider commercial disputes (including bankruptcy cases), a claim for the liquidation of a bank within 30 days after the publication of the announcement on the revocation of its banking license (except for cases when there are grounds for initiation of a bankruptcy proceeding against the bank). Simultaneously, the Central Bank must propose a candidate for the position of a liquidator who must satisfy the qualification requirements for bank bankruptcy managers. The liquidation of a bank that participates in the Deposit Insurance System shall be carried out by the Deposit Insurance Agency.

The arbitrazh court must consider the Central Bank's application and adopt a decision on liquidation of the bank and appointment of the proposed liquidator if there are no grounds for declaring the bank bankrupt. As soon as such decision is adopted, the authority of the former management of the liquidated bank is terminated and the liquidator steps in.

The liquidator must arrange for the publication of the announcement on the bank's liquidation within five days from its appointment. Such announcement must provide for the term of acceptance of creditors' claims to the bank, which may not be less than two months from the date of publication of that announcement.

Within 60 days after the termination of the period for acceptance of creditors' claims, the liquidator must convene a creditors' meeting. The creditors' meeting approves the interim balance of the bank, approves the sale of the bank's property (if not performed through a public auction), and monitors the actions of the liquidator.

The liquidation procedures may last no more than 12 months after the decision on liquidation is rendered by the arbitrazh court, although the arbitrazh court may extend this procedure upon a reasonable petition of the liquidator.

## TAXATION

This is a general summary of certain United States federal, Russian, Luxembourg and British Virgin Islands income tax considerations in connection with an investment in the Offered Notes. This summary does not address all aspects of United States federal, Russian, Luxembourg and British Virgin Islands income tax law and does not discuss any state or local tax considerations. While this summary is considered to be a correct interpretation of existing laws in force on the date of this Offering Circular, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the income tax consequences that may be relevant to an Investor in light of such Investor's particular circumstances or to Investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies. **Prospective Investors are advised to consult their tax advisors with respect to the tax consequences of the purchase, ownership or disposition of the Offered Notes (or beneficial interests therein) as well as any tax consequences that may arise under the laws of any state, municipality or other taxing jurisdiction.**

### Certain U.S. Federal Income Tax Consequences

**NOTICE PURSUANT TO IRS CIRCULAR 230: THIS DISCUSSION IS NOT INTENDED OR WRITTEN BY THE SPC, ALFA-BANK, THEIR RESPECTIVE COUNSEL OR THE U.S. TAX COUNSEL TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THIS DISCUSSION IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING BY THE SPC OF THE OFFERED NOTES. THIS DISCUSSION IS LIMITED TO THE U.S. FEDERAL TAX ISSUES DESCRIBED HEREIN. IT IS POSSIBLE THAT ADDITIONAL ISSUES MAY EXIST THAT COULD AFFECT THE U.S. FEDERAL TAX TREATMENT OF AN INVESTMENT IN THE OFFERED NOTES, OR THAT MATTER THAT IS THE SUBJECT OF THE DESCRIPTION NOTED HEREIN, AND THIS DESCRIPTION DOES NOT CONSIDER OR PROVIDE ANY CONCLUSIONS WITH RESPECT TO ANY SUCH ADDITIONAL ISSUES. EACH TAXPAYER SHOULD SEEK ADVICE BASED UPON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR CONCERNING THE POTENTIAL TAX CONSEQUENCES OF AN INVESTMENT IN THE OFFERED NOTES.**

As noted above, this discussion is based upon United States federal income tax law (including provisions of the Code, existing and proposed Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof available and in effect as of the date hereof, all of which are subject to change (possibly retroactively)). This summary applies only to Offered Notes held as capital assets and does not address special aspects of United States federal income taxation that may be applicable to Investors that are subject to special tax rules, such as insurance companies, Investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, banks, dealers or traders in securities or currencies, Investors that mark their securities to market, Investors that will invest in an Offered Note as part of a position in a "straddle" or as part of a "hedging" or "conversion" transaction or as part of an "integrated transaction" for United States federal income tax purposes, or Investors that have a "functional currency" other than the Dollar. This summary also does not address the possible application of U.S. federal gift or estate taxes. Moreover, except where otherwise indicated, this summary does not address the United States federal income tax treatment of investors that do not invest in the Offered Notes as part of the initial distribution thereof at the initial issue price. This summary assumes compliance with the terms and conditions of the Indenture, the Indenture Supplement and the documents related thereto as in effect on the Series 2006-A Borrowing Date.

For purposes of this summary, a "U.S. Holder" is an Investor who is: (a) a citizen, a green card holder or resident of the United States, (b) a corporation (or other entity treated as a corporation for United States federal income tax purposes) or partnership that is created or organized in or under the laws of the United States or any political subdivision thereof, (c) an estate the income of which is subject to United States federal income taxation regardless of its source or (d) a trust: (i) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (ii) if a United States court can exercise primary supervision over the administration of such trust and one or more United States persons has the authority to control all of the substantial decisions of such trust. A "non-U.S. Holder" is any investor other than a U.S. Holder. If a partnership (including for this purpose any other entity, whether or not organized in or under the laws of the United States or any political subdivision thereof, treated as a partnership for United States federal income tax purposes) holds Offered Notes, the tax treatment of a partner as

beneficial owner of an Offered Note generally will depend upon the status of the partner and the activities of the partnership. A beneficial owner of Offered Notes that is a partnership, and partners in such partnership, should consult their tax advisors about the U.S. federal income tax consequences of purchasing, holding and disposing of the Offered Notes.

#### *Taxation of U.S. Holders*

In the opinion of Mayer, Brown, Rowe & Maw LLP (“*U.S. Tax Counsel*”), the Offered Notes will be characterized as debt for United States federal income tax purposes. The SPC intends to take this position, and the SPC’s characterization will be binding on U.S. Holders. Prospective investors should note that the classification of an instrument as debt or equity is highly factual, and there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that the Offered Notes are equity of the SPC. The gross amount of interest and Additional Amounts (if any) on the Offered Notes (without reduction for withholding taxes, if any) generally will be taxable to a U.S. Holder as ordinary interest income at the time it is paid or accrued in accordance with such holder’s method of accounting for tax purposes. Interest income generally will constitute foreign source income. For U.S. foreign tax credit purposes, interest on the Offered Notes generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income and will constitute “high withholding tax interest” if the interest is subject to withholding at a rate of 5 percent or more. U.S. Holders should note, however, that the “financial services income” and “high withholding tax interest” categories will be eliminated for taxable years beginning after December 31, 2006. Thereafter, the foreign tax credit limitation categories would be limited to “passive category income” and “general category income”. If the IRS or a court were to disagree with the opinion of U.S. Tax Counsel and treat the Offered Notes as equity for U.S. federal income tax purposes, then U.S. Holders of Offered Notes (or beneficial interests therein) would likely be treated as owning an equity interest in a passive foreign investment company (“*PFIC*”) and, accordingly, gains realized on the sale of, and interest paid on, the Offered Notes could be subject to deferred tax charges and other adverse consequences including additional reporting requirements. U.S. Holders should consult their tax advisors about the U.S. federal income tax consequences of investment in the Offered Notes, including the potential application of the *PFIC* rules to them.

There are special rules governing the treatment of interest paid with respect to securities having original issue discount (“*OID*”). If the issue price of a debt instrument is less than the “stated redemption price at maturity” of such debt instrument by more than a *de minimis* amount, a U.S. Holder will be considered to have purchased such debt instrument with *OID*. The “stated redemption price at maturity” is the sum of all payments provided by the debt instrument other than payments of qualified stated interest. If a U.S. Holder acquires a debt instrument with *OID*, then, regardless of such holder’s method of accounting, the holder generally will be required to accrue *OID* on a constant yield basis and include such accruals in gross income. It is not anticipated, however, that the Offered Notes will be issued with *OID*.

If an Offered Note is purchased at a premium, then such premium will be amortized as an offset to interest income (with a corresponding reduction in the U.S. Holder’s basis) under a constant yield method over the term of the Offered Note if the U.S. Holder makes or has made an election under Section 171 of the Code.

Upon the sale, exchange, redemption or retirement of an Offered Note, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized and such U.S. Holder’s adjusted tax basis in the Offered Note (which generally will equal its purchase price), although to the extent that any gain is attributable to accrued but unpaid interest, it will be characterized as ordinary interest income. Gain or loss recognized by a U.S. Holder upon the sale, exchange, redemption or retirement of an Offered Note generally will be U.S. source. The deductibility of capital losses is subject to limitations. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if such U.S. Holder’s holding period for such Notes exceeds one year.

#### *Taxation of Non-U.S. Holders*

Interest and Additional Amounts (if any) paid to a non-U.S. Holder generally will not be subject to United States federal income or withholding tax provided the income is not effectively connected with the conduct by the non-U.S. Holder of a trade or business within the United States.

A non-U.S. Holder generally will not be subject to United States federal income or withholding tax on any gain realized upon the sale, exchange, redemption or retirement of an investment in the Offered Notes unless: (a) such gain constitutes income effectively connected with the conduct by the non-U.S. Holder of a trade or business within the United States or (b) in the case of a non-U.S. Holder that is an individual, if such individual is present in the United States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met.

#### *Information Reporting and Backup Withholding*

Payments of interest, principal or proceeds made within the United States or by a U.S. payor or U.S. middleman from the disposition, exchange, redemption or retirement of an Offered Note may be subject to information reporting or to backup withholding of United States federal income tax if a recipient who is a U.S. Holder (other than certain exempt recipients, including corporations) fails to furnish to the Indenture Trustee a properly completed IRS Form W-9 containing certain identifying information or otherwise establishing an exemption from such backup withholding. Certain penalties also may be imposed upon a recipient required to supply information that fails to do so properly. Any amounts deducted and withheld would be allowed as a credit against such recipient's United States federal income tax liability (if any); *provided* that the required information is provided to the IRS. If withholding results in an overpayment of taxes, a refund may be obtained.

A payment to a non-U.S. Holder made within the United States or by a U.S. payor or U.S. middleman will not be subject to backup withholding if the applicable Noteholder (or Note Owner) has submitted an IRS Form W-8 (or other appropriate form) to the Indenture Trustee, signed under penalties of perjury, identifying the non-U.S. Holder and attesting to its foreign status (or has otherwise established an exemption) and certain other requirements are met. Payments of principal, interest or Additional Amounts, and payments on the sale, exchange or retirement of an Offered Note, to or through a foreign office of a broker, generally will not be subject to backup withholding. Payments to or through the United States office of a broker will be subject to backup withholding of United States federal income tax unless the non-U.S. Holder makes the certification described herein (or has otherwise established an exemption) and certain other requirements are met.

#### **Certain Luxembourg Tax Considerations**

The following is a summary of current Luxembourg tax law as at the date of this Offering Circular relating to certain aspects of the Luxembourg taxation of the Offered Notes. It is not a comprehensive analysis of the tax consequences arising in respect of the Offered Notes. Prospective Investors who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than Luxembourg should seek their own professional advice.

#### *Taxation of the SPC*

From a Luxembourg tax perspective, the SPC will be considered to be a fiscal resident of Luxembourg both for the purposes of Luxembourg domestic tax law and for the purposes of the tax treaties entered into by Luxembourg and therefore should be able to obtain a residency certificate from the Luxembourg tax authorities.

The SPC will be liable for Luxembourg corporate income taxes. The standard applicable rate, including corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*) and solidarity taxes, is 29.63% for the 2006 calendar year. Liability for such corporate taxes extends to the SPC's world-wide profits, including capital gains, subject to the provisions of any relevant double taxation treaty. The taxable income of the SPC is computed by applying the rules of the Luxembourg income tax law of December 4, 1967, as amended (*loi concernant l'impôt sur le revenu*). The SPC further may deduct interest payments made to the Investors in the Offered Notes from its taxable profits.

The SPC will be subject to a net wealth tax (*impôt sur la fortune*) of 0.5% *per annum*.



### *Taxation of the Investors*

*Taxation of Interest – Withholding Tax.* Save for what is stated below, under Luxembourg tax law, there is no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest) on the Offered Notes. There also is no Luxembourg withholding tax payable on payments made upon repayment of the principal or upon redemption of the Offered Notes.

On June 3, 2003, the EU Council of Economic and Finance Ministers adopted a directive on the taxation of interest income from savings (Directive 2003/48/EC) (the “*EU Saving Directive*”). Under the EU Saving Directive, each EU Member State (a “*Member State*”) generally must provide to the tax authorities of another Member State details of interest payments or similar income paid by a Paying Agent within its jurisdiction to a Residual Entity or to or for an individual (the “*Actual Owner*”) resident in the latter Member State, although certain Member States are entitled to apply a withholding tax system during a transitional period. The transitional period commenced July 1, 2005 and will terminate at the end of the first full fiscal year after the EU and certain non-EU states reach an agreement on the exchange of such information. The EU Saving Directive came into effect July 1, 2005.

According to the Luxembourg law of June 21, 2005 that implemented the EU Saving Directive, and certain bilateral agreements entered into by Luxembourg, during the transitional period, a Luxembourg Paying Agent may be required to withhold taxes on interest payments to Residual Entities or to Actual Owners who reside in an EU Member State or relevant dependant and associated territories at a rate of 15% (the rate will increase to 20% on July 1, 2008 and to 35% on July 1, 2011), unless the Actual Owner has opted for the alternative procedure proposed by the Luxembourg Paying Agent (exchange of information or a tax certificate).

For the purpose of the previous two paragraphs, the terms “Paying Agent,” “Interest” and “Actual Owner” shall mean respectively “agent payeur,” “intérêt” and “bénéficiaire économique” as these terms are defined in the Law of June 21, 2005, and “Residual Entity” shall refer to the entities described in article 4.2 of the same law.

Investors should consult their own tax advisers regarding the implications of the EU Saving Directive in their particular circumstances.

Pursuant to a law that became effective on January 1, 2006, Luxembourg introduced a withholding tax of 10% for interest payments made to Luxembourg individual residents by a Luxembourg paying agent (as this term is defined in the law of December 23, 2005). For an Investor in the Offered Notes who is an individual who is a resident of Luxembourg and who acts in the course of the management of his private wealth, the 10% withholding tax is a final flat tax.

*Taxation of Interest – Income Tax.* An Investor in the Offered Notes is subject to the Luxembourg income tax in respect of the interest paid or accrued on the Offered Notes (or beneficial interest therein) only if such Investor: (a) is a resident of Luxembourg for tax purposes and the interest has not been subject to the 10% final withholding tax or (b) has a permanent establishment or a fixed place of business in Luxembourg to which the Offered Notes (or beneficial interests therein) are allocated to serve as part of the business.

An Investor in the Offered Notes who is governed by either the law of July 31, 1929, on pure holding companies; by the laws of March 30, 1998 and December 20, 2002, on investment funds; or by the law of June 15, 2004, on venture capital investment companies, is not subject to any Luxembourg income tax in respect of interest received or accrued on the Offered Notes (or beneficial interests therein).

*Taxation of Capital Gains.* Gains realized by an individual Investor in the Offered Notes who acts in the course of the management of his private wealth and who is a resident of Luxembourg for tax purposes are not subject to the Luxembourg income tax on the sale of the Offered Notes (or beneficial interests therein), unless they are taxed as speculative capital gains. Speculative capital gains realized on the sale of Offered Notes (or beneficial interests therein) within six months of their acquisition will trigger taxation at the full income tax rate.

Gains realized by a corporate Investor in the Offered Notes or by an individual Investor in the Offered Notes acting in the course of the management of a professional or business undertaking, who is a resident of

Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Offered Notes (or beneficial interests therein) are allocated to serve as part of the business, are subject to Luxembourg income taxes on the sale of the Offered Notes (or beneficial interests therein).

Gains realized by a non-resident Investor in the Offered Notes, who does not have a permanent establishment or fixed place of business in Luxembourg to which the Offered Notes (or beneficial interest therein) are allocated to serve as part of the business, are not subject to Luxembourg income taxes on the sale of the Offered Notes (or beneficial interest therein).

Gains realized by an Investor in the Offered Notes who is governed by either the law of July 31, 1929 on pure holding companies or by the laws of March 30, 1988 and December 20, 2002 on investment funds are not subject to any Luxembourg income tax on the sale of the Offered Notes (or beneficial interest therein).

#### *Registration taxes*

The issue, transfer or sale of the Offered Notes (or beneficial interests therein) will not be subject to a Luxembourg registration or stamp duty.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Offered Notes or the performance of the SPC's obligations under the Offered Notes, except that in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Offered Notes, other than the Offered Notes themselves, to an "*autorité constituée*," such court or "*autorité constituée*" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement, not represented under the form of a note (*i.e.*, likely to be traded on a stock exchange), will be subject to an *ad valorem* registration duty of 0.24% calculated on the amounts mentioned therein.

#### *Other taxes*

An Investor in the Offered Notes, who is a resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Offered Notes (or beneficial interest therein) are allocated to serve as part of the business, must take into account the Offered Notes for purposes of Luxembourg wealth tax, except if the Investor is governed by the law of July 31, 1929 on pure holding companies, the laws of March 30, 1988 and December 20, 2002 on investment funds.

Under present Luxembourg tax law, in the case where an Investor in the Offered Notes is a resident for tax purposes of Luxembourg at the time of his death, the Offered Notes (or beneficial interest therein) are included in his taxable estate, because inheritance and gift taxes may be due on a gift or donation of the Offered Notes (or beneficial interest therein) if the gift is recorded in a Luxembourg deed or registered in Luxembourg.

### **Certain Russian Tax Considerations**

The following summary of certain Russian tax matters as in force on the date of this Offering Circular describes the principal tax consequences of an investment in the Offered Notes by a person who is not a resident of Russia and will not hold the Offered Notes in connection with the conduct of a trade or business through a permanent establishment in Russia. This summary does not intend to be a comprehensive description of all of the tax considerations that may be relevant to a decision to make an investment in the Offered Notes. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Russia or (b) applicable to a resident of Russia or with a fixed base or permanent establishment in Russia.

This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Similarly, this summary does not seek to address the availability of double tax treaty relief in respect of the Offered Notes, and prospective investors should note that

there may be practical difficulties involved in claiming such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Offered Notes. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Furthermore, the substantive provisions of Russian tax law applicable to complex financial arrangements may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed financial markets or more developed taxation systems. For instance, among other recent changes to tax legislation effective as of January 1, 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code with respect to securities and other financial instruments as well as changes to provisions governing deductibility of interest. There is no practical experience of implementing these changes and these are not covered by official clarifications. The interpretation and application of tax legislation provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a “non-resident holder” means an individual actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or a legal person or organization in each case not organized under Russian law that holds and disposes of the Offered Notes, other than through its permanent establishment in Russia.

A “resident holder” means any Investor in the Offered Notes not qualifying as a non-resident holder.

#### *Non – Resident Holders*

A non-resident holder will not be subject to any Russian taxes on receipt from the SPC of amounts payable in respect of principal, premium or interest on the Offered Notes.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realized on redemption, sale or other disposition of the Offered Notes outside Russia provided that the proceeds from such disposition are not received from a source within Russia.

A non-resident holder who is a legal person or organization generally should not be subject to withholding tax on any gain realized on the sale or on the disposition of the Offered Notes even if proceeds are received from a source within Russia, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at a rate of 20%, subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. Non-resident holders that are legal persons and organizations should contact their own tax advisers with respect to the details and risk level of this possibility.

If the Offered Notes are disposed of in Russia by a non-resident holder who is an individual for Russian personal income tax purposes, the proceeds from such disposition likely are to be regarded as income received from a Russian source. If proceeds from a disposal of the Offered Notes are received from a Russian source, a non-resident holder who is an individual generally will be subject to taxation at the rate of 30%, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction subject to documentary support that confirms the purchase price of the Offered Notes and in respect of accrued interest. Taxation may be withheld at the source of payment or, if taxation is not withheld, then a non-resident holder who is an individual is liable to file tax returns in Russia and pay the personal income tax. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of proceeds from a source within Russia in respect of a disposition of the Offered Notes.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Offered Notes and/or the currency of sale and Russian Rubles.

When proceeds from the disposition of the Offered Notes are received from a Russian source, in order for the non-resident holder, whether an individual, legal person or organization, to enjoy the benefits of an applicable

double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty under which benefits are claimed.

Currently, a non-resident holder, other than an individual, would need to provide to the legal entity that has an obligation to withhold income tax from a Russian income source with a certificate of tax residence issued by (or on behalf of) a competent authority of the relevant treaty country. This certificate should be legalized through an apostille by competent authority. A notarized Russian translation of the certificate also would be required.

In order to claim the exemption or reduction, a non-resident holder who is an individual needs to provide the Russian tax authorities with an official confirmation of residence in a treaty country subject to similar requirements for documentation provided for a legal person or organization specified above. In addition, an individual may be required to provide appropriate documentary proof of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, in practice, non-resident individuals may be unable to obtain advance relief from withholding tax on receipt of proceeds from a source within Russia.

Although beneficial ownership is a concept that is not defined by Russian tax legislation, it is likely that the requirement to provide confirmation of residence as referred to in the preceding paragraph relates to the ultimate investors rather than to any brokers or other organization that hold the investments on behalf of the ultimate investors. This process therefore may cause such brokers or other organization to provide information related to the identity and residence of the ultimate investors in the format required by Russian tax authorities. Such information may vary depending upon the nature of services provided to the ultimate investors by a holder of the Offered Notes. If the ultimate investors enter into a custodial agreement and the custodian is registered as a nominee holder for the Offered Notes, the right of the ultimate investor to receive income from the Offered Notes may be supported by: (a) a custodial agreement between the custodian and the ultimate investor or (b) a custodial account statement according to which the ultimate investor owned a certain number of the Offered Notes on a definite date. Furthermore, custodial agreements and custodial account statements are required to be notarized and apostilled. In addition, standard documentation will be required in order for the ultimate investor to support its residence, as described above.

The situation described in the previous paragraph in practice increases the risk of the application of a Russian withholding tax. The possibility of the application of the double tax treaty if the ultimate investor is not considered a beneficial owner is questionable, and there is a possibility that withholding income tax on the accrued interest portion of payments of proceeds on the Offered Notes will be withheld by the Russian legal entity paying out these proceeds at the domestic rates envisaged by Russian tax legislation (20%). Should any such withholding apply, then (as noted below) Alfa-Bank would be obligated to pay additional amounts in connection therewith.

Non-resident holders should consult their own tax advisors regarding possible taxation treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed on proceeds received from a disposition of Offered Notes (or beneficial interests therein).

Where double tax treaty relief is available but Russian taxes have nevertheless been withheld by the payer of the proceeds, an application for the refund of the taxes withheld may be filed within three years from the end of the tax period in which the tax was withheld for non-resident Noteholders who are legal persons or organizations, and within one year after the year in which the treaty benefit relates for non-resident holders who are individuals. Tax authorities in practice may request a wide variety of documentation confirming the right to benefits under a double tax treaty, even if such documentation is not explicitly required by law. Obtaining a refund of the taxes withheld can be very time consuming and burdensome, if not impossible.

In certain instances, if any taxes are required to be deducted or withheld from any payments by the SPC with respect to the Offered Notes and any other payments under the Transaction Documents (other than payments made by Alfa-Bank on the Series 2006-A Loan) by applicable law, Alfa-Bank, subject to certain customary exceptions, will pay to the SPC additional amounts equal to the amounts of such deductions or withholdings. See “Summary of Terms—Withholding Taxes.”

Russian tax legislation specifically disallows compensation of Russian taxes payable by other taxpayers; therefore, payments as compensation for taxes paid or to be paid by other taxpayers may be in direct conflict with Russian tax legislation.

There is a risk that under Russian law such additional amounts will be treated as income deriving from a Russian source, which would be subject to a 20% withholding tax. Where applicable, such withholding tax may be eliminated under provisions of relevant double taxation treaties, subject to the documentation requirements outlined above.

It is possible that Russian tax authorities may apply a look-through approach to the SPC based upon the substance of its operations. Thus, based upon commentary to the OECD Model Tax Convention and recent positions taken by the Russian Ministry of Finance, there is a risk (though relatively low, as the Luxembourg – Russia double tax treaty does not explicitly provide for beneficial ownership requirement as part of interest income) that Russian authorities may consider Investors to be recipients of interest payments from Alfa-Bank related to the Loans provided by the SPC. As of the date of this Offering Circular, Russian tax authorities have not applied this method in practice, but this situation may change in the future. Should the current practice change, the application of the relevant double tax treaty for the particular Investors also would be questionable and there would be a possibility that withholding income tax on interest payments will be withheld at Russia's 20% rate. Should any such withholding apply, then (as noted in "Summary of Terms—Withholding Taxes") Alfa-Bank would be obligated to pay additional amounts in connection therewith.

Russian thin capitalization rules, as explained below, will be applicable to interest (including Interest and Additional Interest) payable under the Loans by Alfa-Bank where its foreign indirect parent company, ABH Financial Limited, acts as guarantor for Alfa-Bank's debt obligations under the Transaction Documents. Under these Russian thin capitalization rules the deductibility of interest payable on the Loans is subject to certain limitations if Alfa-Bank's outstanding debt to the SPC that is guaranteed by the Guarantor, together with any other debts of Alfa-Bank to the Guarantor (if any) and other debt qualified as "controlled debt" to the Guarantor under the thin capitalization rules, exceeds more than 12.5 times Alfa-Bank's own capital. Any interest expense in excess of such limitations will not be deductible and will be reclassified as dividends of Alfa-Bank for profits tax purposes and will be subject to a Russian withholding income tax at the rate of 15%.

There is also a risk that the reduced rates of withholding tax applicable to dividend income and stipulated by the Luxembourg-Russia double tax treaty would not be applicable to interest that is reclassified as dividends under the thin capitalization rules outlined above due to the fact that the SPC is not a direct shareholder of Alfa-Bank and is not a resident of Luxembourg. Thus, if any portion of interest on the Loans is reclassified as dividends, then it will be subject to Russian withholding taxes at the rate of 15%.

VAT is not applied to the rendering of financial services that involve the provision of loans in monetary form. Therefore, no VAT will be payable in Russia on any payment of interest or principal in respect of the Loans.

#### *Double Taxation Treaties Concluded by Russia*

Russia has concluded double taxation treaties with various countries. Below is a list of countries with which Russia currently has double taxation treaties:

Albania	France	Lebanon	Romania	Vietnam
Armenia	Germany	Luxembourg	Slovakia	Yugoslavia
Australia	Hungary	Macedonia	Slovenia	
Austria	Iceland	Malaysia	South Africa	
Azerbaijan	India	Mali	Spain	
Belarus	Indonesia	Moldova	Sri Lanka	
Belgium	Iran	Mongolia	Sweden	
Bulgaria	Ireland	Morocco	Switzerland	
Canada	Israel	Namibia	Syria	
China	Italy	Netherlands	Tajikistan	
Croatia	Japan	New Zealand	Turkey	
Cyprus	Kazakhstan	Norway	Turkmenistan	
Czech Republic	Korea, North	Philippines	Ukraine	
Denmark	Korea, South	Poland	United Kingdom	
Egypt	Kuwait	Portugal	United States	
Finland	Kyrgyz Republic	Qatar	Uzbekistan	

### **Certain British Virgin Islands Tax Considerations**

The following is a general description of certain British Virgin Islands tax considerations relating to the Offered Notes. It does not purport to be a complete analysis of all tax considerations relating to the Offered Notes. Prospective Investors in the Offered Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the British Virgin Islands of acquiring, holding and disposing of the Offered Notes (or a beneficial interest therein) and receiving payments of interest, principal and/or other amounts under the Offered Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

As the Guarantor is incorporated pursuant to the International Business Companies Act CAP 291 of the British Virgin Islands, payment of principal and interest in respect of the Offered Notes will not be subject to taxation in the British Virgin Islands and no withholding tax will be required to be deducted by the Guarantor on such payments made to any Investor in an Offered Note provided that such Investor is not an individual resident in an EU Member State. Furthermore, so long as payments are made by a paying agent that is situated in an EU Member State, Harney Westwood & Riegels, British Virgin Islands counsel to the Guarantor, further consider that no British Virgin Islands withholding or deduction for or on account of British Virgin Islands taxation will be required in respect of a payment in respect of the Offered Notes even if to an EU resident individual. (Please see below for a summary of the current status of the applicability in the British Virgin Islands of the EU Saving Directive).

In addition, the Offered Notes will not be liable to any stamp duty in the British Virgin Islands. Gains derived from the sale or exchange of the Offered Notes (or a beneficial interest therein) by persons who are not otherwise liable to British Virgin Islands income tax will not be subject to British Virgin Islands income tax. The British Virgin Islands currently has no relevant capital gains tax, estate duty, inheritance tax or gift tax.

Investors in the Offered Notes who are not resident in the British Virgin Islands, and who do not engage in trade or business through a permanent establishment in the British Virgin Islands, will not be subject to the British Virgin Islands taxes or duties on gains realized on the sale or redemption of such Offered Notes (or a beneficial interest therein). No Investor in an Offered Note will be deemed to be resident or domiciled in the British Virgin Islands simply by virtue of holding an Offered Note.

#### *European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC)*

The European Union has formally adopted the new EU Saving Directive regarding the taxation of savings income. From July 1, 2005, Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident in that other Member State, except that Austria, Belgium and Luxembourg instead impose a withholding system for a transitional period (unless during such period they elect otherwise).

The British Virgin Islands is not a member of the European Union and not within the European Union fiscal territory, but the government of the United Kingdom requested that the government of the British Virgin Islands voluntarily apply the provisions of the EU Saving Directive. The Mutual Legal Assistance (Tax Matters) (Amendment) Bill (the “Act”) introduces a withholding tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situated in the British Virgin Islands. The withholding tax system will apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

Under the Act, the Guarantor would not be obliged to levy withholding tax in respect of interest payments made by it pursuant to the Series 2006-A Loan to a paying agent situated in an EU Member State.

**THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE INVESTMENT IN THE OFFERED NOTES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.**

## CERTAIN EMPLOYEE BENEFIT PLAN CONSIDERATIONS

**Internal Revenue Service Circular 230 Disclosure:** Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to Certain Employee Benefit Plan Considerations was not intended or written to be used, and such description cannot be used by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Offered Notes. This description is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of an investment in the Offered Notes, or the matter that is the subject of the description herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Subject to the following discussion, the Offered Notes (or a beneficial interest therein) may be acquired by pension, profit-sharing or other employee benefit plans subject to Title I of ERISA, as well as individual retirement accounts, Keogh plans and other plans covered by Section 4975 of the Code, as well as entities deemed to hold "plan assets" of any of the foregoing under the Regulation (as defined below) (each such plan or entity a "*Benefit Plan*"). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of the Benefit Plan. In addition, Title I of ERISA also requires fiduciaries of a Benefit Plan subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans while not subject to ERISA requirements may nevertheless be subject to applicable foreign, federal, state or local law that is substantially similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code, and may be subject to the prohibited transaction rules of Section 503 of the Code.

Certain transactions involving the SPC might be deemed to constitute prohibited transactions under ERISA and the Code with respect to a Benefit Plan that purchased Offered Notes (or a beneficial interest therein) if assets of the SPC were deemed to be assets of the Benefit Plan. Under a regulation issued by the United State Department of Labor (the "*Regulation*"), the assets of the SPC would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquired an "equity interest" in the SPC and none of the exceptions to plan assets contained in the Regulation was applicable. An equity interest is defined under the Regulation as an interest other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Although there is little guidance on the subject and there can be no assurances in this regard, assuming the Offered Notes constitute debt for local law purposes, the SPC believes that, at the time of their issuance, the Offered Notes should not be treated as equity interest in the SPC for purposes of the Regulation. This determination is based in part upon the traditional debt features of the Offered Notes, including the reasonable expectation of Investors in the Offered Notes that the Offered Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. The debt treatment of the Offered Notes for ERISA purposes could change if the SPC incurred losses or other changes in its structure or financial condition.

However, without regard to whether the Offered Notes are treated as an equity interest for purposes of the Regulation, the acquisition, holding or disposition of Offered Notes (or a beneficial interest therein) by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code if the SPC, the Initial Purchasers, the Indenture Trustee or any of their respective affiliates is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. In addition, if a party in interest or disqualified person with respect to a Benefit Plan owns or acquires a 50% or more beneficial interest in the SPC, the acquisition or holding of Offered Notes by or on behalf of such Benefit Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Offered Notes or other indebtedness issued by the SPC by or on behalf of a party in interest or disqualified person with respect to a Benefit Plan that owns or acquires an equity interest in the SPC also could give rise to an indirect prohibited transaction. Certain exemptions from the prohibited transaction rules could be applicable, however, to the purchase and holding of Offered Notes by a Benefit Plan depending on the type and circumstances of the plan fiduciary making the



decision to acquire such Offered Notes. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14 (amended effective August 23, 2005), regarding transactions effected by “qualified professional asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by such exemptions may not necessarily cover all acts that might be construed as prohibited transactions under ERISA or Section 4975 of the Code. If a purchase of the Offered Notes (or a beneficial interest therein) were to be a non-exempt prohibited transaction, then the purchase would have to be rescinded.

By acquiring an Offered Note (or a beneficial interest therein), each purchaser or transferee will be deemed to represent that: (a) either: (i) it is not, and is not acting on behalf of, a Benefit Plan or a governmental, church or non-U.S. plan or other plan subject to applicable foreign, federal, state or local law that is substantially similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code, or an entity whose underlying assets are treated as assets of any such plan, or (ii) the acquisition, holding and disposition of the Offered Note (or a beneficial interest therein) does not and will not give rise to a non-exempt prohibited transaction under Section 406(a) of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a violation of any substantially similar applicable law); and (b) it agrees not to sell or otherwise transfer any interest in the Offered Notes otherwise to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase, holding and disposition of such Offered Notes (or a beneficial interest therein).

It should be noted that an insurance company’s general account may be deemed to include assets of Benefit Plans under certain circumstances, (*e.g.*, where a Benefit Plan purchases an annuity contract issued by such an insurance company), based upon the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering an investment in the Offered Notes with assets of its general account should consider such purchase and the insurance company’s ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and a regulation promulgated by the U.S. Department of Labor under that Section of ERISA, 29 C.F.R. Section 2550.401c-1.

The sale of any Offered Note or any interest therein to a Benefit Plan or a governmental, church or non-U.S. plan that is subject to foreign, federal, state or local laws that are similar to the fiduciary responsibility provisions or prohibited transaction provisions of ERISA or Section 4975 of the Code is in no respect a representation by the SPC, the Initial Purchasers, the Indenture Trustee or any of their respective affiliates that such an investment meets all relevant legal requirements with respect to investments by such plans generally or any particular such plan; that the prohibited transaction exemptions described above, or any other prohibited transaction exemption, would apply to such an investment by such plans in general or any particular such plan; or that such an investment is appropriate for such plans generally or any particular such plan.

A PLAN FIDUCIARY CONSIDERING THE PURCHASE OF THE OFFERED NOTES (OR A BENEFICIAL INTEREST THEREIN) SHOULD CONSULT ITS LEGAL ADVISORS REGARDING WHETHER THE ASSETS OF THE SPC WOULD BE CONSIDERED PLAN ASSETS, THE POSSIBILITY OF EXEMPTIVE RELIEF FROM THE PROHIBITED TRANSACTION RULES AND OTHER ISSUES AND THEIR POTENTIAL CONSEQUENCES.

## PLAN OF DISTRIBUTION

The SPC intends to offer the Offered Notes (or beneficial interests therein) through the Initial Purchasers. Pursuant to the Purchase Agreement, the Initial Purchasers have agreed to assist the SPC in identifying subscribers for the full amount of the Offered Notes (subject to customary conditions).

The Initial Purchasers have advised Alfa-Bank and the SPC that they propose initially to offer the Offered Notes (or beneficial interests therein) at the price listed on the cover page of this Offering Circular. After the initial offering, the price to Investors may be changed. The SPC has agreed to reimburse the Initial Purchasers for certain expenses incurred in connection with the Offering.

Alfa-Bank, the Guarantor and the SPC have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Offered Notes (or beneficial interests therein), subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their respective counsel, including, but not limited to, the validity of the Offered Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to Investors and to reject orders in whole or in part.

The Offered Notes have not been registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless the securities are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Initial Purchasers propose to offer the Offered Notes (or beneficial interests therein) in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Section 4(2) of the Securities Act (including Rule 144A) and Regulation S. The Initial Purchasers will not offer or sell the Offered Notes (or beneficial interests therein) except: (a) to persons they reasonably believe to be QIBs that also are Qualified Purchasers or (b) pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

Each Initial Purchaser has agreed in the Purchase Agreement that: (a) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offered Notes in, from or otherwise involving the United Kingdom and (b) in the United Kingdom, it has only communicated or caused to be communicated, and will only communicate or caused to be communicated, an invitation or inducement to engage in investment activity to persons authorized to carry on a regulated activity under the FSMA or otherwise having professional experience in matters relating to investments and qualifying as investment professionals under Article 19, or persons qualifying as high net worth persons under Article 49, of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to any other person to whom this Offering Circular may otherwise lawfully be communicated or caused to be communicated.

Investors in the Offered Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price of the Offered Notes (or beneficial interests therein) so purchased.

The Initial Purchasers are not obligated to facilitate trading in the Offered Notes (or beneficial interests therein) and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Initial Purchasers do not facilitate trading in the Offered Notes (or beneficial interests therein) for any reason, then there can be no assurance that another firm or person will do so.

In the ordinary course of their businesses, the Initial Purchasers and their respective affiliates have engaged, and in the future may engage, in investment banking and commercial banking business with Alfa-Bank, the Guarantor and their respective affiliates, including the extension of credit facilities ("*Other Business*"). The Initial Purchasers and/or their respective affiliates may also be Investors in the Offered Notes on the Series 2006-A Borrowing Date and/or from time to time in the future. Notwithstanding the Initial Purchasers' obligations under the

Purchase Agreement, they (and their respective affiliates) will be entitled to act with respect to such Other Business in the same manner as if they had not entered the Purchase Agreement and regardless of the effect of such actions on the Offered Notes.

## **LEGAL MATTERS**

Certain legal matters relating to the issuance of the Offered Notes and to the United States federal tax consequences of the issuance of the Offered Notes will be passed upon for the Initial Purchasers by Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois and New York, New York. Certain legal matters relating to Russian law will be passed upon by Baker & McKenzie – CIS, Limited, Moscow, Russia, for the Initial Purchasers, and by White & Case LLC, Moscow, Russia for Alfa-Bank. Certain legal matters relating to Luxembourg law will be passed upon by Bonn Schmitt Steichen, Luxembourg. Certain legal matters relating to British Virgin Islands law will be passed upon by Harney, Westwood & Riegels, British Virgin Islands.

## **GENERAL INFORMATION**

The Global Notes representing the Offered Notes have been accepted into DTC's book-entry settlement system and the applicable systems used by Euroclear and Clearstream (CUSIP number 015386AA3, ISIN code US015386AA34 and Common Code number 024983641 with respect to the Rule 144A Note; and CUSIP number L0164BAA2, ISIN code USL0164BAA28 and Common Code number 024983692 with respect to the Regulation S Note).

The pledge of the Diversified Payment Rights to the SPC, the issuance and sale of the Offered Notes by the SPC and the execution and delivery by Alfa-Bank, the Guarantor and the SPC of the Transaction Documents have been authorized pursuant to the authority of the respective officers of Alfa-Bank, the Guarantor and the SPC under a resolution of their respective Boards of Directors (and, with respect to Alfa-Bank, its shareholders).

Copies of the latest audited annual and unaudited quarterly interim reports of the Guarantor (in English) may be obtained, and copies of the Transaction Documents referred to herein (including the forms of the Offered Notes) will be available for inspection, at the offices of the SPC and the corporate trust office of the Indenture Trustee.

## **AUDITORS**

The Annual Financial Statements and Interim Financial Statements included in this Offering Circular have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors as stated in their reports appearing herein. The Auditor is a corporate member of the Institute of Professional Accountants of Russia and a member of the Audit Chamber of Russia.

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## APPENDIX A

### **Consolidated Financial Statements of the Guarantor and Related Auditor's Reports as of and for the Six-Month Period Ended June 30, 2005 and the Years Ended December 31, 2004 and December 31, 2003**

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**ABH Financial Limited**

**Interim Consolidated Financial Statements and  
Auditors' Report**

**30 June 2005**

**ABH Financial Limited**  
**Interim Consolidated Financial Statements and Auditors' Report**

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## AUDITORS' REPORT

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

We have audited the accompanying interim consolidated balance sheet of ABH Financial Limited and its subsidiaries (the "Group" as defined in Note 1 to the interim consolidated financial statements) as at 30 June 2005, and the related interim consolidated statements of income, of cash flows and of changes in equity for the six-month period ended 30 June 2005. These interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit.

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 interim consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the interim consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2005 and the results of its operations and its cash flows for the six-month period ended 30 June 2005 in accordance with International Accounting Standard 34 "Interim Financial Reporting".

*PricewaterhouseCoopers*

Moscow, Russian Federation  
6 October 2005

**ABH Financial Limited**  
**Interim Consolidated Balance Sheet as at 30 June 2005**  
*(expressed in thousands of US dollars - Note 3)*

	Note	30 June 2005	31 December 2004
<b>Assets</b>			
Cash and cash equivalents	7	1 177 318	997 278
Mandatory cash balances with central banks		171 423	139 549
Trading securities	8	651 306	717 050
Due from other banks	9	605 274	570 642
Loans and advances to customers	10	4 887 921	4 100 089
Investments	11	130 032	60 933
Other assets and receivables	12	370 156	275 690
Premises and equipment and intangible assets	13	141 268	146 891
Deferred tax asset	23	16 251	16 587
<b>Total assets</b>		<b>8 150 949</b>	<b>7 024 709</b>
<b>Liabilities</b>			
Due to other banks	14	538 154	499 958
Customer accounts	15	4 690 080	4 492 072
Promissory notes issued		310 828	206 223
Other borrowed funds	16	1 250 039	706 955
Other liabilities and payables	17	555 545	380 568
Deferred tax liability	23	30 168	28 501
<b>Total liabilities</b>		<b>7 374 814</b>	<b>6 314 277</b>
<b>Equity</b>			
Share capital	18	160 800	160 800
Fair value reserve for investments available for sale	11	614	-
Revaluation reserve for premises		3 587	4 123
Retained earnings and other reserves		609 002	542 634
<b>Net assets attributable to the equity holders of the Company</b>		<b>774 003</b>	<b>707 557</b>
<b>Minority interest</b>		<b>2 132</b>	<b>2 875</b>
<b>Total equity</b>		<b>776 135</b>	<b>710 432</b>
<b>Total liabilities and equity</b>		<b>8 150 949</b>	<b>7 024 709</b>

Approved for issue by the Board of Directors and signed on its behalf on 6 October 2005.

\_\_\_\_\_  
Petr Smida  
Chief Executive Officer

\_\_\_\_\_  
Andrew Baxter  
Chief Financial Officer

**ABH Financial Limited****Interim Consolidated Statement of Income for the Six-Month Period Ended 30 June 2005***(expressed in thousands of US dollars - Note 3)*

	Note	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
Interest income	19	320 484	274 937
Interest expense	19	(132 411)	(127 126)
<b>Net interest income</b>		<b>188 073</b>	<b>147 811</b>
Provision for loan impairment	10	(32 715)	(16 153)
<b>Net interest income after provision for loan impairment</b>		<b>155 358</b>	<b>131 658</b>
Fee and commission income	20	73 450	67 870
Fee and commission expense	20	(19 896)	(17 834)
Gains less losses arising from trading securities		18 895	79
Gains less losses arising from investments available for sale	11	463	344
Gains less losses arising from trading in foreign currencies		(5 281)	5 149
Foreign exchange translation gains less losses		26 181	2 708
Other operating income	21	12 917	13 414
Other provisions	12, 26	7 067	(2 117)
<b>Operating income</b>		<b>269 154</b>	<b>201 271</b>
Operating expenses	22	(169 605)	(148 507)
<b>Profit from operations</b>		<b>99 549</b>	<b>52 764</b>
Share of profit of associated company	11	6 239	6 256
<b>Profit before income tax</b>		<b>105 788</b>	<b>59 020</b>
Income tax expense	23	(18 516)	(5 828)
<b>Profit</b>		<b>87 272</b>	<b>53 192</b>
<b>Profit is attributable to:</b>			
Equity holders of the Company		87 224	53 054
Minority interest		48	138
		<b>87 272</b>	<b>53 192</b>

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

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**ABH Financial Limited****Interim Consolidated Statement of Cash Flows for the Six-Month Period Ended 30 June 2005***(expressed in thousands of US dollars - Note 3)*

	Note	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
<b>Cash flows from operating activities</b>			
Interest received		314 203	265 720
Interest paid		(133 483)	(135 194)
Fees and commissions received		72 701	67 014
Fees and commissions paid		(19 657)	(19 973)
Net income received from trading in securities		10 511	12 217
Net (losses incurred)/income received from trading in foreign currencies		(4 520)	7 981
Other operating income received		12 096	13 065
Staff compensation paid		(111 334)	(74 711)
Other operating expenses paid		(55 341)	(83 194)
Income tax paid		(19 780)	(4 453)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>65 396</b>	<b>48 472</b>
<b>Changes in operating assets and liabilities</b>			
Net (increase)/decrease in mandatory cash balances with central banks		(41 643)	71 046
Net decrease in trading securities		84 109	42 587
Net increase in due from other banks		(44 717)	(84 477)
Net increase in loans and advances to customers		(931 133)	(630 126)
Net decrease/(increase) in other assets and receivables		95 864	(69 215)
Net increase/(decrease) in due to other banks		62 476	(223 906)
Net increase in customer accounts		353 055	541 648
Net increase/(decrease) in promissory notes issued		111 639	(148 065)
Net (decrease)/increase in other liabilities and payables		(9 871)	47 362
<b>Net cash used in operating activities</b>		<b>(254 825)</b>	<b>(404 674)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investments available for sale	11	1 302	3 700
Acquisition of investments designated as through profit and loss	11	(45 000)	-
Acquisition of investments available for sale	11	(16 555)	(8 955)
Acquisition of premises and equipment and intangible assets, net	13	(8 943)	(10 178)
Proceeds from disposal of subsidiary		-	3 000
<b>Net cash used in investing activities</b>		<b>(69 196)</b>	<b>(12 433)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds	16	673 463	306 007
Repayment of other borrowed funds	16	(125 304)	(119 471)
<b>Net cash from financing activities</b>		<b>548 159</b>	<b>186 536</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>224 138</b>	<b>(230 571)</b>
Cash and cash equivalents as at the beginning of the period	7	997 278	923 191
Effect of exchange rate changes on cash and cash equivalents		(44 098)	3 984
<b>Cash and cash equivalents as at the end of the period</b>		<b>1 177 318</b>	<b>696 604</b>

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

3

**ABH Financial Limited****Interim Consolidated Statement of Changes in Equity for the Six-Month Period Ended 30 June 2005***(expressed in thousands of US dollars - Note 3)*

	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
<b>Balance as at 1 January 2004</b>	<b>160 800</b>	<b>22 798</b>	<b>5 195</b>	<b>358 177</b>	<b>6 635</b>	<b>553 605</b>
Net fair value gains arising on investments available for sale (Note 11)	-	6 816	-	-	-	6 816
Translation movement	-	-	-	4 532	-	4 532
<b>Net income recognised directly in equity</b>	<b>-</b>	<b>6 816</b>	<b>-</b>	<b>4 532</b>	<b>-</b>	<b>11 348</b>
Other movements	-	-	(536)	536	(4 794)	(4 794)
Profit	-	-	-	53 054	138	53 192
<b>Balance as at 30 June 2004</b>	<b>160 800</b>	<b>29 614</b>	<b>4 659</b>	<b>416 299</b>	<b>1 979</b>	<b>613 351</b>
	Attributable to the equity holders of the Company				Minority interest	Total equity
	Share capital (Note 18)	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings and other reserves		
<b>Balance as at 1 January 2005</b>	<b>160 800</b>	<b>-</b>	<b>4 123</b>	<b>542 634</b>	<b>2 875</b>	<b>710 432</b>
Net fair value gains arising on investments available for sale (Note 11)	-	614	-	-	-	614
Translation movement	-	-	-	(21 392)	-	(21 392)
<b>Net income/(expense) recognised directly in equity</b>	<b>-</b>	<b>614</b>	<b>-</b>	<b>(21 392)</b>	<b>-</b>	<b>(20 778)</b>
Other movements	-	-	(536)	536	(791)	(791)
Profit	-	-	-	87 224	48	87 272
<b>Balance as at 30 June 2005</b>	<b>160 800</b>	<b>614</b>	<b>3 587</b>	<b>609 002</b>	<b>2 132</b>	<b>776 135</b>

The notes set out on pages 5 to 55 form an integral part of these interim consolidated financial statements.

4

## **1 Principal Activities of ABH Financial Limited**

ABH Financial Limited (the “Company” or “ABH”) and its subsidiaries (the “Group” or “Alfa Bank Group”) comprise three main business segments: commercial banking, retail banking and investment banking (refer to Note 24). The commercial and retail banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank (“Alfa Bank” or the “Bank”) and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. A substantial part of the Group’s activities are carried out in the Russian Federation.

Before June 2004 ABH was wholly owned by Alfa Finance Holdings S.A., which is a subsidiary of CTF Holdings Limited (“CTFH”), parent company of the Alfa Group Consortium. Alfa Group Consortium operates in the following significant business segments: oil and gas, financial services, telecommunications and retail trade. In 2004 the ownership of ABH was restructured. The main purpose of the restructuring was to allow Open Joint Stock Company Alfa Bank (“Alfa Bank”) to participate in the State deposit insurance scheme. In the course of the restructuring, ABH Financial Limited and its subsidiaries, including Alfa Bank, were transferred to a newly created company, ABH Holding Corporation (“ABHH”), a British Virgin Islands registered company, owned by individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmitchev (the “Controlling Shareholders”) collectively control and own a 77.07% interest in ABHH. None of the Controlling Shareholders controls or owns 50% or more interest in ABHH. The Controlling Shareholders have entered into agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters relating to ABHH and CTFH.

A summary of the constituent entities within the Group is set out below. Refer to Note 29 for a listing of the principal consolidated subsidiaries.

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

**Commercial and retail banking.** Alfa Bank is a wholly owned subsidiary of ABH. 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 (the “CBRF”) since 1991. The Bank operates in all banking sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles (“RR”) and foreign currencies to its clients. On 16 December 2004 the Bank was accepted to the State deposit insurance scheme. The State deposit insurance scheme implies that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. The Bank is licensed by the Federal Commission on Securities Market for trading securities.

As at 30 June 2005 the Bank had 32 branches (31 December 2004: 32 branches) within the Russian Federation. The Bank’s major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa Bank Ukraine and Alfa Bank Kazakhstan.

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

**Investment banking.** ABH is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking sector 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 was regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002. In 2004, the Cyprus Securities and Exchange Commission (CySEC) became the regulator of Alfa Capital Holdings (Cyprus) Limited. Alfa Capital Holdings (Cyprus) Limited obtained a license on 4 May 2004, No 025/04, from the CySEC to engage principally in brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2<sup>nd</sup> floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.

## **2 Operating Environment of the Group**

The Group, through its operations, has significant exposure to Russia's economy and financial markets.

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain 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, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in the Russian Federation is particularly sensitive to adverse fluctuations in confidence 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.

In summer 2004 certain banks in the Russian banking sector, and amongst them the Group, experienced severe liquidity problems, which also affected the general confidence in the banking sector. In July to August 2004, to support the Group, the shareholders of the Group and a company controlled by the shareholders placed short term deposits with the Group. Management plans to cover any future liquidity gap via the issuance of different types of debt securities on international markets and/or restructuring its loan portfolio. It is not possible to predict what effect, if any, any significant deterioration in the liquidity or confidence in the Russian banking system may have on the financial position of the Group.

## **3 Basis of Preparation and Significant Accounting Policies**

**Basis of preparation.** These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies' law in respective jurisdictions. These interim consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IAS 34.

These interim consolidated financial statements have been presented in United States Dollars ("US Dollars" or "USD"). Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. The Bank has Russian Roubles as its functional currency, as its activities are mostly based in Russia and are dependent on the condition of the Russian economy. ABH Financial Limited and Alfa Capital Holdings (Cyprus) have US Dollars as their functional currencies, as their operations are reliant on the economic conditions in the rest of the world as well as in the Russian Federation. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these interim consolidated financial statements is provided under the "Foreign Currency Translation" section of this note.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim consolidated financial statements, are disclosed in Note 4.

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Consolidated financial statements.** Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recorded directly in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded within equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiaries.

**Foreign currency translation.** The Group determines the appropriate functional currency for each subsidiary. The Bank and other Group companies operating in the Russian Federation use Russian Roubles as a functional currency.

The consolidated statements of income and of cash flows of foreign entities are translated into US Dollars at actual exchange rates at the date of the transaction or at average exchange rates for the period as an approximation of actual exchange rates. The balance sheets are translated in US Dollars at the exchange rate at the balance sheet date. 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 the official exchange rate at the balance sheet date. Exchange differences arising from the translation of the net investment in foreign entities are recognised in equity. When a foreign entity is sold, such exchange differences are recorded in the consolidated statement of income as part of the gain or loss on sale.

Transactions denominated in foreign currency are recorded at the exchange rate on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate on that date.

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss. Thus, underlying translation differences on equity investments available for sale are recorded through the fair value reserve for investments available for sale in equity.

As at 30 June 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.6721 (31 December 2004: USD 1 = RR 27.7487) and the average exchange rate for the six-month period ended 30 June 2005 was USD 1 = RR 27.9595 (six-month period ended 30 June 2004: USD 1 = RR 28.7802). 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 the Russian Federation.



### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Key measurement terms.** Depending on their classification financial instruments are carried at cost, fair value, or amortised cost, as described below.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group uses bid prices for assets and asking prices for liabilities as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

*Amortised cost* is the amount at which the financial asset was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

*The effective interest method* is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy within this note).

**3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

**Accounting for the effects of hyperinflation.** A significant proportion of the Group's activities are carried out in the Russian Federation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records of the Bank and other Russian companies of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group no longer apply hyperinflationary accounting. Accordingly, the amounts expressed in the measuring unit current as at 31 December 2002 were treated as the basis for the carrying amounts in these interim consolidated financial statements.

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

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The 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 were the following:

	CPI	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

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**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.

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Mandatory cash balances with central banks.** Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, 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 one to three months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

**Other securities at fair value through profit or loss.** Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

**Due from other banks.** Amounts due from other banks are recorded when the Group advances money to counterparty banks, with no intention of trading the resulting unquoted non-derivative receivable due, on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and experience of the management in respect of the extent to which amounts will become overdue as a result of past loss events and success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset or its portion have been completed and the amount of the loss has been determined.

**Investment securities available for sale.** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

**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.

**Associated companies.** Associated companies are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated companies includes goodwill (net of accumulated amortisation) on acquisition. The Group ceased amortisation of goodwill from 1 January 2005. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

**Sale and repurchase agreements and lending of securities.** Sale and repurchase agreements ("repo agreements") 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 agreements") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

**Derecognition of financial assets.** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Premises and equipment.** Premises and equipment are stated at cost, restated, where applicable, to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

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. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The revaluation reserve for premises included in 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 less provision for impairment where required. 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.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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.

**Computer software development costs.** Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

**3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Depreciation and amortisation.** 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;
Computer software	10 - 20% per annum; and
Leasehold improvements	over the term of the underlying lease.

**Operating leases.** Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

**Finance leases.** Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, State or corporate customers and are carried at amortised cost.

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

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

**Other borrowed funds.** Other borrowed funds are recorded initially at fair value of the liability net of transaction costs incurred. Other borrowed funds are subsequently stated at amortised cost; any difference between the amount of initial recognition and the redemption value is recorded in the consolidated statement of income over the period of the other borrowed funds using the effective interest method.

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Accrued interest income and accrued interest expense.** Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

**Dividends.** Dividends payable on ordinary shares are recognised in equity in the period in which they are approved by the shareholders of ABH Financial Limited. Dividends that are declared after the balance sheet date are disclosed in the subsequent events note.

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

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from accrued income and expense of financial instruments, depreciation of property, plant and equipment, revaluation of derivative contracts and impairment of loans and receivables. The rates enacted or substantially enacted at the balance sheet date which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recorded only 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 netted only within the individual companies of the Group.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or different period, directly to equity.

**Income and expense recognition.** Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

**Fees, commissions and other income and expenses.** Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, commission on credit sales and commissions from borrowers are deferred (together with related direct costs) and recorded as an adjustment to the effective interest 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.

**Derivative financial instruments.** Derivative financial instruments including foreign exchange contracts, currency swaps and other derivative financial instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value through consolidated statement of income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, 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 derivative financial instruments are included in 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 best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group records profits immediately.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recorded in the consolidated statement of income.

Although the Group trades in derivative financial instruments for hedging purposes the Group does not apply hedge accounting.

**Fiduciary Activities.** The Group commonly acts as trustees and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from these consolidated financial statements, as they are not assets and liabilities of the Group. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

**Provisions for liabilities.** 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.

**Staff costs and related contributions.** The Group's contributions to State pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs.



### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

Discretionary employee compensations are accrued in accordance with the existing employee compensation plans in the reporting period they relate to. Discretionary employee compensations are subject to the Group's Supervisory Board approval and recorded and disclosed within staff costs in the consolidated financial statements.

**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 external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these interim consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

### **4 Critical Accounting Estimates and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of available for sale equity investments.** The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, when no active market exists, where that share price can be derived, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. As at 30 June 2005, the Group had no available for sale equity investments carried at fair value below their cost.

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The provision amount depends mainly on the interest rate according to the loan agreement and on the estimation of a possible delay in the repayment of the loan and interest on the loan. To the extent that the assessed delay in repayment of principal and the interest on loans differs by +/- 1 months (the latter to extent of the delay currently assessed), the provision would be approximately USD 42 705 thousand higher or USD 42 308 thousand lower.

**Fair value of derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are internally certified before they are used and are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

#### **4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)**

**Income taxes.** There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Refer also to Note 26.

#### **5 Adoption of New or Revised Standards and Interpretations**

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

**IAS 1 (revised 2003), "Presentation of Financial Statements" (effective since 1 January 2005).**

Minority interest is now presented as a component of equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent company. The Group no longer discloses the number of employees. Certain new disclosures required by the revised standard were made in these financial statements.

**IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors" (effective since 1 January 2005).**

The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The revised IAS 8 eliminated the previously allowed alternative for correction of fundamental errors through the current period's profit or loss. During the reporting period there were no such errors discovered.

**IAS 10 (revised 2003) "Events after the Balance Sheet Date" (effective since 1 January 2005).** The standard was amended to include a limited clarification that if an entity declares dividends after the balance sheet date, the entity should not recognise those dividends as a liability at the balance sheet date. This is consistent with the policies applied by the Group.

**IAS 16 (revised 2003) "Property, Plant and Equipment" (effective since 1 January 2005).** In addition to asset retirement obligations incurred as a consequence of installing an item of property, plant and equipment ("PP&E"), the Group now also capitalises costs of dismantlement, removal or restoration which are incurred when using the item for purposes other than to produce inventories.

The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle.

The Group now derecognises the carrying amount of a component of PP&E which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. Consistently with the previous policy the Group does not classify gains on disposal of PP&E as revenue but includes them in other income.

The Group only enters into barter transactions with property, plant and equipment, if any, that have commercial substance. Such transactions are accounted for at fair value. The barter transactions accounting policy is applied prospectively from 1 January 2005 in accordance with the transitional provisions of IAS 16. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

**IAS 17 (revised 2003) "Leases" (effective since 1 January 2005).** Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date a lease is classified as either an operating or a finance lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

**IAS 21 (revised 2003) “The Effects of Changes in Foreign Exchange Rates” (effective since 1 January 2005).** The term ‘functional currency’ replaced ‘measurement currency’, but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively. Changes in provisions of this standard do not have any material effect on these interim consolidated financial statements.

**IAS 24 (revised 2003) “Related Party Disclosures” (effective since 1 January 2005).** The definition of related parties was extended and additional disclosures required by the revised standard were made in these interim consolidated financial statements.

**IAS 27 (revised 2003) “Consolidated and Separate Financial Statements” (effective since 1 January 2005).** The Group’s policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the parent. The changes in provisions of this standard do not have any material effect on these interim consolidated financial statements.

**IAS 28 (revised 2003) “Investments in Associates” (effective since 1 January 2005) and IAS 31 (revised 2003) “Interests in Joint Ventures” (effective since 1 January 2005).** The Group’s policies were revised and the equity method no longer applies to investments that would otherwise be associates or jointly controlled entities held by the Group’s subsidiaries which qualify as venture capital organisations, mutual funds, unit trusts or similar entities. Such investments are now categorised as at fair value through profit or loss. Additional disclosures required by the revised standards were made in these interim consolidated financial statements. The changes in provisions of this standard do not have any material effect on these interim consolidated financial statements.

**IAS 32 (revised 2003) “Financial Instruments: Disclosure and Presentation” (effective since 1 January 2005).** Additional disclosures required by the revised Standard were made in these interim consolidated financial statements.

**IAS 36 (revised 2004) “Impairment of Assets” (effective since 31 March 2004).** The Group now performs impairment tests of goodwill, intangible assets not yet available for use and intangible assets with indefinite useful life at least annually. The ‘bottom-up/top-down’ approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer’s cash-generating units (“CGU”), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these interim consolidated financial statements. Management now assesses reasonableness of the assumptions on which the Group’s current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard’s transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

**IAS 38 (revised 2004) “Intangible Assets” (effective since 31 March 2004).** The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group’s policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38. No adjustment resulted from this reassessment.

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

**IAS 39 (revised 2003) “Financial Instruments: Recognition and Measurement” (effective since 1 January 2005).** The definition of ‘originated loans and receivables’ was amended to become ‘loans and receivables’. This category now includes originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the ‘at fair value through profit or loss’ category are prohibited.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard’s transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into ‘at fair value through profit or loss’ or ‘available for sale’ categories at the date of initial application of the revised IAS 39.

**IFRS 3 (issued 2004) “Business Combinations” (effective since 31 March 2004).** The Group applies the transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and thereafter, within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree’s contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates. The excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (“negative goodwill”) is now recognised immediately in profit or loss.

Transitional provisions of IFRS 3 require prospective application of changes in accounting policies for equity method investments acquired before 31 March 2004. From 1 January 2005, the Group discontinued including the amortisation of deemed goodwill in the determination of its share of the profits or losses of associates.

**IFRS 4 (issued 2004) “Insurance Contracts” (effective since 1 January 2005).** The Group does not underwrite insurance risks. IFRS 4 amended the definition of financial derivatives in IAS 39. The Group retrospectively amended its policies to exclude non-financial variables specific to the entity to the contract from giving rise to financial derivatives.

**IFRS 5 (issued 2005) “Non-current Assets Held for Sale and Discontinued Operations” (effective since 1 January 2005).** The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as ‘held for sale’ and operations that meet the criteria to be classified as ‘discontinued’ after 1 January 2005. The Group’s accounting policies now describe assets ‘held for sale’ as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as ‘held for sale’ are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

**IFRIC 4 "Determining whether an Arrangement Contains a Lease" (effective from 1 January 2006).** IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

**IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006).** IAS 39 (revised 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. Specifically a group of financial instruments can be designated as part of this category if either the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases; or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel, for example the entity's board of directors and chief executive officer.

**IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

**IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006).** Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

**IFRS 7 "Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from 1 January 2007).** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 (revised 2003) introduces disclosures about level of an entity's capital and how it manages capital.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

**7 Cash and Cash Equivalents**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Cash on hand	172 677	257 376
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	176 193	379 633
Correspondent accounts with other banks		
- Russian Federation	59 745	115 677
- Other countries	259 364	43 358
Overnight placements with other banks		
- Russian Federation	70 417	38 020
- Other countries	438 922	163 214
<b>Total cash and cash equivalents</b>	<b>1 177 318</b>	<b>997 278</b>

As at 30 June 2005 the Group had accounts with 12 banks (31 December 2004: 7 banks) with an aggregated amount of correspondent accounts and overnight placements equal to or above USD 10 000 thousand. The total aggregate amount of these correspondent accounts and overnight placements was USD 776 785 thousand (31 December 2004: USD 317 296 thousand) or 93.8% (31 December 2004: 88.1%) of the gross correspondent accounts and overnights placements with other banks.

Currency and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

**8 Trading Securities**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Corporate shares	287 602	331 152
Corporate bonds	121 898	109 664
Corporate Eurobonds	104 070	79 653
Municipal bonds	45 575	15 335
Promissory notes	28 138	-
Russian Federation Eurobonds	20 829	91 272
Eurobonds of other states	20 787	12 457
ADRs and GDRs	3 832	17 506
Other	18 575	60 011
<b>Total trading securities</b>	<b>651 306</b>	<b>717 050</b>

Corporate shares are mainly shares of major Russian and Ukrainian companies.

Corporate bonds are interest-bearing securities mainly denominated in Russian Roubles, issued by Russian and Ukrainian companies, and are freely tradable in the Russian Federation and the Ukraine. These bonds have maturity dates ranging from August 2005 to June 2010, coupon rates from 7.0% to 17.5% during the six-month period ended 30 June 2005 and yields to maturity from 6.2% to 16.0% as at 30 June 2005, depending on the type of bond issue.

## **8 Trading Securities (Continued)**

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from September 2005 to April 2014, coupon rates from 4.9% to 12.8% during the six-month period ended 30 June 2005 and yields to maturity from 4.9% to 9.8% as at 30 June 2005, depending on the type of bond issue.

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian municipal authorities, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from August 2005 to July 2014, coupon rates from 10.0% to 13.3% during the six-month period ended 30 June 2005 and yields to maturity from 4.4% to 10.1% as at 30 June 2005, depending on the type of bond issue.

As at 30 June 2005 trading securities with a fair value of USD 25 693 thousand (31 December 2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 14.

As at 30 June 2005 the long balance sheet position of the Group was partially offset by short forward and futures position of the Group in those securities. Refer to Note 26.

Currency and interest rates analyses of trading securities are disclosed in Note 25. The information on trading securities issued by related parties and owned by the Group as at 30 June 2005 is disclosed in Note 28.

## **9 Due from Other Banks**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Term placements with other banks	543 880	564 585
Reverse sale and repurchase agreements with other banks	61 394	6 057
<b>Total due from other banks</b>	<b>605 274</b>	<b>570 642</b>

During the six-month periods ended 30 June 2005 and 30 June 2004 there were no movements in provision for due from other banks. Provision for loan impairment as at 30 June 2005 was Nil (31 December 2004: Nil).

As at 30 June 2005 the Group had term placements and reverse sale and repurchase agreements with 8 banks (31 December 2004: 4 banks) with an aggregated amount equal to or above USD 30 000 thousand. The total aggregate amount of these term placements and reverse sale and repurchase agreements was USD 435 091 thousand (31 December 2004: USD 329 203 thousand) or 71.9% (31 December 2004: 57.7%) of the total due from other banks.

As at 30 June 2005 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 59 706 thousand (31 December 2004: USD 6 963 thousand).

As at 30 June 2005 the estimated fair value of due from other banks was USD 605 274 thousand (31 December 2004: USD 570 642 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

**10 Loans and Advances to Customers**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Current loans	4 975 297	4 185 006
Net investment in lease	95 150	79 967
Overdue loans	47 911	32 962
Less: Provision for loan impairment	(230 437)	(197 846)
<b>Total loans and advances to customers</b>	<b>4 887 921</b>	<b>4 100 089</b>

Overdue loans include all loans, contractual payments on which are overdue for more than one day.

Movements in the provision for loan impairment were as follows:

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
<b>Provision for loan impairment as at 1 January</b>	<b>197 846</b>	<b>175 723</b>
Provision for loan impairment during the period	32 715	16 153
Loans written off during the period as uncollectible	(124)	-
<b>Provision for loan impairment as at 30 June</b>	<b>230 437</b>	<b>191 876</b>

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

	<b>30 June 2005</b>		<b>31 December 2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Manufacturing and construction	2 374 369	46	1 881 503	44
Energy and oil and gas	1 107 078	22	1 065 922	25
Trade and commerce	799 301	16	642 975	15
Telecommunications	232 580	5	198 931	5
Finance and investment companies	117 040	2	86 637	2
Individuals	60 022	1	46 119	1
Other	427 968	8	375 848	8
<b>Total loans and advances to customers (aggregate amount)</b>	<b>5 118 358</b>	<b>100</b>	<b>4 297 935</b>	<b>100</b>

As at 30 June 2005 the Group had 24 borrowers (31 December 2004: 20 borrowers) with aggregated loan amounts equal to or above USD 50 000 thousand. The total aggregate amount of these loans was USD 2 421 077 thousand (31 December 2004: USD 1 928 999 thousand) or 47.3% (31 December 2004: 44.9%) of the gross loans and advances to customers.

As at 30 June 2005 loans to customers in the amount of USD 59 186 thousand (31 December 2004: USD 78 624 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 14.

As at 30 June 2005 the estimated fair value of loans and advances to customers was USD 4 890 180 thousand (31 December 2004: USD 4 103 116 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 28.



**11 Investments**

	30 June 2005	31 December 2004
Investment through profit and loss	45 000	-
Investments available for sale	28 544	10 684
Investment in an associated company	56 488	50 249
<b>Total investments</b>	<b>130 032</b>	<b>60 933</b>

**Investment through profit and loss.** Investment through profit and loss of USD 45 000 thousand represents a 8.3% interest in Amtel Holdings, a tyre manufacturing company.

**Investments available for sale.** The movements in the fair value of investments available for sale were as follows:

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
<b>As at 1 January</b>	<b>10 684</b>	<b>45 885</b>
Net fair value gains arising on investments available for sale	614	6 816
Acquisition of investments available for sale	18 085	8 955
Disposal of investments available for sale	(1 302)	(700)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in equity	463	344
<b>Total investments available for sale as at 30 June</b>	<b>28 544</b>	<b>61 300</b>

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

Name	Nature of business	Country of registration	Fair value	
			30 June 2005	31 December 2004
Cracker	Foods production	Russia	12 500	-
Noble Gibbons	Real estate consulting	Russia	8 718	4 425
Other			7 326	6 259
<b>Total</b>			<b>28 544</b>	<b>10 684</b>

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

**Investment in an associated company.** As at 30 June 2005 the investment in an associated company in the amount of USD 56 488 thousand (31 December 2004: 50 249 thousand) represented a 29.1% (31 December 2004: 29.1%) interest in CTC Media Inc. ("CTC"), formerly Story First Communications Inc., a Delaware corporation primarily investing in television and radio ventures.

In August 2004 the Group purchased an additional 5.8% interest in CTC for USD 17 070 thousand. From time to time the Group's interest in CTC decreases as a result of acquisitions and other transactions of CTC partially paid for by shares of CTC.

The share of profit of associated company after tax for the six-month period ended 30 June 2005 was USD 6 239 thousand (six-month period ended 30 June 2004: USD 6 256 thousand net of amortisation for goodwill).

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***12 Other Assets and Receivables**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Receivables on operations with securities	147 998	58 614
Advance payments for finance leases	71 224	31 786
Trade debtors and prepayments	49 480	48 090
Conversion operations and derivative financial instruments	24 608	47 219
Plastic card debtors and other settlements with clients	24 478	31 775
Prepaid taxes	21 797	12 579
Precious metals	20 897	40 226
Receivables from related parties	4 743	16 083
Other	12 335	3 176
	<b>377 560</b>	<b>289 548</b>
Less: Provision for impairment of receivables	(7 404)	(13 858)
<b>Total other assets and receivables</b>	<b>370 156</b>	<b>275 690</b>

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

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
<b>Provision for impairment of receivables as at 1 January</b>	<b>13 858</b>	<b>7 752</b>
Recovery of provision for impairment of receivables during the period	(6 454)	(1 703)
<b>Provision for impairment of receivables as at 30 June</b>	<b>7 404</b>	<b>6 049</b>

As at 30 June 2005 precious metals included gold with a carrying value of USD 20 174 thousand (31 December 2004: USD 21 432 thousand) sold under sale and repurchase agreements with other banks. Refer to Note 14.

Currency and maturity analyses of other assets and receivables are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***13 Premises and Equipment and Intangible Assets**

	Premises	Leasehold improve- ments	Office and computer equipment	Construc- tion in progress	Total premises and equipment	Computer software	Total
<b>Net book amount as at 31 December 2004</b>	<b>56 971</b>	<b>9 019</b>	<b>48 250</b>	<b>2 185</b>	<b>116 425</b>	<b>30 466</b>	<b>146 891</b>
<b>Cost or valuation</b>							
Opening balance	67 551	10 677	110 938	2 185	<b>191 351</b>	52 250	<b>243 601</b>
Additions and transfers	4 230	495	7 417	252	<b>12 394</b>	4 849	<b>17 243</b>
Disposals	(3 237)	(542)	(4 058)	-	<b>(7 837)</b>	(123)	<b>(7 960)</b>
Translation movement	(2 065)	(344)	(3 218)	(70)	<b>(5 697)</b>	(684)	<b>(6 381)</b>
<b>Closing balance</b>	<b>66 479</b>	<b>10 286</b>	<b>111 079</b>	<b>2 367</b>	<b>190 211</b>	<b>56 292</b>	<b>246 503</b>
<b>Accumulated depreciation</b>							
Opening balance	10 580	1 658	62 688	-	<b>74 926</b>	21 784	<b>96 710</b>
Depreciation charge	688	116	8 062	-	<b>8 866</b>	4 747	<b>13 613</b>
Disposals	(306)	(28)	(2 105)	-	<b>(2 439)</b>	(16)	<b>(2 455)</b>
Translation movement	(322)	(57)	(1 904)	-	<b>(2 283)</b>	(350)	<b>(2 633)</b>
<b>Closing balance</b>	<b>10 640</b>	<b>1 689</b>	<b>66 741</b>	<b>-</b>	<b>79 070</b>	<b>26 165</b>	<b>105 235</b>
<b>Net book amount as at 30 June 2005</b>	<b>55 839</b>	<b>8 597</b>	<b>44 338</b>	<b>2 367</b>	<b>111 141</b>	<b>30 127</b>	<b>141 268</b>

**13 Premises and Equipment and Intangible Assets (Continued)**

	Premises	Leasehold improve- ments	Office and computer equipment	Construc- tion in progress	Total premises and equipment	Computer software	Total
<b>Net book amount as at 31 December 2003</b>	<b>50 121</b>	<b>10 344</b>	<b>46 652</b>	<b>10 463</b>	<b>117 580</b>	<b>32 141</b>	<b>149 721</b>
<b>Cost or valuation</b>							
Opening balance	58 767	11 878	95 351	10 463	<b>176 459</b>	45 916	<b>222 375</b>
Additions and transfers	4 286	594	12 280	(6 100)	<b>11 060</b>	2 306	<b>13 366</b>
Disposals	(195)	(2 115)	(5 012)	-	<b>(7 322)</b>	(48)	<b>(7 370)</b>
Translation movement	814	175	1 255	65	<b>2 309</b>	245	<b>2 554</b>
<b>Closing balance</b>	<b>63 672</b>	<b>10 532</b>	<b>103 874</b>	<b>4 428</b>	<b>182 506</b>	<b>48 419</b>	<b>230 925</b>
<b>Accumulated depreciation</b>							
Opening balance	8 646	1 534	48 699	-	<b>58 879</b>	13 775	<b>72 654</b>
Depreciation charge	608	116	7 555	-	<b>8 279</b>	2 828	<b>11 107</b>
Disposals	(116)	(169)	(3 191)	-	<b>(3 476)</b>	-	<b>(3 476)</b>
Translation movement	120	23	111	-	<b>254</b>	671	<b>925</b>
<b>Closing balance</b>	<b>9 258</b>	<b>1 504</b>	<b>53 174</b>	<b>-</b>	<b>63 936</b>	<b>17 274</b>	<b>81 210</b>
<b>Net book amount as at 30 June 2004</b>	<b>54 414</b>	<b>9 028</b>	<b>50 700</b>	<b>4 428</b>	<b>118 570</b>	<b>31 145</b>	<b>149 715</b>

**14 Due to Other Banks**

	30 June 2005	31 December 2004
Term placements of other banks	414 221	315 138
Sale and repurchase agreements with other banks	60 907	126 131
Correspondent accounts of other banks		
- Russian Federation	42 121	43 761
- Other countries	20 905	14 928
<b>Total due to other banks</b>	<b>538 154</b>	<b>499 958</b>

As at 30 June 2005 trading securities with a fair value of USD 25 693 thousand (31 December 2004: USD 83 594 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 8.

As at 30 June 2005 loans to customers in the amount of USD 33 464 thousand (31 December 2004: USD 48 624 thousand) have been sold to third parties under sale and repurchase agreements with other banks and loans to customers in the amount of USD 25 722 thousand (31 December 2004: USD 30 000 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 10.

Gold with a carrying value of USD 20 174 thousand (31 December 2004: USD 21 432 thousand) has been sold under sale and repurchase agreements with other banks. Refer to Note 12.

**14 Due to Other Banks (Continued)**

As at 30 June 2005 the estimated fair value of due to other banks was USD 538 154 thousand (31 December 2004: USD 499 958 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

**15 Customer Accounts**

	<b>30 June 2005</b>	<b>31 December 2004</b>
<b>Commercial organisations</b>		
- Current/settlement accounts	1 653 746	1 296 757
- Term deposits	868 068	1 261 851
<b>Individuals</b>		
- Current/demand accounts	537 963	433 787
- Term deposits	1 020 998	964 175
<b>State and public organisations</b>		
- Current/settlement accounts	60 069	79 534
- Term deposits	549 236	455 968
<b>Total customer accounts</b>	<b>4 690 080</b>	<b>4 492 072</b>

Economic sector concentrations within customer accounts were as follows:

	<b>30 June 2005</b>		<b>31 December 2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	1 558 961	33	1 397 962	31
Finance and investment companies	868 299	19	1 082 861	24
State and public organisations	609 304	13	535 502	12
Energy and oil and gas	505 250	11	405 306	9
Manufacturing and construction	312 407	7	299 861	7
Trade and commerce	270 059	6	242 443	5
Mass media and telecommunications	63 687	1	82 054	2
Science	60 595	1	84 428	2
Other	441 518	9	361 655	8
<b>Total customer accounts</b>	<b>4 690 080</b>	<b>100</b>	<b>4 492 072</b>	<b>100</b>

As at 30 June 2005 the Group had 7 customers (31 December 2004: 6 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 1 860 941 thousand (31 December 2004: USD 1 840 528 thousand) or 39.7% (31 December 2004: 41.0%) of the total customer accounts, of which USD 597 970 thousand (31 December 2004: USD 983 082 thousand) represented balances outstanding to Alfa Group Consortium and its shareholders.

Included in customer accounts are balances in amount of USD 112 230 thousand (31 December 2004: USD 97 556 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 26.

As at 30 June 2005 the estimated fair value of customer accounts was USD 4 690 080 thousand (31 December 2004: USD 4 492 072 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

**16 Other Borrowed Funds**

	<b>30 June 2005</b>	<b>31 December 2004</b>
Syndicated loans	366 563	225 218
Euro Medium Term Notes maturing in 2008	248 809	-
Euro Medium Term Notes maturing in 2006	191 921	191 348
Eurobonds	176 526	175 690
Euro Medium Term Notes maturing in 2007	142 810	-
Euro-Commercial Paper	116 317	46 390
Russian Rouble denominated bonds maturing in 2010	1 956	68 195
Other	5 137	114
<b>Total other borrowed funds</b>	<b>1 250 039</b>	<b>706 955</b>

On 24 June 2004 the Group received a syndicated loan in the amount of USD 120 000 thousand from a consortium of large international banks. Initially the loan had a maturity date of 24 June 2005 and bore a floating interest rate equal to LIBOR plus 2.0% per annum payable semi-annually. On 24 June 2005 the Group repaid USD 47 000 thousand of this loan and rolled over the balance in the amount of USD 73 000 thousand. The rolled over balance matures on 15 June 2006. As at 30 June 2005 the effective interest rate was 5.9% per annum. The issue proceeds net of transaction costs were equal to USD 118 757 thousand.

On 3 December 2004 the Group received a syndicated loan in the amount of USD 65 000 thousand from a consortium of large international banks. The loan matures on 2 December 2005 and bears a floating interest rate equal to LIBOR plus 1.8% per annum payable semi-annually. As at 30 June 2005 the effective interest rate was 6.4% per annum. The issue proceeds net of transaction costs were equal to USD 64 323 thousand.

On 7 June 2005 the Group received a syndicated loan in the amount of USD 230 000 thousand from a consortium of large international banks. The loan matures on 6 June 2006 and bears a floating interest rate equal to LIBOR plus 1.5% per annum payable semi-annually. As at 30 June 2005 the effective interest rate was 6.1% per annum. Issue proceeds net of transaction costs were equal to USD 227 698 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme"). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 1 000 000 thousand. On 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. Issue proceeds net of transaction costs and discount amounted to USD 187 776 thousand and the effective interest rate at origination was 9.1%. On 9 February 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 150 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 9 February 2007. Issue proceeds net of transaction costs and discount amounted to USD 148 349 thousand and the effective interest rate at origination was 8.5%. On 28 June 2005 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 250 000 thousand. The notes carry a fixed coupon at a rate of 7.8% per annum payable semi-annually and mature on 2 July 2008. Issue proceeds net of transaction costs and discount amounted to USD 248 686 thousand and the effective interest rate at origination was 8.1%.

On 19 November 2002 the Group issued US Dollar denominated Eurobonds with a nominal value of USD 175 000 thousand. The bonds carry a fixed coupon at a rate of 10.8% per annum payable semi-annually and mature on 19 November 2005. Issue proceeds net of transaction costs and discount amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

On 11 December 2003 the Group established a Euro Commercial Paper Programme ("ECP Programme"). The aggregate principal amount of outstanding notes issued under the ECP Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more than 365 days. As at 30 June 2005 the nominal value of outstanding notes was USD 120 500 thousand (31 December 2004: USD 46 800 thousand) and they were issued at a discount to the nominal value ranging from 3.4% to 7.7% depending on the type of issue. As at 30 June 2005 the average effective interest rate at origination on notes outstanding was 7.7%.

## 16 Other Borrowed Funds (Continued)

As at 30 June 2005 the estimated fair value of other borrowed funds was USD 1 254 385 thousand (31 December 2004: USD 710 672 thousand). Refer to Note 27.

Currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

## 17 Other Liabilities and Payables

	Note	30 June 2005	31 December 2004
Payables on operations with securities		219 069	56 103
Conversion operations and derivative financial instruments		111 089	96 589
Trade creditors		72 345	61 228
Accrued staff costs		69 783	83 653
Plastic card and other settlements with clients		25 119	31 921
Provision for losses on credit related commitments	26	20 510	21 123
Taxation payable		12 629	12 496
Payable to related parties		2 455	298
Other		22 546	17 157
<b>Total other liabilities and payables</b>		<b>555 545</b>	<b>380 568</b>

Accrued staff costs mainly relate to employee bonus plans based on certain performance indicators.

Currency and maturity analyses of other liabilities and payables are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

## 18 Share Capital

As at 30 June 2005 and 31 December 2004 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, rank equally and carry one vote.

## 19 Interest Income and Expense

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
<b>Interest income</b>		
Loans and advances to customers	287 780	242 659
Trading securities	17 305	26 129
Due from other banks	15 399	6 149
<b>Total interest income</b>	<b>320 484</b>	<b>274 937</b>
<b>Interest expense</b>		
Customer accounts of legal entities	45 141	41 456
Other borrowed funds	34 268	18 100
Customer accounts of individuals	33 774	30 946
Due to other banks	11 914	15 844
Promissory notes issued	7 314	20 780
<b>Total interest expense</b>	<b>132 411</b>	<b>127 126</b>
<b>Net interest income</b>	<b>188 073</b>	<b>147 811</b>

Refer to Note 28 for details of related party transactions.

**20 Fee and Commission Income and Expense**

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
<b>Fee and commission income</b>		
Commission on settlement transactions	37 094	30 190
Commission on cash and foreign currency exchange transactions	15 288	15 156
Commission on transactions with securities	5 897	10 324
Commission on guarantees issued	5 113	5 292
Commission for consulting services	4 242	4 432
Other	5 816	2 476
<b>Total fee and commission income</b>	<b>73 450</b>	<b>67 870</b>
<b>Fee and commission expense</b>		
Commission for consulting services	8 603	6 544
Commission on settlement transactions	7 769	4 317
Commission on transactions with securities	1 515	1 948
Commission on cash and foreign currency exchange transactions	1 478	1 072
Other	531	3 953
<b>Total fee and commission expense</b>	<b>19 896</b>	<b>17 834</b>
<b>Net fee and commission income</b>	<b>53 554</b>	<b>50 036</b>

Refer to Note 28 for details of related party transactions.

**21 Other Operating Income**

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
Penalties received	4 950	2 352
Dividend income	274	2 028
Other	7 693	9 034
<b>Total other operating income</b>	<b>12 917</b>	<b>13 414</b>



**22 Operating Expenses**

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
Staff costs	97 464	69 711
Depreciation and other expenses related to premises and equipment and intangible assets	15 258	14 793
Rent	11 522	9 550
Computer and telecommunications expenses	7 421	6 753
Consulting and professional services	6 936	5 477
Maintenance	6 289	6 828
Administrative expenses	5 122	6 055
Taxes other than income tax	4 503	8 382
Heat and utilities	2 017	1 620
Advertising and marketing	1 966	4 287
Travel expenses	1 777	1 500
Other	9 330	13 551
<b>Total operating expenses</b>	<b>169 605</b>	<b>148 507</b>

**23 Income Taxes**

Income tax expense comprises the following:

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
Current tax charge	16 513	7 810
Deferred taxation movement due to origination and reversal of temporary differences	2 003	(1 982)
<b>Income tax expense for the period</b>	<b>18 516</b>	<b>5 828</b>

The statutory income tax rate applicable to the majority of the Bank's income is 24% (30 June 2004: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 10% (31 December 2004: from 0% to 10%). A reconciliation between the expected and the actual taxation charge is provided below.

	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
<b>IFRS profit before tax</b>	<b>105 788</b>	<b>59 020</b>
Theoretical tax charge at the applicable statutory rate of 24% (30 June 2005: 24%)	25 389	14 165
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Difference in provisions in accordance with IFRS and statutory rules	(7 529)	(16 528)
- Non deductible expenses	2 679	1 880
- Income which is exempt from taxation	(1 674)	(673)
- (Gain)/loss earned in lower tax jurisdictions	(1 601)	5 533
- Other	1 252	1 454
Tax effect of utilisation of tax loss carry forward	-	(1 654)
Tax effect of expiry of tax carry forward	-	1 651
<b>Income tax expense for the period</b>	<b>18 516</b>	<b>5 828</b>

**23 Income Taxes (Continued)**

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

	<b>31 December 2004</b>	<b>Movement</b>	<b>30 June 2005</b>
<b>Tax effect of deductible temporary differences</b>			
Accumulated depreciation of premises and equipment and intangible assets	12 259	(4 577)	7 682
Provision for loan impairment	28 689	(1 127)	27 562
Accruals	6 913	2 937	9 850
Other	3 740	894	4 634
<b>Gross deferred tax asset</b>	<b>51 601</b>	<b>(1 873)</b>	<b>49 728</b>
Deferred tax asset netted off within entities of the Group	(35 014)	1 537	(33 477)
<b>Deferred tax asset</b>	<b>16 587</b>	<b>(336)</b>	<b>16 251</b>
<b>Tax effect of taxable temporary differences</b>			
Premises and equipment and intangible assets	(18 722)	(1 350)	(20 072)
Trading securities	(28 501)	959	(27 542)
Accruals	(9 179)	(1 107)	(10 286)
Other	(7 113)	1 368	(5 745)
<b>Gross deferred tax liability</b>	<b>(63 515)</b>	<b>(130)</b>	<b>(63 645)</b>
Deferred tax liability netted off within entities of the Group	35 014	(1 537)	33 477
<b>Deferred tax liability</b>	<b>(28 501)</b>	<b>(1 667)</b>	<b>(30 168)</b>
<b>Total net deferred tax liability</b>	<b>(11 914)</b>	<b>(2 003)</b>	<b>(13 917)</b>

**23 Income Taxes (Continued)**

	31 December 2003	Movement	30 June 2004
<b>Tax effect of deductible temporary differences</b>			
Accumulated depreciation of premises and equipment and intangible assets	9 822	1 845	11 667
Tax loss carry forward	5 490	(3 226)	2 264
Accruals	3 910	5 270	9 180
Other	1 361	704	2 065
<b>Gross deferred tax asset</b>	<b>20 583</b>	<b>4 593</b>	<b>25 176</b>
<b>Tax effect of taxable temporary differences</b>			
Premises and equipment and intangible assets	(17 292)	(486)	(17 778)
Provision for loan impairment	453	(453)	-
Accruals	(9 926)	1 052	(8 874)
Other	(7 266)	(2 724)	(9 990)
<b>Gross deferred tax liability</b>	<b>(34 031)</b>	<b>(2 611)</b>	<b>(36 642)</b>
<b>Total net deferred tax liability</b>	<b>(13 448)</b>	<b>1 982</b>	<b>(11 466)</b>

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 equity had no impact on the deferred tax position of the Group.

**24 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 three main business segments:

- Commercial banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products of/to corporate clients.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and personal instalment loans.

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

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***24 Analysis by Segment (Continued)**

Segment information for the main reportable business segments of the Group for the six-month periods ended 30 June 2005 and 30 June 2004 is set out below:

<b>Six-Month Period Ended 30 June 2005</b>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Retail banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	<b>346 814</b>	<b>62 476</b>	<b>37 819</b>	<b>-</b>	<b>447 109</b>
<b>Segment results</b>	<b>166 860</b>	<b>22 093</b>	<b>(60 407)</b>	<b>-</b>	<b>128 546</b>
Unallocated costs					(28 997)
<b>Profit from operations</b>					<b>99 549</b>
Share of profit of associated company					6 239
<b>Profit before income tax</b>					<b>105 788</b>
Income tax expense					(18 516)
<b>Profit</b>					<b>87 272</b>
<b>Profit is attributable to</b>					
Equity holders of the Company					87 224
Minority interest					48
<b>30 June 2005</b>					
<b>Segment assets</b>	<b>6 813 182</b>	<b>1 168 979</b>	<b>1 258 929</b>	<b>(1 162 880)</b>	<b>8 078 210</b>
Investment in an associated company	-	56 488	-	-	56 488
Unallocated assets					16 251
<b>Total assets</b>					<b>8 150 949</b>
<b>Segment liabilities</b>	<b>6 238 763</b>	<b>664 502</b>	<b>1 604 261</b>	<b>(1 162 880)</b>	<b>7 344 646</b>
Unallocated liabilities					30 168
<b>Total liabilities</b>					<b>7 374 814</b>
<b>Other segment items</b>					
Capital expenditure	3 293	3 012	10 938	-	17 243
Depreciation expense	3 233	1 766	8 614	-	13 613
Other non-cash (expense)/income	(27 253)	(708)	2 313	-	(25 648)

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***24 Analysis by Segment (Continued)**

<b>Six-Month Period Ended 30 June 2004</b>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Retail banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	298 161	48 740	17 600	-	364 501
<b>Segment results</b>	131 419	4 997	(75 699)	-	60 717
Unallocated costs					(7 953)
<b>Profit from operations</b>					52 764
Share of profit of associated company					6 256
<b>Profit before income tax</b>					59 020
Income tax expense					(5 828)
<b>Profit</b>					53 192
<b>Profit is attributable to</b>					
Equity holders of the Company					53 054
Minority interest					138
<b>31 December 2004</b>					
<b>Segment assets</b>	<b>5 794 377</b>	<b>1 252 764</b>	<b>1 247 128</b>	<b>(1 336 396)</b>	<b>6 957 873</b>
Investment in an associated company	-	50 249	-	-	50 249
Unallocated assets					16 587
<b>Total assets</b>					<b>7 024 709</b>
<b>Segment liabilities</b>	<b>5 248 783</b>	<b>896 316</b>	<b>1 477 073</b>	<b>(1 336 396)</b>	<b>6 285 776</b>
Unallocated liabilities					28 501
<b>Total liabilities</b>					<b>6 314 277</b>
<b>Other segment items</b>					
Capital expenditure	(4 272)	(1 734)	(7 360)	-	(13 366)
Depreciation expense	(3 550)	(1 441)	(6 116)	-	(11 107)
Other non-cash income/(expenses)	(5 514)	(3 191)	(9 565)	-	(18 270)

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***24 Analysis by Segment (Continued)**

**Geographical segments.** Segment information for the main geographical segments of the Group is set out below for the six-month period ended 30 June 2005.

	<b>Russia</b>	<b>Europe</b>	<b>CIS</b>	<b>USA</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	452 341	576 254	23 441	111 534	13 748	1 177 318
Mandatory cash balances with central banks	137 755	26 974	6 694	-	-	171 423
Trading securities	598 291	24 341	27 272	-	1 402	651 306
Due from other banks	208 318	358 039	34 797	4 120	-	605 274
Loans and advances to customers	4 291 924	101 510	453 981	34 160	6 346	4 887 921
Investments	130 032	-	-	-	-	130 032
Other assets and receivables	201 408	156 329	2 471	1 060	8 888	370 156
Premises and equipment and intangible assets	110 696	1 080	29 492	-	-	141 268
Deferred tax asset	16 251	-	-	-	-	16 251
<b>Total assets</b>	<b>6 147 016</b>	<b>1 244 527</b>	<b>578 148</b>	<b>150 874</b>	<b>30 384</b>	<b>8 150 949</b>
<b>Liabilities</b>						
Due to other banks	232 562	144 970	127 748	-	32 874	538 154
Customer accounts	3 567 965	870 048	177 069	56 465	18 533	4 690 080
Promissory notes issued	282 564	27 519	4	-	741	310 828
Other borrowed funds	2 086	1 215 846	5 007	17 057	10 043	1 250 039
Other liabilities and payables	87 148	439 325	28 304	344	424	555 545
Deferred tax liability	30 168	-	-	-	-	30 168
<b>Total liabilities</b>	<b>4 202 493</b>	<b>2 697 708</b>	<b>338 132</b>	<b>73 866</b>	<b>62 615</b>	<b>7 374 814</b>
<b>Net balance sheet position as at 30 June 2005</b>	<b>1 944 523</b>	<b>(1 453 181)</b>	<b>240 016</b>	<b>77 008</b>	<b>(32 231)</b>	<b>776 135</b>

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***24 Analysis by Segment (Continued)**

As at 31 December 2004 the Group had the following segment information for the main geographical segments:

	Russia	Europe	CIS	USA	Other	Total
<b>Assets</b>						
Cash and cash equivalents	760 387	116 145	39 877	80 512	357	997 278
Mandatory cash balances with central banks	107 920	28 756	2 873	-	-	139 549
Trading securities	647 566	20 373	38 027	-	11 084	717 050
Due from other banks	279 379	254 541	33 237	3 485	-	570 642
Loans and advances to customers	3 710 450	116 610	268 001	4 949	79	4 100 089
Investments	60 933	-	-	-	-	60 933
Other assets and receivables	167 706	82 058	18 332	849	6 745	275 690
Premises and equipment and intangible assets	132 685	1 138	13 068	-	-	146 891
Deferred tax asset	16 587	-	-	-	-	16 587
<b>Total assets</b>	<b>5 883 613</b>	<b>619 621</b>	<b>413 415</b>	<b>89 795</b>	<b>18 265</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	272 856	161 637	35 659	4 581	25 225	499 958
Customer accounts	3 873 973	326 178	191 175	83 502	17 244	4 492 072
Promissory notes issued	168 851	36 812	560	-	-	206 223
Other borrowed funds	68 309	638 646	-	-	-	706 955
Other liabilities and payables	206 404	150 259	16 302	7 603	-	380 568
Deferred tax liability	28 501	-	-	-	-	28 501
<b>Total liabilities</b>	<b>4 618 894</b>	<b>1 313 532</b>	<b>243 696</b>	<b>95 686</b>	<b>42 469</b>	<b>6 314 277</b>
<b>Net balance sheet position as at 31 December 2004</b>	<b>1 264 719</b>	<b>(693 911)</b>	<b>169 719</b>	<b>(5 891)</b>	<b>(24 204)</b>	<b>710 432</b>

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies both as at 30 June 2005 and 31 December 2004.

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 and intangible assets have been allocated based on the country in which they are physically held.

Substantially all of the Group's revenues are generated from counterparties operating in the Russian Federation.

The majority of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

## **25 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 minimise 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.

For the purpose of quantifying the market risks the Group uses a "value at risk" model. The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 99%, of the potential loss that might arise if the current positions were to be held unchanged for one business day. During 2005, the Group has started calculating and monitoring its overall position through the VAR model in addition to monitoring VAR for separate departments/financial instruments.

**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 primarily 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 24 for the geographical analysis of the Groups' assets and liabilities.



**25 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments. As at 30 June 2005 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	647 409	356 258	137 821	35 830	1 177 318
Mandatory cash balances with central banks	-	137 755	26 974	6 694	171 423
Trading securities	426 038	194 657	20 055	10 556	651 306
Due from other banks	388 858	197 617	-	18 799	605 274
Loans and advances to customers	2 781 200	1 751 482	279 932	75 307	4 887 921
Investments	130 032	-	-	-	130 032
Other assets and receivables	213 396	101 293	38 669	16 798	370 156
Premises and equipment and intangible assets	-	110 696	1 080	29 492	141 268
Deferred tax asset	-	16 251	-	-	16 251
<b>Total assets</b>	<b>4 586 933</b>	<b>2 866 009</b>	<b>504 531</b>	<b>193 476</b>	<b>8 150 949</b>
<b>Liabilities</b>					
Due to other banks	216 629	146 452	141 196	33 877	538 154
Customer accounts	2 270 969	1 857 793	455 774	105 544	4 690 080
Promissory notes issued	81 784	224 983	4 057	4	310 828
Other borrowed funds	1 242 946	2 086	-	5 007	1 250 039
Other liabilities and payables	375 449	144 073	32 648	3 375	555 545
Deferred tax liability	-	30 168	-	-	30 168
<b>Total liabilities</b>	<b>4 187 777</b>	<b>2 405 555</b>	<b>633 675</b>	<b>147 807</b>	<b>7 374 814</b>
<b>Net balance sheet position</b>	<b>399 156</b>	<b>460 454</b>	<b>(129 144)</b>	<b>45 669</b>	<b>776 135</b>
<b>Off-balance sheet net notional position (Note 26)</b>	<b>532 604</b>	<b>(309 785)</b>	<b>(10 520)</b>	<b>(298 780)</b>	<b>(86 481)</b>
<b>Credit related commitments (Note 26)</b>	<b>609 151</b>	<b>182 510</b>	<b>157 994</b>	<b>3 989</b>	<b>953 644</b>

**ABH Financial Limited****Notes to the Interim Consolidated Financial Statements – 30 June 2005***(expressed in thousands of US dollars - Note 3)***25 Financial Risk Management (Continued)**

As at 31 December 2004 the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	217 780	606 365	107 935	65 198	997 278
Mandatory cash balances with central banks	-	107 920	28 756	2 873	139 549
Trading securities	544 129	128 792	21 861	22 268	717 050
Due from other banks	344 921	205 011	-	20 710	570 642
Loans and advances to customers	2 483 357	1 326 943	246 962	42 827	4 100 089
Investments	60 933	-	-	-	60 933
Other assets and receivables	155 174	61 172	19 796	39 548	275 690
Premises and equipment and intangible assets	-	132 685	1 138	13 068	146 891
Deferred tax asset	-	16 587	-	-	16 587
<b>Total assets</b>	<b>3 806 294</b>	<b>2 585 475</b>	<b>426 448</b>	<b>206 492</b>	<b>7 024 709</b>
<b>Liabilities</b>					
Due to other banks	260 142	114 391	97 925	27 500	499 958
Customer accounts	1 957 069	2 063 067	354 133	117 803	4 492 072
Promissory notes issued	46 924	155 997	2 740	562	206 223
Other borrowed funds	638 646	68 309	-	-	706 955
Other liabilities and payables	291 104	32 516	52 914	4 034	380 568
Deferred tax liability	-	28 501	-	-	28 501
<b>Total liabilities</b>	<b>3 193 885</b>	<b>2 462 781</b>	<b>507 712</b>	<b>149 899</b>	<b>6 314 277</b>
<b>Net balance sheet position</b>	<b>612 409</b>	<b>122 694</b>	<b>(81 264)</b>	<b>56 593</b>	<b>710 432</b>
<b>Off-balance sheet net notional position (Note 26)</b>	<b>688 362</b>	<b>(389 629)</b>	<b>57 645</b>	<b>(435 562)</b>	<b>(79 184)</b>
<b>Credit related commitments (Note 26)</b>	<b>768 746</b>	<b>173 645</b>	<b>132 303</b>	<b>901</b>	<b>1 075 595</b>

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.

**25 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 derivative instruments. 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. Liquidity risk is managed by the Asset and Liability Committee of the Group.

The table below shows assets and liabilities as at 30 June 2005 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Group as at 30 June 2005 is set out below.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	1 177 318	-	-	-	-	1 177 318
Mandatory cash balances with central banks	171 423	-	-	-	-	171 423
Trading securities	651 306	-	-	-	-	651 306
Due from other banks	575 707	28 721	-	846	-	605 274
Loans and advances to customers	284 001	1 120 201	1 688 270	1 795 449	-	4 887 921
Investments	-	-	-	-	130 032	130 032
Other assets and receivables	68 114	208 745	1 071	39	92 187	370 156
Premises and equipment and intangible assets	-	-	-	-	141 268	141 268
<b>Deferred tax asset</b>	-	-	-	-	16 251	16 251
<b>Total assets</b>	<b>2 927 869</b>	<b>1 357 667</b>	<b>1 689 341</b>	<b>1 796 334</b>	<b>379 738</b>	<b>8 150 949</b>
<b>Liabilities</b>						
Due to other banks	235 783	118 709	26 364	157 298	-	538 154
Customer accounts	2 370 771	1 863 284	327 223	128 802	-	4 690 080
Promissory notes issued	53 268	171 684	70 953	14 923	-	310 828
Other borrowed funds	17 449	302 790	531 089	398 711	-	1 250 039
Other liabilities and payables	289 300	261 988	1 381	2 876	-	555 545
Deferred tax liability	-	-	-	-	30 168	30 168
<b>Total liabilities</b>	<b>2 966 571</b>	<b>2 718 455</b>	<b>957 010</b>	<b>702 610</b>	<b>30 168</b>	<b>7 374 814</b>
<b>Net liquidity gap</b>	<b>(38 702)</b>	<b>(1 360 788)</b>	<b>732 331</b>	<b>1 093 724</b>	<b>349 570</b>	<b>776 135</b>
<b>Cumulative liquidity gap</b>	<b>(38 702)</b>	<b>(1 399 490)</b>	<b>(667 159)</b>	<b>426 565</b>	<b>776 135</b>	

**25 Financial Risk Management (Continued)**

The liquidity position of the Group as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
<b>Assets</b>						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	717 050	-	-	-	-	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
<b>Total assets</b>	<b>2 753 564</b>	<b>1 328 408</b>	<b>1 247 908</b>	<b>1 398 406</b>	<b>296 423</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	260 592	141 421	17 185	80 760	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	178 037	241 378	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
<b>Total liabilities</b>	<b>2 777 416</b>	<b>2 114 668</b>	<b>987 011</b>	<b>406 681</b>	<b>28 501</b>	<b>6 314 277</b>
<b>Net liquidity gap</b>	<b>(23 852)</b>	<b>(786 260)</b>	<b>260 897</b>	<b>991 725</b>	<b>267 922</b>	<b>710 432</b>
<b>Cumulative liquidity gap</b>	<b>(23 852)</b>	<b>(810 112)</b>	<b>(549 215)</b>	<b>442 510</b>	<b>710 432</b>	

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 fair portrayal of its liquidity position. Mandatory cash balances with 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 of a short term nature, 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. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity.

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.

**25 Financial Risk Management (Continued)**

**Cash flow and fair value interest rate risk.** Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Executive Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'Non-interest bearing'.

The table below summarises the Group's exposure to interest rate risks as at 30 June 2005. 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	Non- interest bearing	Total
<b>Assets</b>						
Cash and cash equivalents	1 177 318	-	-	-	-	1 177 318
Mandatory cash balances with central banks	171 423	-	-	-	-	171 423
Trading securities	288 593	-	-	-	362 713	651 306
Due from other banks	575 707	28 721	-	846	-	605 274
Loans and advances to customers	284 001	1 120 201	1 688 270	1 795 449	-	4 887 921
Investments	-	-	-	-	130 032	130 032
Other assets and receivables	68 115	208 745	1 071	39	92 186	370 156
Premises and equipment and intangible assets	-	-	-	-	141 268	141 268
Deferred tax asset	-	-	-	-	16 251	16 251
<b>Total assets</b>	<b>2 565 157</b>	<b>1 357 667</b>	<b>1 689 341</b>	<b>1 796 334</b>	<b>742 450</b>	<b>8 150 949</b>
<b>Liabilities</b>						
Due to other banks	235 783	189 522	26 364	86 485	-	538 154
Customer accounts	2 370 771	1 863 284	327 223	128 802	-	4 690 080
Promissory notes issued	53 268	171 684	70 953	14 923	-	310 828
Other borrowed funds	17 449	604 370	229 509	398 711	-	1 250 039
Other liabilities and payables	178 211	261 988	1 381	2 876	111 089	555 545
Deferred tax liability	-	-	-	-	30 168	30 168
<b>Total liabilities</b>	<b>2 855 482</b>	<b>3 090 848</b>	<b>655 430</b>	<b>631 797</b>	<b>141 257</b>	<b>7 374 814</b>
<b>Net sensitivity gap</b>	<b>(290 325)</b>	<b>(1 733 181)</b>	<b>1 033 911</b>	<b>1 164 537</b>	<b>601 193</b>	<b>776 135</b>
<b>Cumulative sensitivity gap</b>	<b>(290 325)</b>	<b>(2 023 506)</b>	<b>(989 595)</b>	<b>174 942</b>	<b>776 135</b>	

**25 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to interest rate risks as at 31 December 2004:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
<b>Assets</b>						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment and intangible assets	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
<b>Total assets</b>	<b>2 404 906</b>	<b>1 328 408</b>	<b>1 247 908</b>	<b>1 398 406</b>	<b>645 081</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955
Other liabilities and payables	149 952	98 991	10 555	24 481	96 589	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
<b>Total liabilities</b>	<b>2 680 827</b>	<b>2 213 233</b>	<b>925 864</b>	<b>369 263</b>	<b>125 090</b>	<b>6 314 277</b>
<b>Net sensitivity gap</b>	<b>(275 921)</b>	<b>(884 825)</b>	<b>322 044</b>	<b>1 029 143</b>	<b>519 991</b>	<b>710 432</b>
<b>Cumulative sensitivity gap</b>	<b>(275 921)</b>	<b>(1 160 746)</b>	<b>(838 702)</b>	<b>190 441</b>	<b>710 432</b>	

**25 Financial Risk Management (Continued)**

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

	30 June 2005				31 December 2004			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
<b>Assets</b>								
Correspondent accounts and overnight placements with other banks	2.5%	8.1%	2.0%	2.2%	1.4%	0.5%	0.0%	2.1%
Mandatory cash balances with central banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	6.9%	8.2%	4.1%	8.4%	7.9%	10.2%	4.9%	7.8%
Due from other banks	3.1%	7.4%	-	4.1%	5.4%	2.1%	-	11.7%
Loans and advances to customers	11.4%	12.7%	8.0%	12.4%	11.2%	13.6%	8.1%	14.3%
<b>Liabilities</b>								
Due to other banks	4.2%	5.7%	3.5%	2.2%	2.8%	2.3%	3.3%	0.9%
Customer accounts								
- current and settlement accounts	0.4%	0.0%	1.1%	0.0%	0.6%	1.1%	0.9%	1.0%
- term deposits	4.7%	4.2%	3.9%	10.3%	5.7%	5.2%	5.5%	9.8%
Promissory notes issued	4.7%	3.5%	5.7%	0.0%	3.8%	6.6%	6.7%	13.0%
Other borrowed funds	8.3%	7.5%	-	-	8.2%	7.4%	-	-

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

**26 Contingencies, Commitments and Derivative Financial Instruments**

**Legal proceedings.** Since 2002, Alfa Finance Holdings S.A., and certain other parties related to the Group, have been listed as the defendants in an action commenced by Norex Petroleum Limited (“Norex”) in the United States District Court for the Southern District of New York in relation to the ownership of a company which is currently owned by TNK-BP Limited, a company related to the Group.

On 18 February 2004, the court dismissed the claim on the grounds of “forum non conveniens”. In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither Alfa Bank nor Alfa Capital Markets (USA) Inc. have been served with any court papers or have been named in the caption to this action. Norex representatives filed a notice of appeal against the court decision and on 21 July 2005 the court of appeal vacated the previous court’s decision and remanded the case for further proceedings. Management believes that the allegations are without merit and intends to vigorously defend this action.

From time to time and in the normal course of business, other claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been recorded in these interim consolidated financial statements.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

In addition, 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 interim consolidated statement of income as presented in these interim 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 interim consolidated financial statements.

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

The Group occasionally conducts intercompany transactions at off-market rates. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of any such challenge can not be estimated; however, it may be significant.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 30 June 2005 no provision for potential tax liabilities had been recorded (31 December 2004: no provision).

**Capital commitments.** As at 30 June 2005 the Group had capital commitments of USD 74 000 thousand, of which USD 51 000 thousand relates to capital construction, modernisation and repair of premises, USD 11 000 thousand relates to purchase and installation of new computer systems, USD 12 000 thousand relates to other capital commitments. As at 31 December 2004 the Group had capital commitments of USD 30 499 thousand, of which USD 9 660 thousand related to capital construction, modernisation and repair of premises, USD 9 630 thousand related to purchase and installation of new computer systems, USD 11 209 thousand related to other capital commitments. 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 were as follows:

	30 June 2005	31 December 2004
Not later than 1 year	12 952	11 754
Later than 1 year and not later than 5 years	26 740	26 666
Later than 5 years	7 445	7 341
<b>Total operating lease commitments</b>	<b>47 137</b>	<b>45 761</b>

**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.



**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

Outstanding credit related commitments were as follows:

	Note	30 June 2005	31 December 2004
Guarantees issued		540 581	597 850
Export letters of credit		253 895	346 945
Import letters of credit	15	179 678	151 923
Less: provision for losses on credit related commitments	17	(20 510)	(21 123)
<b>Total credit related commitments</b>		<b>953 644</b>	<b>1 075 595</b>

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.

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

	Six-Month Period Ended 30 June 2005	Six-Month Period Ended 30 June 2004
<b>Provision for losses on credit related commitments as at 1 January</b>	<b>21 123</b>	<b>7 782</b>
(Release of provision)/provision for losses on credit related commitments during the period	(613)	3 820
<b>Provision for losses on credit related commitments as at 30 June</b>	<b>20 510</b>	<b>11 602</b>

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 30 June 2005.

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value	Principal or agreed amount at fair value	Liabilities Negative fair value	Assets Positive fair value
<b>Deliverable forwards</b>						
Foreign currency						
- sale of foreign currency	19 511	-	-	318 822	-	-
- purchase of foreign currency	138 905	(5)	4 287	313 986	(6 859)	2 024
Securities						
- sale of securities	72 794	(341)	170	12 260	(44)	6
- purchase of securities	25 645	-	843	25 082	-	1 038
<b>Non-deliverable forwards</b>						
Foreign currency						
- sale of foreign currency	2 077	-	16	193 282	(4 076)	11
- purchase of foreign currency	-	-	-	150 598	(576)	2 017
Securities						
- sale of securities	-	-	-	244 860	(88 035)	-
- purchase of securities	30 750	-	188	-	-	-
<b>Futures</b>						
Foreign currency						
- sale of foreign currency	-	-	-	166 537	-	4 708
- purchase of foreign currency	-	-	-	5 718	(59)	-
Securities						
- sale of securities	-	-	-	30 750	(133)	23
- purchase of securities	-	-	-	-	-	-
<b>Spot</b>						
Foreign currency						
- sale of foreign currency	1 877 745	(48)	1	1 621 601	-	1
- purchase of foreign currency	1 942 248	(4 088)	3 776	1 623 427	(3 601)	3 236
<b>Call options</b>						
Foreign currency						
- sale of call options	-	-	-	34 244	(772)	-
- purchase of call options	4 853	-	20	-	-	-
Securities						
- sale of call options	-	-	-	1 250	(165)	-
- purchase of call options	-	-	-	3 563	-	125
Commodities						
- sale of call options	38 213	(2 034)	-	-	-	-
- purchase of call options	-	-	-	38 213	-	2 034
<b>Put options</b>						
Foreign currency						
- sale of put options	-	-	-	4 851	(57)	-
- purchase of put options	5 461	-	66	-	-	-
Securities						
- sale of put options	-	-	-	4 499	(1)	-
- purchase of put options	-	-	-	7 572	-	18
<b>Swaps</b>						
Interest rate on foreign currency						
-	-	-	-	100 000	(195)	-
<b>Total</b>		<b>(6 516)</b>	<b>9 367</b>		<b>(104 573)</b>	<b>15 241</b>

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

Forward and futures positions in securities as at 30 June 2005 are summarised below. As at 30 June 2005 the major respective securities' long balance sheet positions of the Group exceeded the respective securities' short deliverable forward positions. Refer to Note 8.

	30 June 2005	
	Principal or agreed amount Sale	Purchase
Corporate shares of Russian entities	244 860	-
US Treasury Notes	30 750	30 750
Corporate Eurobonds	27 822	-
Russian Federation Eurobonds	24 659	43 485
Corporate bonds	24 592	-
Municipal bonds	6 349	-
Eurobonds of other states	1 200	7 242
ADRs and GDRs	432	-
<b>Total</b>	<b>360 664</b>	<b>81 477</b>

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

	30 June 2005 Nominal value	31 December 2004 Nominal value
Shares in companies held in custody	249 324	132 506
Corporate bonds held in custody	130 628	143 833
Promissory notes of companies held in custody	60 004	69 535
OVGVZ held on account with Vneshtorgbank	28 681	31 595
Eurobonds	25 623	3 659
Client OFZ securities held on an account with NDC	19 586	19 302
Other	138	7 951

**Assets pledged and restricted.** As at 30 June 2005 the Group had the following assets pledged as collateral:

	Notes	30 June 2005	31 December 2004
Trading securities	8, 14	25 693	83 594
Loans and advances to customers	10, 14	59 186	78 624
Precious metals	12, 14	20 174	21 432
<b>Total</b>		<b>105 024</b>	<b>183 650</b>

Mandatory cash balances with central banks in the amount of USD 171 423 thousand (31 December 2004: USD 139 549 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

**27 Fair Value of Financial Instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the 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.

The following table summarises the carrying amounts and fair values of those principal financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	30 June 2005		31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents (Note 7)	1 177 318	1 177 318	997 278	997 278
Mandatory cash balances with central banks	171 423	171 423	139 549	139 549
Trading securities (Note 8)	651 306	651 306	717 050	717 050
Due from other banks (Note 9)	605 274	605 274	570 642	570 642
Loans and advances to customers (Note 10)	4 887 921	4 890 180	4 100 089	4 103 116
Investments (Note 11)	130 032	130 032	60 933	60 933
<b>Financial liabilities</b>				
Due to other banks (Note 14)	538 154	538 154	499 958	499 958
Customer accounts (Note 15)	4 690 080	4 690 080	4 492 072	4 492 072
Promissory notes issued	310 828	310 828	206 223	206 223
Other borrowed funds (Note 16)	1 250 039	1 254 385	706 955	710 672

**Due from and due to other banks.** The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

**Loans and advances to customers.** The carrying value of loans and advances is 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.

**Customer accounts.** The estimated fair value of balances with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing balances without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

**Promissory notes issued.** The aggregate fair values are calculated based on quoted market prices. For those notes 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.

**Financial instruments measured at fair value in the financial statements.** All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 26.

**28 Related Party Transactions**

For the purposes of these interim 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, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group Consortium and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

**28 Related Party Transactions (Continued)**

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

	30 June 2005/Six-Month Period Ended 30 June 2005			31 December 2004/Six-Month Period Ended 30 June 2004		
	TNK-BP	Alfa Group Consortium and its share- holders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its share- holders (Note 1)	Other
<b>Trading securities as at the period end</b>	<b>531</b>	<b>-</b>	<b>11 117</b>	<b>58</b>	<b>-</b>	<b>12 545</b>
<b>Loans and advances to customers as at the period end</b>	<b>-</b>	<b>95 443</b>	<b>20 079</b>	<b>12 785</b>	<b>47 042</b>	<b>30 591</b>
USD, effective contractual rate of 0.0%	-	-	-	-	-	1 903
USD, effective contractual rate of 8.8% - 10.3%	-	37 436	1 910	-	-	-
USD, effective contractual rate of 10.8% - 12.5%	-	26 091	-	-	3 250	-
USD, effective contractual rate of 12.6-14.0%	-	16 606	18 169	131	41 612	28 688
RUR, effective contractual rate of 0.0%	-	66	-	-	-	-
RUR, effective contractual rate of 8.5%	-	14 544	-	-	-	-
RUR, effective contractual rate of 10.7% - 19.0%	-	700	-	12 654	2 180	-
<b>Interest income for the period</b>	<b>167</b>	<b>5 971</b>	<b>2 804</b>	<b>2 104</b>	<b>2 279</b>	<b>77</b>
<b>Receivables as at the period end</b>	<b>14</b>	<b>4 728</b>	<b>1</b>	<b>9</b>	<b>16 074</b>	<b>-</b>
<b>Customer accounts</b>						
<b>Current/settlement accounts as at the period end</b>	<b>64 296</b>	<b>178 320</b>	<b>1 534</b>	<b>110 330</b>	<b>13 981</b>	<b>28 612</b>
RUR, effective contractual rate of 0.0%-2.0%	61 664	30 122	1 534	105 007	10 196	24 671
USD, effective contractual rate of 0.0%-2.0%	2 630	143 900	-	4 392	3 647	3 941
EUR, effective contractual rate of 0.0%-2.0%	2	13	-	308	138	-
UAH, effective contractual rate of 0.0%-2.0%	-	4 285	-	623	-	-
<b>Term deposits as at the period end</b>	<b>105 136</b>	<b>438 388</b>	<b>10 981</b>	<b>55 268</b>	<b>969 191</b>	<b>21 664</b>
RUR, effective contractual rate of 2.0% - 12.5%	68 937	2 959	-	19 332	5 767	21 664
USD, effective contractual rate of 1.8% - 8.5%	36 199	412 480	10 981	35 936	963 424	-
UAH, effective contractual rate of 9.0%	-	22 949	-	-	-	-
<b>Interest expense for the period</b>	<b>1 126</b>	<b>15 187</b>	<b>412</b>	<b>802</b>	<b>5 844</b>	<b>90</b>

**28 Related Party Transactions (Continued)**

	30 June 2005/Six-Month Period Ended 30 June 2005			31 December 2004/Six-Month Period Ended 30 June 2004		
	TNK-BP	Alfa Group Consortium and its share- holders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its share- holders (Note 1)	Other
<b>Promissory notes issued as at the period end</b>	<b>779</b>	<b>16 603</b>	<b>3 556</b>	<b>1 296</b>	<b>2 552</b>	<b>-</b>
RUR, effective contractual interest rate of 0.0%	762	162	3 556	1 259	209	-
RUR, effective contractual interest rate of 5.0% - 11.5%	17	15 929	-	22	2 343	-
USD, effective contractual interest rate of 4.1%-7.7%	-	512	-	15	-	-
<b>Payables as at the period end</b>	<b>1</b>	<b>2 454</b>	<b>-</b>	<b>-</b>	<b>298</b>	<b>-</b>
<b>Guarantees issued by the Group as at the period end</b>	<b>128 859</b>	<b>925</b>	<b>-</b>	<b>96 883</b>	<b>18</b>	<b>-</b>
<b>Import letters of credit as at the period end</b>	<b>-</b>	<b>-</b>	<b>2 972</b>	<b>-</b>	<b>-</b>	<b>6 101</b>
<b>Fee and commission income for the period</b>	<b>1 389</b>	<b>1 180</b>	<b>240</b>	<b>2 200</b>	<b>1 766</b>	<b>186</b>
<b>Other income for the period</b>	<b>5</b>	<b>131</b>	<b>-</b>	<b>1 166</b>	<b>-</b>	<b>1 531</b>
<b>Other expenses for the period</b>	<b>-</b>	<b>224</b>	<b>-</b>	<b>117</b>	<b>984</b>	<b>9 890</b>

Key management compensation is presented below:

	30 June 2005	31 December 2004
<b>Key management compensation accrual</b>	<b>21 559</b>	<b>22 267</b>
Salaries	474	-
Bonuses	21 085	22 267
	<b>Six-Month Period Ended 30 June 2005</b>	<b>Six-Month Period Ended 30 June 2004</b>
<b>Key management compensation expense</b>	<b>13 721</b>	<b>9 890</b>
Salaries	3 427	3 489
Bonuses	10 294	6 401

**29 Principal Consolidated Subsidiaries**

<b>Russian Federation and CIS</b>	<b>Rest of the World</b>
Alfa Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Bank Ukraine	Alfa Debt Market Limited (Cyprus)
Alfa Leasing	Alfa FI Limited (Cyprus)
	Alfa MTN Invest Limited (Cyprus)
	Alfa MTN Issuance Limited (Cyprus)
	Alfa-Russia Finance B.V. (Netherlands)
	Alfa Securities Limited (UK)
	Amsterdam Trade Bank (Netherlands)

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As at 30 June 2005 and 31 December 2004 all principal consolidated subsidiaries of the Group were wholly owned and controlled by the Group, except for Alfa Bank Ukraine, which is 96.9% owned and controlled as at 30 June 2005 (31 December 2004: 94.7% owned and controlled).



**ABH Financial Limited**

**Consolidated Financial Statements and Auditors'  
Report**

**31 December 2004**

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## AUDITORS' REPORT

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

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 2004, 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.

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.

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 2004 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation  
8 April 2005

**ABH Financial Limited**  
**Consolidated Balance Sheet as at 31 December 2004**  
*(expressed in thousands of US dollars - Note 3)*

	Note	2004	2003
<b>Assets</b>			
Cash and cash equivalents	5	997 278	923 191
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		139 549	293 294
Trading securities	6	717 050	694 575
Due from other banks	7	570 642	131 621
Loans and advances to customers	8	4 100 089	3 466 306
Investments	9	60 933	65 443
Other assets and receivables	10	275 690	159 983
Premises and equipment	11	146 891	149 721
Deferred tax asset	21	16 587	-
<b>Total assets</b>		<b>7 024 709</b>	<b>5 884 134</b>
<b>Liabilities</b>			
Due to other banks	12	499 958	796 301
Customer accounts	13	4 492 072	3 400 406
Promissory notes issued		206 223	594 940
Other borrowed funds	14	706 955	323 917
Other liabilities and payables	15	380 568	201 517
Deferred tax liability	21	28 501	13 448
<b>Total liabilities</b>		<b>6 314 277</b>	<b>5 330 529</b>
<b>Minority interest</b>		<b>2 875</b>	<b>6 635</b>
<b>Shareholders' equity</b>			
Share capital	16	160 800	160 800
Fair value reserve for investments available for sale		-	22 798
Revaluation reserve for premises		4 123	5 195
Retained earnings		542 634	358 177
<b>Total shareholders' equity</b>		<b>707 557</b>	<b>546 970</b>
<b>Total liabilities and shareholders' equity</b>		<b>7 024 709</b>	<b>5 884 134</b>

Approved for issue by the Board of Directors and signed on its behalf on 8 April 2005.

\_\_\_\_\_  
Petr Smida  
Chief Executive Officer

\_\_\_\_\_  
Marina Popova  
Chief Accountant

**ABH Financial Limited****Consolidated Statement of Income for the Year Ended 31 December 2004***(expressed in thousands of US dollars - Note 3)*

	Note	2004	2003
Interest income	17	548 467	484 300
Interest expense	17	(236 143)	(242 490)
<b>Net interest income</b>		<b>312 324</b>	<b>241 810</b>
Provision for loan impairment	7, 8	(23 971)	(42 069)
<b>Net interest income after provision for loan impairment</b>		<b>288 353</b>	<b>199 741</b>
Fee and commission income	18	145 898	135 818
Fee and commission expense	18	(30 380)	(41 150)
Gains less losses arising from trading securities		63 804	18 987
Gains less losses arising from investments available for sale	9	34 009	31 054
Gains less losses arising from trading in foreign currencies		(3 468)	38 908
Foreign exchange translation gains less losses		(5 248)	(15 968)
Other impairment provisions	9, 10, 24	(22 212)	(4 450)
Other operating income	19	51 073	58 419
<b>Operating income</b>		<b>521 829</b>	<b>421 359</b>
Operating expenses	20	(350 738)	(305 553)
<b>Profit from operations</b>		<b>171 091</b>	<b>115 806</b>
Share of results of associated company after tax	9	13 621	920
<b>Profit before tax</b>		<b>184 712</b>	<b>116 726</b>
Income tax expense	21	(31 522)	(11 011)
<b>Profit after tax</b>		<b>153 190</b>	<b>105 715</b>
Minority interest		(420)	(96)
<b>Net profit</b>		<b>152 770</b>	<b>105 619</b>

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

**ABH Financial Limited**  
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2004**  
*(expressed in thousands of US dollars - Note 3)*

Note	2004	2003
<b>Cash flows from operating activities</b>		
Interest received	547 644	495 426
Interest paid	(247 041)	(222 764)
Fees and commissions received	145 898	138 417
Fees and commissions paid	(32 519)	(39 011)
Income received from trading in securities	50 884	24 566
Income received from trading in foreign currencies	4 425	36 595
Other operating income received	39 064	37 246
Staff compensation paid	(152 650)	(136 221)
Operating expenses paid	(142 678)	(135 969)
Income tax paid	(27 063)	(6 162)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		
	<b>185 964</b>	<b>192 123</b>
<b>Changes in operating assets and liabilities</b>		
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks	164 920	(59 818)
Net decrease/(increase) in trading securities	263 613	(288 031)
Net (increase)/decrease in due from other banks	(438 667)	85 985
Net increase in loans and advances to customers	(574 741)	(961 752)
Net increase in other assets and receivables	(106 350)	(27 303)
Net (decrease)/increase in due to other banks	(305 185)	102 211
Net increase in customer accounts	782 867	1 302 254
Net decrease in promissory notes issued	(381 945)	(94 326)
Net increase in other liabilities and payables	50 298	17 090
<b>Net cash (used in)/from operating activities</b>		
	<b>(359 226)</b>	<b>268 433</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of investments available for sale, net	64 311	87 487
Acquisition of investments available for sale	(17 664)	(2 047)
Additional acquisition of investment in associated company	(17 070)	(8 210)
Acquisition of premises and equipment, net	(17 065)	(24 917)
Proceeds from disposal of subsidiary, net	7 832	4 000
Dividend income received	2 764	1 486
<b>Net cash from investing activities</b>		
	<b>23 108</b>	<b>57 799</b>
<b>Cash flows from financing activities</b>		
Contribution from the shareholder	-	73 000
Proceeds from other borrowed funds	606 232	132 318
Repayment of other borrowed funds	(223 782)	(24 034)
<b>Net cash from financing activities</b>		
	<b>382 450</b>	<b>181 284</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		
	<b>27 755</b>	<b>33 441</b>
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents as at the beginning of the year	923 191	382 234
<b>Cash and cash equivalents as at the end of the year</b>		
5	<b>997 278</b>	<b>923 191</b>

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

3

**ABH Financial Limited****Consolidated Statements of Changes in Shareholders' Equity for the Year Ended 31 December 2004***(expressed in thousands of US dollars - Note 3)*

	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises	Retained earnings	Total shareholders' equity
<b>Balance as at 1 January 2003</b>	<b>160 800</b>	<b>62 657</b>	<b>6 267</b>	<b>201 462</b>	<b>431 186</b>
Net fair value gains arising on investments available for sale (Note 9)	-	7 104	-	-	7 104
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(12 503)	-	-	(12 503)
Effect of change in accounting treatment of investment in associated company (Note 9)	-	(34 460)	-	-	(34 460)
Translation movement	-	-	-	25 024	25 024
Transfer of realised revaluation of premises	-	-	(1 072)	1 072	-
Net profit	-	-	-	105 619	105 619
Contribution from the shareholder (Note 26)	-	-	-	25 000	25 000
<b>Balance as at 31 December 2003</b>	<b>160 800</b>	<b>22 798</b>	<b>5 195</b>	<b>358 177</b>	<b>546 970</b>
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(24 249)	-	-	(24 249)
Impairment of investments available for sale	-	1 451	-	-	1 451
Translation movement	-	-	-	30 615	30 615
Transfer of realised revaluation of premises	-	-	(1 072)	1 072	-
Net profit	-	-	-	152 770	152 770
<b>Balance as at 31 December 2004</b>	<b>160 800</b>	<b>-</b>	<b>4 123</b>	<b>542 634</b>	<b>707 557</b>

## **1 Principal Activities of ABH Financial Limited**

ABH Financial Limited and its subsidiaries (the “Group” or “Alfa Bank Group”) comprise two main business segments, commercial banking and investment banking (refer to Note 22). The commercial banking activities of the Group are carried out principally by Open Joint Stock Company Alfa Bank (the “Bank”) and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries. A substantial part of the Group’s activities are carried out in Russia.

Before June 2004 ABH Financial Limited was 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 significant business segments: oil and gas, financial services, telecommunications and the retail trade. On 1 March 2004 the Supervisory Board of the Consortium decided to restructure ownership and control over ABH Financial Limited to comply with newly enacted instructions of the Central Bank of the Russian Federation (“CBRF”) to enable the Bank to participate in the State deposit insurance scheme. In June 2004, the Consortium finalised a restructuring in which ABH Financial Limited, and its subsidiaries including the Bank, were transferred to the newly created ABH Holdings Corp (“ABHH”), a company registered in the British Virgin Islands. ABHH is owned by the same beneficial shareholders and in the same proportions as ABH Financial Limited was owned prior to the restructuring.

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a listing of the principal consolidated subsidiaries. The number of employees of the Group as at 31 December 2004 was 4 919 (2003: 6 256).

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

**Commercial Banking.** Alfa Bank is a wholly owned subsidiary of ABH Financial Limited. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the CBRF since 1991. The Bank operates in all banking sectors of the Russian financial markets, including interbank 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. On 16 December 2004 the Bank was accepted to the state deposit insurance scheme introduced by the Federal Law #177-FZ “Deposits of individuals’ insurance in the Russian Federation” dated 23 December 2003. The State deposit insurance scheme implies that the State will guarantee repayment of individual deposits up to RR 100 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. The Bank is licensed by the Federal Commission on Securities Market for trading securities.

As at 31 December 2004 the Bank had 32 (2003: 32) branches within the Russian Federation. The Bank’s major wholly owned subsidiaries comprise Amsterdam Trade Bank, Alfa Bank Ukraine and Alfa Bank Kazakhstan (refer to Note 27).

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

**Investment banking.** ABH Financial Limited is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking sector 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 was regulated by the Central Bank of Cyprus as a financial services company under a permit issued in April 2002. In 2004, the Cyprus Securities and Exchange Commission (CySEC) became the regulator of Alfa Capital Holdings (Cyprus) Limited. Alfa Capital Holdings (Cyprus) Limited obtained a license on 4 May 2004, No 025/04, from the CySEC to engage principally in brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.



## **2 Operating Environment of the Group**

The Group through its operations has significant exposure to Russia's economy and financial markets.

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain 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, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in the Russian Federation is particularly sensitive to adverse fluctuations in confidence 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.

In summer 2004 certain banks in the Russian banking sector, and amongst them the Group, experienced severe liquidity problems, which also affected the general confidence in the banking sector. In July to August 2004, to support the Group, the shareholders of the Group and a company controlled by the shareholders placed short term deposits with the Group. Management plans to cover any future liquidity gap via the issuance of different types of debt securities on international markets and/or restructuring its loan portfolio. The Group's assets and operations could be at risk if there is any further adverse change in the liquidity position of the Russian banking sector. It is not possible to predict what effect, if any, any further significant deterioration in the liquidity or confidence in the Russian banking system may have on the financial position of the Group.

## **3 Basis of Preparation**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in compliance with Russian accounting regulations or applicable companies' law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS.

The consolidated financial statements have been measured and presented in US Dollars ("USD"), a currency which is used to a significant extent in, and has significant impact on the Group and reflects the economic substance of its underlying events and circumstances. A significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars. Moreover, the Group's (and the Bank's) assets and liabilities are largely denominated and settled in US Dollars (refer to Note 23). 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. 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 preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

### **3 Basis of Preparation (Continued)**

**Consolidated financial statements.** Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which the power to control is transferred to the Group and are removed from consolidation from the date the power to 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, equity instruments 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 and of the net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiaries. Minority interest related to the net results of the current year is recorded in the consolidated statement of income.

**Foreign currency translation.** The Group determines the appropriate measurement currency for each subsidiary. The Bank and other Group companies operating in the Russian Federation use Russian Rouble ("RR") as a measurement currency.

The consolidated statements of income and of cash flows of foreign entities are translated into US Dollars at actual exchange rates at the date of the transaction or at average exchange rates for the year as an approximation of actual exchange rates. The balance sheets are translated in US Dollars at the exchange rate as at the balance sheet date. 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 the official exchange rate at the balance sheet date. Exchange differences arising from the translation of the net investment in foreign entities are recognized in shareholders' equity. When a foreign entity is sold, such exchange differences are recorded in the consolidated statement of income as part of the gain or loss on sale.

Transactions denominated in foreign currency are recorded at the exchange rate on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income using the exchange rate on that date.

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss. Thus, underlying translation differences on equity investments available for sale are recorded through the fair value reserve for investments available for sale in shareholders' equity.

As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.7487 (2003: USD 1 = RR 29.4545) and the average exchange rate the year ended 31 December 2004 was USD 1 = RR 28.8150 (2003: USD 1 = RR 30.6875). 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.

**Accounting for the effects of hyperinflation.** A significant proportion of the Group's activities are carried out in the Russian Federation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records of the Bank and other Russian companies of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group no longer apply the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 were treated as the basis for the carrying amounts in these consolidated financial statements.

### 3 Basis of Preparation (Continued)

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

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The 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 were the following:

	CPI	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

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### 4 Significant Accounting Policies

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

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

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

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

All related realised 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 and is recorded using an effective interest method. Dividends received are included in dividend income within other operating income.

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

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

Originated loans are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

#### **4 Significant Accounting Policies (Continued)**

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

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

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

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

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

**Purchased loans and receivables.** Purchased loans and receivables are categorised as held to maturity, available for sale or trading assets depending on the Management's intent. Purchased loans and receivables with a fixed maturity where Management has both the intent and the ability to hold to maturity are classified as held to maturity assets.

Purchased loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates are classified as available for sale assets. Purchased loans and receivables that were acquired principally for the purpose of generating a short-term profit are classified as trading assets.

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

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

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

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

#### **4 Significant Accounting Policies (Continued)**

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

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

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

**Associated companies.** Associated companies are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated companies includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

**Sale and repurchase agreements and lending of securities.** Sale and repurchase agreements ("repo agreements") 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 agreements") are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

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

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

#### **4 Significant Accounting Policies (Continued)**

**Premises and equipment.** Premises and equipment are stated at cost, restated, where applicable, to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

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 for premises 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, where applicable, to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment where required. 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.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

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.

**Computer software development costs.** Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

**Depreciation and amortisation.** 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;
Computer software	10-20% per annum; and
Leasehold improvements	over the term of the underlying lease.

**Operating leases.** Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

#### **4 Significant Accounting Policies (Continued)**

**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 loans and advances to customers. Lease income is recorded over the term of the lease using the effective interest method.

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.

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

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

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

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

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

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

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

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

**Accrued interest income and accrued interest expense.** Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

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

**Income taxes.** Taxation has been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income for the 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 during the year. Taxes, other than on income, are recorded within operating expenses.

#### **4 Significant Accounting Policies (Continued)**

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

**Income and expense recognition.** Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment 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 interest on the loans. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses and portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody and fiduciary fees are recorded proportionally over the period the service is provided.

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

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

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

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

**Staff costs and related contributions.** The Group's contributions to state pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs.

Discretionary employee compensations are accrued in accordance with the existing employee compensation plans in the reporting period they relate to. Discretionary employee compensations are subject to the Group's Supervisory Board approval and recorded and disclosed within staff costs in the consolidated financial statements.



**4 Significant Accounting Policies (Continued)**

**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**

	<b>2004</b>	<b>2003</b>
Cash on hand	257 376	169 099
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	379 633	227 528
Correspondent accounts with other banks		
- Russian Federation	115 677	33 014
- Other countries	43 358	168 827
Overnight placements with other banks		
- Russian Federation	38 020	45 262
- Other countries	163 214	279 461
<b>Total cash and cash equivalents</b>	<b>997 278</b>	<b>923 191</b>

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

**6 Trading Securities**

	<b>2004</b>	<b>2003</b>
Corporate shares	331 152	35 119
Corporate bonds	109 664	72 698
Russian Federation Eurobonds	91 272	305 759
Corporate Eurobonds	79 653	183 300
ADRs and GDRs	17 506	6 297
Municipal bonds	15 335	23 975
Eurobonds of other states	12 457	52 644
Other	60 011	14 783
<b>Total trading securities</b>	<b>717 050</b>	<b>694 575</b>

Corporate shares are shares of major Russian and Ukrainian companies.

Corporate bonds are interest-bearing securities mainly denominated in Russian Roubles, issued by Russian and Ukrainian companies, and are freely tradable in the Russian Federation and the Ukraine. These bonds have maturity dates ranging from October 2005 to August 2009, coupon rates from 7.6% to 17.5% during 2004 and yields to maturity from 5.1% to 17.0% as at 31 December 2004, depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from March 2005 to March 2030, coupon rates from 5.0% to 12.8% during 2004 and yields to maturity from 3.5% to 7.1% as at 31 December 2004, depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from September 2005 to April 2014, coupon rates from 7.8% to 12.8% during 2004 and yields to maturity from 4.5% to 12.0% as at 31 December 2004, depending on the type of bond issue.

**6 Trading Securities (Continued)**

As at 31 December 2004 trading securities with a fair value of USD 83 594 thousand (2003: USD 319 126 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

Currency and interest rates analyses of trading securities are disclosed in Note 23. The information on trading securities issued by related parties and owned by the Group as at 31 December 2004 is disclosed in Note 26.

**7 Due from Other Banks**

	<b>2004</b>	<b>2003</b>
Term placements with other banks	564 585	91 552
Reverse sale and repurchase agreements with other banks	6 057	40 069
<b>Total due from other banks</b>	<b>570 642</b>	<b>131 621</b>

Movements in the provision for loan impairment were as follows:

	<b>2004</b>	<b>2003</b>
<b>Provision for loan impairment as at 1 January</b>	-	<b>50</b>
Release of provision for loan impairment during the year	-	(50)
<b>Provision for loan impairment as at 31 December</b>	-	-

As at 31 December 2004 the estimated fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 6 963 thousand (2003: USD 45 626 thousand).

As at 31 December 2004 the estimated fair value of due from other banks was USD 570 642 thousand (2003: USD 131 621 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**

	<b>2004</b>	<b>2003</b>
Current loans	4 185 006	3 585 253
Net investment in lease	79 967	25 626
Overdue loans	32 962	31 150
Less: Provision for loan impairment	(197 846)	(175 723)
<b>Total loans and advances to customers</b>	<b>4 100 089</b>	<b>3 466 306</b>

**8 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment were as follows:

	<b>2004</b>	<b>2003</b>
<b>Provision for loan impairment as at 1 January</b>	<b>175 723</b>	<b>134 921</b>
Provision for loan impairment during the year	23 971	42 119
Loans written off during the year as uncollectible	(1 848)	(1 317)
<b>Provision for loan impairment as at 31 December</b>	<b>197 846</b>	<b>175 723</b>

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

	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Manufacturing and construction	1 881 503	44	1 482 316	41
Energy and oil and gas	1 065 922	25	1 052 238	29
Trade and commerce	642 975	15	529 506	14
Telecommunications	198 931	5	205 697	6
Finance and investment companies	86 637	2	98 775	3
Individuals	46 119	1	49 858	1
Other	375 848	8	223 639	6
<b>Total loans and advances to customers (aggregate amount)</b>	<b>4 297 935</b>	<b>100</b>	<b>3 642 029</b>	<b>100</b>

As at 31 December 2004 the Group had 20 borrowers (2003: 16 borrowers) with aggregated loan amounts equal to or above USD 50 000 thousand. The total aggregate amount of these loans was USD 1 928 999 thousand (2003: USD 1 742 925 thousand) or 44.9% (2003: 47.9%) of the gross loans and advances to customers.

As at 31 December 2004 loans to customers in the amount of USD 78 624 thousand (2003: USD 23 765 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 12.

As at 31 December 2004 the estimated fair value of loans and advances to customers was USD 4 103 116 thousand (2003: USD 3 479 875 thousand). Refer to Note 25.

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

**9 Investments**

	<b>2004</b>	<b>2003</b>
Investments available for sale	10 684	45 885
Investment in an associated company	50 249	19 558
<b>Total investments</b>	<b>60 933</b>	<b>65 443</b>

**9 Investments (Continued)**

**Investments available for sale.** The movements in the fair value of investments available for sale were as follows:

	<b>2004</b>	<b>2003</b>
<b>As at 1 January</b>	<b>45 885</b>	<b>95 776</b>
Net fair value gains arising on investments available for sale	-	7 104
Acquisition of investments available for sale	17 664	2 047
Disposal of investments available for sale	(61 311)	(35 483)
Effect of change in accounting treatment of investment in STS	-	(42 110)
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in shareholders' equity	9 760	18 551
Impairment of investments available for sale	(1 314)	-
<b>Total investments available for sale as at 31 December</b>	<b>10 684</b>	<b>45 885</b>

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

<b>Name</b>	<b>Nature of business</b>	<b>Country of registration</b>	<b>Fair value</b>	
			<b>2004</b>	<b>2003</b>
Akrikhin	Pharmaceutical	Russia	-	38 630
Saratovstroysteklo	Glass production	Russia	-	3 934
Other			10 684	3 321
<b>Total</b>			<b>10 684</b>	<b>45 885</b>

During 2004 the Group disposed of its entire interest in Akrikhin for USD 40 000 thousand.

External independent market quotations were not available for certain investments available for sale. The fair values of these assets were determined by Management on the basis of 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.

**Investment in an associated company.** As at 31 December 2004 the investment in an associated company in the amount of USD 50 249 thousand (2003: 19 558 thousand) represents a 29.1% (2003: 25.0%) interest in CTC Media Inc., formerly Story First Communications Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures.

In 1999 the Group acquired a 25% plus 2 shares investment in the STS Network ("STS"), a national television network in the Russian Federation and a 75% owned subsidiary of CTC, with an intention to sell it within a short period after purchase. The investment in STS was carried on the consolidated balance sheet at fair value within investments available for sale. As at 31 December 2002 the fair value of the investment in STS was USD 42 110 thousand.

In August 2003 the Group restructured its entire interest in STS into a 25% interest in CTC. In the course of restructuring the Group forgave indebtedness of STS to the Group in amount of USD 10 428 thousand and paid a total of USD 8 210 thousand to STS and one of the shareholders of CTC.

Following the restructuring the Group classified its investment in CTC as an investment in an associated company and accounted for using the equity method of accounting. The carrying value of the investment in CTC as at the date of restructuring was recalculated using the equity method of accounting retrospectively from the date of its acquisition for the purposes of determination of the cost of acquisition of the investment in CTC.

**9 Investments (Continued)**

Fair value gains in the amount of USD 34 460 thousand previously recorded directly in shareholders' equity in relation to the investment in STS were reversed in the consolidated statement of changes in shareholders' equity for the year ended 31 December 2003.

In August 2004 the Group purchased an additional 5.8% interest in CTC for USD 17 070 thousand. From time to time the Group's interest in CTC decreases as a result of acquisitions and other transactions of CTC partially paid for by shares of CTC.

The share of results of associated company after tax was USD 13 621 thousand (2003: USD 920 thousand).

**10 Other Assets and Receivables**

	<b>2004</b>	<b>2003</b>
Receivables on operations with securities	58 614	41 663
Trade debtors and prepayments	48 090	26 287
Conversion operations and derivative financial instruments	47 219	17 723
Precious metals	40 226	21 258
Equipment purchased for leasing	31 786	702
Plastic card debtors and other settlements with clients	31 775	25 959
Receivables from related parties	16 083	10 252
Prepaid taxes	12 579	6 212
Other	3 176	17 679
	<b>289 548</b>	<b>167 735</b>
Less: Provision for impairment of receivables	(13 858)	(7 752)
<b>Total other assets and receivables</b>	<b>275 690</b>	<b>159 983</b>

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

	<b>2004</b>	<b>2003</b>
<b>Provision for impairment of receivables as at 1 January</b>	<b>7 752</b>	<b>1 875</b>
Provision for impairment of receivables during the year	6 106	6 130
Disposal of subsidiary	-	(253)
<b>Provision for impairment of receivables as at 31 December</b>	<b>13 858</b>	<b>7 752</b>

As at 31 December 2004 precious metals included gold with a carrying value of USD 21 432 thousand (2003: USD 19 943 thousand) sold under sale and repurchase agreements with other banks. Refer to Note 12.

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

**11 Premises and Equipment**

	Premises	Leasehold improvements	Office and computer equipment	Computer software	Construction in progress	Total
<b>Net book amount as at 31 December 2003</b>	<b>50 121</b>	<b>10 344</b>	<b>46 652</b>	<b>32 141</b>	<b>10 463</b>	<b>149 721</b>
<b>Cost or valuation</b>						
Opening balance	58 767	11 878	95 351	45 916	10 463	222 375
Additions and transfers	6 517	1 403	17 654	5 480	(8 551)	22 503
Disposals	(1 134)	(3 334)	(7 310)	(170)	-	(11 948)
Translation movement	3 401	730	5 243	1 024	273	10 671
<b>Closing balance</b>	<b>67 551</b>	<b>10 677</b>	<b>110 938</b>	<b>52 250</b>	<b>2 185</b>	<b>243 601</b>
<b>Accumulated depreciation</b>						
Opening balance	8 646	1 534	48 699	13 775	-	72 654
Depreciation charge	1 564	282	16 402	7 585	-	25 833
Disposals	(131)	(252)	(5 215)	(39)	-	(5 637)
Translation movement	501	94	2 802	463	-	3 860
<b>Closing balance</b>	<b>10 580</b>	<b>1 658</b>	<b>62 688</b>	<b>21 784</b>	<b>-</b>	<b>96 710</b>
<b>Net book amount as at 31 December 2004</b>	<b>56 971</b>	<b>9 019</b>	<b>48 250</b>	<b>30 466</b>	<b>2 185</b>	<b>146 891</b>

**12 Due to Other Banks**

	2004	2003
Term placements of other banks	315 138	369 465
Sale and repurchase agreements with other banks	126 131	289 341
Correspondent accounts of other banks		
- Russian Federation	43 761	70 725
- Other countries	14 928	66 770
<b>Total due to other banks</b>	<b>499 958</b>	<b>796 301</b>

As at 31 December 2004 trading securities with a fair value of USD 83 594 thousand (2003: USD 319 126 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

As at 31 December 2004 loans to customers in the amount of USD 48 624 thousand (2003: Nil) have been sold to third parties under sale and repurchase agreements with other banks and loans to customers in the amount of USD 30 000 thousand (2003: USD 23 765 thousand) have been pledged as collateral with respect to due to other banks. Refer to Note 8.

In addition, as at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 thousand were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

Gold with a carrying value of USD 21 432 thousand (2003: USD 19 943 thousand) has been sold under sale and repurchase agreements with other banks. Refer to Note 10.

**12 Due to Other Banks (Continued)**

As at 31 December 2004 the estimated fair value of due to other banks was USD 499 958 thousand (2003: USD 796 301 thousand). Refer to Note 25.

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

**13 Customer Accounts**

	2004	2003
<b>Commercial organisations</b>		
- Current/settlement accounts	1 296 757	944 284
- Term deposits	1 261 851	1 076 782
<b>Individuals</b>		
- Current/demand accounts	433 787	331 236
- Term deposits	964 175	961 926
<b>State and public organisations</b>		
- Current/settlement accounts	79 534	7 817
- Term deposits	455 968	78 361
<b>Total customer accounts</b>	<b>4 492 072</b>	<b>3 400 406</b>

Economic sector concentrations within customer accounts were as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	1 397 962	31	1 293 162	38
Finance and investment companies	1 082 861	24	173 278	5
State and public organisations	535 502	12	86 178	3
Energy and oil and gas	405 306	9	832 203	24
Manufacturing and construction	299 861	7	337 220	10
Trade and commerce	242 443	5	258 047	8
Science	84 428	2	61 341	2
Mass media and telecommunications	82 054	2	70 447	2
Other	361 655	8	288 530	8
<b>Total customer accounts</b>	<b>4 492 072</b>	<b>100</b>	<b>3 400 406</b>	<b>100</b>

As at 31 December 2004 the Group had 6 customers (2003: 5 customers) with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 1 840 528 thousand (2003: USD 906 962 thousand) or 41.0% (2003: 26.7%) of the total customer accounts, of which USD 934 784 thousand (2003: USD 339 116 thousand) represented balances outstanding to Alfa Group Consortium and its shareholders.

Included in customer accounts are balances in amount of USD 97 556 thousand (2003: USD 45 337 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 31 December 2004 the estimated fair value of customer accounts was USD 4 492 072 thousand (2003: USD 3 400 406 thousand). Refer to Note 25.

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

**14 Other Borrowed Funds**

	<b>2004</b>	<b>2003</b>
Syndicated loans	225 218	82 237
Euro Medium Term Notes	191 348	-
Eurobonds	175 690	174 535
Russian Rouble denominated bonds maturing in 2010	68 195	-
Euro-Commercial Paper	46 390	50 442
Russian Rouble denominated bonds maturing in 2007	114	16 703
<b>Total other borrowed funds</b>	<b>706 955</b>	<b>323 917</b>

On 5 December 2003 the Group received a syndicated loan in the amount of USD 82 000 thousand from a consortium of large international banks. Initially the loan had a maturity date of 24 November 2004 and bore a floating interest rate equal to LIBOR plus 2.4% per annum payable semi-annually. On 24 November 2004 the Group repaid USD 41 000 thousand of this loan and rolled over the balance in the amount of USD 41 000 thousand. The rolled over balance matures on 23 May 2005. As at 31 December 2004 the effective interest rate was 6.7% per annum. Issue proceeds net of transaction costs amounted to USD 81 174 thousand.

On 24 June 2004 the Group received a syndicated loan in the amount of USD 120 000 thousand from a consortium of large international banks. The loan matures on 24 June 2005 and bears a floating interest rate equal to LIBOR plus 2.0% per annum payable semi-annually. As at 31 December 2004 the effective interest rate was 5.9% per annum. Issue proceeds net of transaction costs were equal to USD 118 757 thousand.

On 3 December 2004 the Group received a syndicated loan in the amount of USD 65 000 thousand from a consortium of large international banks. The loan matures on 2 December 2005 and bears a floating interest rate equal to LIBOR plus 1.8% per annum payable semi-annually. As at 31 December 2004 the effective interest rate was 5.5% per annum. Issue proceeds net of transaction costs were equal to USD 64 323 thousand.

On 22 June 2004 the Group established a Euro Medium Term Note Programme (“MTN Programme”). The aggregate principal amount of outstanding notes issued under the MTN Programme at any time may not exceed USD 400 000 thousand. On 12 October 2004 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 190 000 thousand. The notes carry a fixed coupon at a rate of 8.0% per annum payable semi-annually and mature on 13 April 2006. Issue proceeds net of transaction costs and discount amounted to USD 187 776 thousand and the effective interest rate at origination was 9.1%.

On 19 November 2002 the Group issued US Dollar denominated Eurobonds with a nominal value of USD 175 000 thousand. The bonds carry a fixed coupon at a rate of 10.8% per annum payable semi-annually and mature on 19 November 2005. Issue proceeds net of transaction costs and discount amounted to USD 171 093 thousand and the effective interest rate at origination was 12.0%.

On 7 April 2004 the Group issued Russian Rouble denominated bonds maturing in March 2010 at a nominal value of RR 2 000 000 thousand. The bonds have a floating interest rate and the coupon is payable semi-annually. As at 31 December 2004 coupon was to be paid at an interest rate of 7.4% per annum.

On 11 December 2003 the Group established a Euro-Commercial Paper Programme (“ECP Programme”). The aggregate principal amount of outstanding notes issued under the ECP Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more than 365 days. As at 31 December 2004 the nominal value of outstanding notes was USD 46 800 thousand (2003: USD 51 550 thousand) and they were issued at a discount to the nominal value ranging from 4.2% to 8.3% depending on the type of issue. As at 31 December 2004 the average effective interest rate at origination was 6.5%.

As at 31 December 2004 the estimated fair value of other borrowed funds was USD 710 672 thousand (2003: USD 335 978 thousand). Refer to Note 25.

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



**15 Other Liabilities and Payables**

	Note	2004	2003
Conversion operations and derivative financial instruments		96 589	7 005
Accrued staff costs		83 653	49 254
Trade creditors		61 228	29 796
Payables on operations with securities		56 103	51 393
Plastic card and other settlements with clients		31 921	25 306
Provision for losses on credit related commitments	24	21 123	7 782
Taxation payable		12 496	4 968
Payable to related parties		298	9 499
Other		17 157	16 514
<b>Total other liabilities and payables</b>		<b>380 568</b>	<b>201 517</b>

Accrued staff costs mainly relate to employee bonus plans based on certain performance indicators.

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

**16 Share Capital**

As at 31 December 2004 and 2003 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, rank equally and carry one vote.

**17 Interest Income and Expense**

	2004	2003
<b>Interest income</b>		
Loans and advances to customers	489 311	410 218
Trading securities	45 018	55 713
Due from other banks	14 138	18 369
<b>Total interest income</b>	<b>548 467</b>	<b>484 300</b>
<b>Interest expense</b>		
Term deposits of legal entities	63 248	45 952
Term deposits of individuals	56 360	57 899
Other borrowed funds	40 485	24 249
Due to other banks	27 274	38 592
Promissory notes issued	26 530	52 736
Current/settlement accounts	22 246	23 062
<b>Total interest expense</b>	<b>236 143</b>	<b>242 490</b>
<b>Net interest income</b>	<b>312 324</b>	<b>241 810</b>

Refer to Note 26 for details of related party transactions.

**18 Fee and Commission Income and Expense**

	<b>2004</b>	<b>2003</b>
<b>Fee and commission income</b>		
Commission on settlement transactions	60 800	51 595
Commission on cash and foreign currency exchange transactions	29 852	24 134
Commission for consulting services	23 377	12 537
Commission on transactions with securities	14 585	9 225
Commission on guarantees issued	11 632	9 916
Commission income from the Alfa Eco Group	-	10 430
Commission income in relation to formation of TNK-BP Limited	-	4 015
Other	5 652	13 966
<b>Total fee and commission income</b>	<b>145 898</b>	<b>135 818</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions	12 779	5 162
Commission for consulting services	9 687	24 480
Commission on transactions with securities	4 893	3 672
Commission on cash and foreign currency exchange transactions	2 203	4 752
Other	818	3 084
<b>Total fee and commission expense</b>	<b>30 380</b>	<b>41 150</b>
<b>Net fee and commission income</b>	<b>115 518</b>	<b>94 668</b>

During 2003 commission income in the amount of USD 10 430 thousand from Alfa Eco Group, a party related to the Group, represented fees in relation to significant investment transactions of Alfa Eco Group.

Refer to Note 26 for details of related party transactions.

**19 Other Operating Income**

	<b>2004</b>	<b>2003</b>
Structured finance	22 897	36 161
Late charges on loans and other penalties	7 297	3 466
Gains from disposal of subsidiary	3 971	4 617
Dividend income	2 764	1 486
Gains less losses from trading in precious metals	1 616	4 618
Income from insurance operations	-	4 001
Other	12 528	4 070
<b>Total other operating income</b>	<b>51 073</b>	<b>58 419</b>

Structured finance income includes mainly results of operations with debts of other companies, which were either acquired at a discount, and then settled at a higher value resulting in a gain for the Group or assistance in collection to creditors. Gains from structured finance for the year ended 31 December 2003 included a gain in the amount of USD 20 863 thousand from the restructuring of a debt of a large telecommunications company.

**20 Operating Expenses**

	<b>2004</b>	<b>2003</b>
Staff costs	187 049	142 315
Depreciation and other expenses related to premises and equipment	33 159	26 932
Rent, heat and utilities	26 553	22 151
Computer and telecommunications expenses	20 674	13 422
Taxes other than income tax	20 387	20 770
Consulting and professional services	16 607	13 462
Maintenance	12 659	18 798
Advertising and marketing	7 714	19 906
Travel expenses	3 046	3 608
Other	22 890	24 189
<b>Total operating expenses</b>	<b>350 738</b>	<b>305 553</b>

**21 Income Taxes**

Income tax expense comprises the following:

	<b>2004</b>	<b>2003</b>
Current tax charge	33 056	7 875
Deferred taxation movement due to origination and reversal of temporary differences	(1 534)	3 136
<b>Income tax expense for the year</b>	<b>31 522</b>	<b>11 011</b>

The statutory income tax rate applicable to the majority of the Bank's income is 24% (2003: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 10% (2003: from 0% to 5%). A reconciliation between the expected and the actual taxation charge is provided below.

	<b>2004</b>	<b>2003</b>
<b>IFRS profit before tax</b>	<b>184 712</b>	<b>116 726</b>
Theoretical tax charge at the applicable statutory rate	44 331	28 014
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Difference in provisions in accordance with IFRS and statutory rules	(32 513)	(15 459)
- Non deductible expenses	1 545	5 943
- Income which is exempt from taxation	(6 370)	(2 211)
- Loss/(gain) earned in lower tax jurisdictions	29 985	(7 560)
- Other	34	8 607
Tax effect of loss used during the year	(5 490)	(1 648)
Tax effect of loss carry forward	-	(4 675)
<b>Income tax expense for the year</b>	<b>31 522</b>	<b>11 011</b>

**21 Income Taxes (Continued)**

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

	<b>2003</b>	<b>Movement</b>	<b>2004</b>
<b>Tax effect of deductible temporary differences</b>			
Accumulated depreciation of premises and equipment	9 822	2 437	12 259
Tax loss carry forward	5 490	(5 490)	-
Provision for loan impairment	453	28 236	28 689
Accruals	3 910	3 003	6 913
Other	1 361	2 379	3 740
<b>Gross deferred tax asset</b>	<b>21 036</b>	<b>30 565</b>	<b>51 601</b>
<b>Tax effect of taxable temporary differences</b>			
Premises and equipment	(17 292)	(1 430)	(18 722)
Trading securities	(7 315)	(21 186)	(28 501)
Accruals	(9 926)	747	(9 179)
Other	49	(7 162)	(7 113)
<b>Gross deferred tax liability</b>	<b>(34 484)</b>	<b>(29 031)</b>	<b>(63 515)</b>
<b>Total net deferred tax liability</b>	<b>(13 448)</b>	<b>1 534</b>	<b>(11 914)</b>
	<b>2002</b>	<b>Movement</b>	<b>2003</b>
<b>Tax effect of deductible temporary differences</b>			
Accumulated depreciation of premises and equipment	7 777	2 045	9 822
Tax loss carry forward	2 283	3 207	5 490
Accruals	876	3 034	3 910
Other	(257)	1 618	1 361
<b>Gross deferred tax asset</b>	<b>10 679</b>	<b>9 904</b>	<b>20 583</b>
<b>Tax effect of taxable temporary differences</b>			
Premises and equipment	(16 010)	(1 282)	(17 292)
Provision for loan impairment	(4 857)	5 310	453
Accruals	(124)	(9 802)	(9 926)
Other	-	(7 266)	(7 266)
<b>Gross deferred tax liability</b>	<b>(20 991)</b>	<b>(13 040)</b>	<b>(34 031)</b>
<b>Total net deferred tax liability</b>	<b>(10 312)</b>	<b>(3 136)</b>	<b>(13 448)</b>

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.

**21 Income Taxes (Continued)**

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 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.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2004 and 31 December 2003 is set out below:

<u>2004</u>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	<b>625 907</b>	<b>213 876</b>	-	<b>839 783</b>
<b>Segment results</b>	35 118	138 039	-	173 157
Unallocated costs				(2 066)
Share of results of associated company after tax				13 621
<b>Profit before tax</b>				<b>184 712</b>
Income tax expense				(31 522)
<b>Profit after tax</b>				<b>153 190</b>
Minority interest				(420)
<b>Net profit</b>				<b>152 770</b>
<b>Segment assets</b>	<b>6 033 528</b>	<b>1 185 270</b>	<b>(260 925)</b>	<b>6 957 873</b>
Associates	-	50 249	-	50 249
Unallocated assets				16 587
<b>Total assets</b>				<b>7 024 709</b>
<b>Segment liabilities</b>	<b>5 913 697</b>	<b>633 004</b>	<b>(260 925)</b>	<b>6 285 776</b>
Unallocated liabilities				28 501
<b>Total liabilities</b>				<b>6 314 277</b>
<b>Other segment items</b>				
Capital expenditure	(20 698)	(1 805)	-	(22 503)
Depreciation expense	(23 761)	(2 072)	-	(25 833)
Other non-cash (expense)/income	(46 390)	207	-	(46 183)

*ABH Financial Limited**Notes to the Consolidated Financial Statements – 31 December 2004**(expressed in thousands of US dollars - Note 3)***22 Analysis by Segment (Continued)**

<u>2003</u>	<b>Commercial banking</b>	<b>Investment banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	<b>554 123</b>	<b>213 363</b>	-	<b>767 486</b>
<b>Segment results</b>	219 605	201 754	-	<b>421 359</b>
Unallocated costs				(305 553)
Share of results of associated company after tax				920
<b>Profit before tax</b>				<b>116 726</b>
Income tax expense				(11 011)
<b>Profit after tax</b>				<b>105 715</b>
Minority interest				(96)
<b>Net profit</b>				<b>105 619</b>
<b>Segment assets</b>	<b>4 911 911</b>	<b>1 159 947</b>	<b>(207 282)</b>	<b>5 864 576</b>
Associates	-	19 558	-	19 558
<b>Total assets</b>				<b>5 884 134</b>
<b>Segment liabilities</b>	<b>5 090 189</b>	<b>434 174</b>	<b>(207 282)</b>	<b>5 317 081</b>
Unallocated liabilities				13 448
<b>Total liabilities</b>				<b>5 330 529</b>
<b>Other segment items</b>				
Capital expenditure	(30 500)	(2 447)	-	(32 947)
Depreciation expense	(17 959)	(1 441)	-	(19 400)
Other non-cash income/(expenses)	(43 919)	(2 600)	-	(46 519)

**22 Analysis by Segment (Continued)**

**Geographical segments.** Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2004.

	<b>Russia</b>	<b>Europe</b>	<b>CIS</b>	<b>USA</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	760 387	116 145	39 877	80 512	357	997 278
Mandatory cash balances with the CBRF and other local central banks	107 920	28 756	2 873	-	-	139 549
Trading securities	647 566	20 373	38 027	-	11 084	717 050
Due from other banks	279 379	254 541	33 237	3 485	-	570 642
Loans and advances to customers	3 710 450	116 610	268 001	4 949	79	4 100 089
Investments	60 933	-	-	-	-	60 933
Other assets and receivables	167 706	82 058	18 332	849	6 745	275 690
Premises and equipment	132 685	1 138	13 068	-	-	146 891
Deferred tax asset	16 587	-	-	-	-	16 587
<b>Total assets</b>	<b>5 883 613</b>	<b>619 621</b>	<b>413 415</b>	<b>89 795</b>	<b>18 265</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	272 856	161 637	35 659	4 581	25 225	499 958
Customer accounts	3 873 973	326 178	191 175	83 502	17 244	4 492 072
Promissory notes issued	168 851	36 812	560	-	-	206 223
Other borrowed funds	68 309	638 646	-	-	-	706 955
Other liabilities and payables	206 404	150 259	16 302	7 603	-	380 568
Deferred tax liability	28 501	-	-	-	-	28 501
<b>Total liabilities</b>	<b>4 618 894</b>	<b>1 313 532</b>	<b>243 696</b>	<b>95 686</b>	<b>42 469</b>	<b>6 314 277</b>
<b>Net balance sheet position as at 31 December 2004</b>	<b>1 264 719</b>	<b>(693 911)</b>	<b>169 719</b>	<b>(5 891)</b>	<b>(24 204)</b>	<b>710 432</b>
<b>Net balance sheet position as at 31 December 2003</b>	<b>827 180</b>	<b>(458 098)</b>	<b>(11 774)</b>	<b>165 501</b>	<b>30 796</b>	<b>553 605</b>

The majority of credit related commitments were issued in favour of Russian counterparties and their off-shore companies both as at 31 December 2004 and 31 December 2003.

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.

Substantially all of the Group's revenues are generated from counterparties operating in the Russian Federation.

The majority of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

## **23 Financial Risk Management**

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



**23 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments. As at 31 December 2004 the Group had the following positions in currencies:

	<b>USD</b>	<b>RR</b>	<b>EURO</b>	<b>Other currencies</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	217 780	606 365	107 935	65 198	997 278
Mandatory cash balances with the CBRF and other local central banks	-	107 920	28 756	2 873	139 549
Trading securities	544 129	128 792	21 861	22 268	717 050
Due from other banks	344 921	205 011	-	20 710	570 642
Loans and advances to customers	2 483 357	1 326 943	246 962	42 827	4 100 089
Investments	60 933	-	-	-	60 933
Other assets and receivables	155 174	61 172	19 796	39 548	275 690
Premises and equipment	-	132 685	1 138	13 068	146 891
Deferred tax asset	-	16 587	-	-	16 587
<b>Total assets</b>	<b>3 806 294</b>	<b>2 585 475</b>	<b>426 448</b>	<b>206 492</b>	<b>7 024 709</b>
<b>Liabilities</b>					
Due to other banks	260 142	114 391	97 925	27 500	499 958
Customer accounts	1 957 069	2 063 067	354 133	117 803	4 492 072
Promissory notes issued	46 924	155 997	2 740	562	206 223
Other borrowed funds	638 646	68 309	-	-	706 955
Other liabilities and payables	291 104	32 516	52 914	4 034	380 568
Deferred tax liability	-	28 501	-	-	28 501
<b>Total liabilities</b>	<b>3 193 885</b>	<b>2 462 781</b>	<b>507 712</b>	<b>149 899</b>	<b>6 314 277</b>
<b>Net balance sheet position</b>	<b>612 409</b>	<b>122 694</b>	<b>(81 264)</b>	<b>56 593</b>	<b>710 432</b>
<b>Off-balance sheet net notional position (Note 24)</b>	<b>688 362</b>	<b>(389 629)</b>	<b>57 645</b>	<b>(435 562)</b>	<b>(79 184)</b>
<b>Credit related commitments (Note 24)</b>	<b>768 746</b>	<b>173 645</b>	<b>132 303</b>	<b>901</b>	<b>1 075 595</b>

**23 Financial Risk Management (Continued)**

As at 31 December 2003 the Group had the following currency positions:

	USD	RR	EURO	Other currencies	Total
<b>Net balance sheet position</b>	<b>277 615</b>	<b>178 633</b>	<b>55 011</b>	<b>42 346</b>	<b>553 605</b>
<b>Off-balance sheet net notional position</b>	<b>(34 973)</b>	<b>(26 026)</b>	<b>70 659</b>	<b>374</b>	<b>10 034</b>
<b>Credit related commitments (Note 24)</b>	<b>541 296</b>	<b>93 694</b>	<b>60 531</b>	<b>784</b>	<b>696 305</b>

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

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. 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. Liquidity risk is managed by the Asset and Liability Committee of the Group.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. 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.

**23 Financial Risk Management (Continued)**

The liquidity position of the Group as at 31 December 2004 is set out below.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with the CBRF and other local central banks	139 549	-	-	-	-	139 549
Trading securities	717 050	-	-	-	-	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
<b>Total assets</b>	<b>2 753 564</b>	<b>1 328 408</b>	<b>1 247 908</b>	<b>1 398 406</b>	<b>296 423</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	260 592	141 421	17 185	80 760	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	178 037	241 378	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
<b>Total liabilities</b>	<b>2 777 416</b>	<b>2 114 668</b>	<b>987 011</b>	<b>406 681</b>	<b>28 501</b>	<b>6 314 277</b>
<b>Net liquidity gap as at 31 December 2004</b>	<b>(23 852)</b>	<b>(786 260)</b>	<b>260 897</b>	<b>991 725</b>	<b>267 922</b>	<b>710 432</b>
<b>Cumulative liquidity gap as at 31 December 2004</b>	<b>(23 852)</b>	<b>(810 112)</b>	<b>(549 215)</b>	<b>442 510</b>	<b>710 432</b>	
<b>Cumulative liquidity gap as at 31 December 2003</b>	<b>(409 585)</b>	<b>(1 212 842)</b>	<b>(343 189)</b>	<b>330 631</b>	<b>553 605</b>	

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 of a short term nature, 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. However, in accordance with Russia Civil Code, individuals have a right to withdraw their deposits prior to maturity.

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.

## **23 Financial Risk Management (Continued)**

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.

**23 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to interest rate risks as at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	997 278	-	-	-	-	997 278
Mandatory cash balances with the CBRF and other local central banks	139 549	-	-	-	-	139 549
Trading securities	368 392	-	-	-	348 658	717 050
Due from other banks	536 875	22 718	10 062	987	-	570 642
Loans and advances to customers	199 596	1 267 077	1 237 619	1 395 797	-	4 100 089
Investments	-	-	-	-	60 933	60 933
Other assets and receivables	163 216	38 613	227	1 622	72 012	275 690
Premises and equipment	-	-	-	-	146 891	146 891
Deferred tax asset	-	-	-	-	16 587	16 587
<b>Total assets</b>	<b>2 404 906</b>	<b>1 328 408</b>	<b>1 247 908</b>	<b>1 398 406</b>	<b>645 081</b>	<b>7 024 709</b>
<b>Liabilities</b>						
Due to other banks	260 592	175 379	20 645	43 342	-	499 958
Customer accounts	2 168 374	1 619 914	664 396	39 388	-	4 492 072
Promissory notes issued	59 509	76 305	53 497	16 912	-	206 223
Other borrowed funds	42 400	242 644	176 771	245 140	-	706 955
Other liabilities and payables	246 541	98 991	10 555	24 481	-	380 568
Deferred tax liability	-	-	-	-	28 501	28 501
<b>Total liabilities</b>	<b>2 777 416</b>	<b>2 213 233</b>	<b>925 864</b>	<b>369 263</b>	<b>28 501</b>	<b>6 314 277</b>
<b>Net sensitivity gap as at 31 December 2004</b>	<b>(372 510)</b>	<b>(884 825)</b>	<b>322 044</b>	<b>1 029 143</b>	<b>616 580</b>	<b>710 432</b>
<b>Cumulative sensitivity gap as at 31 December 2004</b>	<b>(372 510)</b>	<b>(1 257 335)</b>	<b>(935 291)</b>	<b>93 852</b>	<b>710 432</b>	
<b>Cumulative sensitivity gap as at 31 December 2003</b>	<b>(451 001)</b>	<b>(1 353 198)</b>	<b>(401 308)</b>	<b>289 215</b>	<b>553 605</b>	

**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.

	2004				2003			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
<b>Assets</b>								
Correspondent accounts and overnight placements with other banks	1.4%	0.5%	0.0%	2.1%	4.0%	2.3%	2.3%	0.0%
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	7.9%	10.2%	4.9%	7.8%	7.5%	11.1%	5.7%	5.1%
Due from other banks	5.4%	2.1%	-	11.7%	3.7%	4.3%	6.5%	5.0%
Loans and advances to customers	11.2%	13.6%	8.1%	14.3%	11.9%	16.1%	9.6%	14.2%
<b>Liabilities</b>								
Due to other banks	2.8%	2.3%	3.3%	0.9%	3.2%	7.1%	3.8%	1.0%
Customer accounts - current and settlement accounts	0.6%	1.1%	0.9%	1.0%	1.8%	0.5%	0.2%	0.0%
- term deposits	5.7%	5.2%	5.5%	9.8%	3.9%	6.2%	3.3%	4.8%
Promissory notes issued	3.8%	6.6%	6.7%	13.0%	4.0%	12.5%	2.7%	-
Other borrowed funds	8.2%	7.4%	-	-	9.6%	7.5%	-	-

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.** Since 2002, Alfa Finance Holdings S.A., and certain other parties related to the Group, have been listed as the defendants in an action commenced by Norex Petroleum Limited (“Norex”) in the United States District Court for the Southern District of New York in relation to the ownership of a company which is currently owned by TNK-BP Limited, a company related to the Group.

On 18 February 2004, the court dismissed the claim on the grounds of “forum non conveniens”. In the opinion and order dismissing the action, Alfa Bank and Alfa Capital Markets (USA) Inc. were identified by the judge in the grouping of defendants. However, neither Alfa Bank nor Alfa Capital Markets (USA) Inc. have been served with any court papers or have been named in the caption to this action. Norex representatives filed a notice of appeal against the court decision. Management believes that the allegations are without merit and intends to vigorously defend this action.

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

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

In addition, 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.

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%. There is no formal guidance as to how these rules should be applied in practice.

The Group has a significant amount of intercompany transactions conducted at off-market rates. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of any such challenge can not be estimated; however, it may be significant.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities had been recorded (2003: no provision).

**Capital commitments.** As at 31 December 2004 the Group had capital commitments in respect of new computer systems in the amount of USD 9 630 thousand (2003: USD 6 687 thousand) and capital construction, modernisation and repair of the premises in the amount of USD 9 660 thousand (2003: nil). In addition, other capital commitments amounted to USD 11 209 thousand (2003: USD 11 962 thousand). The Group's Management has already allocated the necessary resources in respect of these commitments. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

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

	2004	2003
Not later than 1 year	11 754	11 700
Later than 1 year and not later than 5 years	26 666	31 614
Later than 5 years	7 341	11 025
<b>Total operating lease commitments</b>	<b>45 761</b>	<b>54 339</b>

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

**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 were as follows:

	Note	2004	2003
Guarantees issued		597 850	387 073
Export letters of credit		346 945	241 843
Import letters of credit	13	151 923	75 171
Less: provision for losses on credit related commitments	15	(21 123)	(7 782)
<b>Total credit related commitments</b>		<b>1 075 595</b>	<b>696 305</b>

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.

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

	2004	2003
<b>Provision for losses on credit related commitments as at 1 January</b>	<b>7 782</b>	<b>9 462</b>
Provision for losses/(release of provision) on credit related commitments during the year	13 341	(1 680)
<b>Provision for losses on credit related commitments as at 31 December</b>	<b>21 123</b>	<b>7 782</b>

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004.



**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount at fair value	Negative fair value	Positive fair value	Principal or agreed amount at fair value	Negative fair value	Positive fair value
<b>Deliverable forwards</b>						
Foreign currency						
- sale of foreign currency	20 542	-	542	131 566	-	-
- purchase of foreign currency	36 403	(1 148)	259	306 322	(5 471)	3 031
Securities						
- sale of securities	108 818	(140)	1 024	333 570	(79 017)	153
- purchase of securities	29 685	-	2 065	-	-	-
Precious metals						
- sale of precious metals	-	-	-	18 639	-	450
- purchase of precious metals	-	-	-	-	-	-
<b>Non-deliverable forwards</b>						
Foreign currency						
- sale of foreign currency	-	-	-	6 063	(358)	-
- purchase of foreign currency	9 617	-	604	68 468	-	1 846
Securities						
- sale of securities	1 120	-	1	-	-	-
- purchase of securities	34 719	(19)	173	-	-	-
Precious metals						
- sale of precious metals	-	-	-	5 218	(27)	145
- purchase of precious metals	-	-	-	4 712	(54)	12
Commodities						
- sale of precious metals	5 290	(59)	87	-	-	-
- purchase of precious metals	5 838	(119)	40	-	-	-
<b>Futures</b>						
Foreign currency						
- sale of foreign currency	-	-	-	81 312	(1 839)	59
- purchase of foreign currency	-	-	-	365 451	(4 876)	1 123
Securities						
- sale of securities	-	-	-	39 178	(206)	20
- purchase of securities	-	-	-	5 597	(1)	36
Precious metals						
- sale of precious metals	-	-	-	12 553	(19)	215
- purchase of precious metals	-	-	-	13 016	(427)	43
Commodities						
- sale of commodities	-	-	-	5 356	(52)	76
- purchase of commodities	-	-	-	4 950	(53)	75
<b>Spot</b>						
Foreign currency						
- sale of foreign currency	9 478	(13)	12	48 309	-	168
- purchase of foreign currency	9 478	(321)	61	44 712	(89)	1 463
Precious metals						
- sale of precious metals	-	-	-	13 016	-	15
<b>Call options</b>						
Securities						
- sale of call options	19 190	(643)	-	19 179	(1 169)	9
- purchase of call options	51 190	-	1 389	5 805	-	643
<b>Put options</b>						
Securities						
- purchase of put options	10 225	-	149	14 530	-	948
<b>Total</b>		<b>(2 462)</b>	<b>6 406</b>		<b>(93 658)</b>	<b>10 530</b>

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

Deliverable forward positions in securities as at 31 December 2004 are summarized below. As at 31 December 2004 the respective securities' long balance sheet positions of the Group exceeded the respective securities' short deliverable forward positions. Refer to Note 6.

	2004	
	Principal or agreed amount Sale	Purchase
Corporate shares of Russian entities	306 713	-
Russian Federation Eurobonds	90 958	23 748
Corporate Eurobonds	34 017	-
Eurobonds of other states	10 700	5 937
<b>Total</b>	<b>442 388</b>	<b>29 685</b>

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 consolidated 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:

	2004 Nominal value	2003 Nominal value
Corporate bonds held in custody	143 833	153 355
Shares in companies held in custody	132 506	225 694
Promissory notes of companies held in custody	69 535	103 425
OVGYZ held on account with Vneshtorgbank	31 595	31 162
Client OFZ securities held on an account with NDC	19 302	15 131
Eurobonds	3 659	43 151
Other	7 951	200

**Assets pledged and restricted.** As at 31 December 2004 the Group had the following assets pledged as collateral:

	Notes	2004	2003
Trading securities	6, 12	83 594	319 126
Loans and advances to customers	8, 12	78 624	23 765
Precious metals	10, 12	21 432	19 943
<b>Total</b>		<b>183 650</b>	<b>362 834</b>

As at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 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 139 549 thousand (2003: USD 293 294 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

## **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 an active 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. The Russian Federation continues to display some characteristics of an emerging market and 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. 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 consolidated 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.

**Loans originated carried at amortised cost less provision for impairment.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers, respectively.

**Liabilities carried at amortized cost.** The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments repayable on demand is their carrying value. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively. As at 31 December 2004 the estimated fair value of promissory notes issued was USD 206 411 thousand (2003: USD 596 068 thousand).

**Derivative financial instruments.** All derivative financial instruments are carried at fair value as asset when the fair value is positive and as a liability when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 24.

## **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, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group Consortium and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Substantially all transactions were priced predominantly at market rates. Related party transactions are reflected in the table below.

**26 Related Party Transactions (Continued)**

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:

	2004			2003		
	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other
<b>Trading securities as at the year end</b>	58	-	12 545	7 180	6 159	19 760
<b>Loans and advances to customers as at the year end</b>	<b>12 785</b>	<b>47 042</b>	<b>30 591</b>	<b>52 369</b>	<b>48 843</b>	<b>3 270</b>
USD, effective contractual rate of 10.8% - 12.5%	-	3 250	-	2 200	45 093	2 964
USD, effective contractual rate of 12.6-14.0%	131	41 612	28 688	-	-	-
USD, effective contractual rate of 14.1%-18.0%	-	-	-	-	2 500	-
RUR, effective contractual rate of 2.5% - 6.5%	-	-	-	48 328	-	-
RUR, effective contractual rate of 10.7% - 19.0%	12 654	2 180	-	1 229	-	306
EUR, effective contractual rate of 10.8%	-	-	-	612	1 250	-
USD, effective contractual rate of 0%	-	-	1 903	-	-	-
Interest income for the year (based on effective contractual interest rates)	2 775	3 915	1 248	5 894	31 618	397
<b>Receivables as at the year end</b>	9	16 074	-	-	10 252	-
<b>Customer accounts</b>						
<b>Current/settlement accounts as at the year end</b>	<b>110 330</b>	<b>13 981</b>	<b>28 612</b>	<b>117 031</b>	<b>87 108</b>	<b>31 538</b>
RUR, effective contractual rate of 0.0-2.0%	105 007	10 196	24 671	97 847	32 819	8 173
USD, effective contractual rate of 0.0-2.0%	4 392	3 647	3 941	5 803	54 213	23 365
EUR, effective contractual rate of 0.0-2.0%	308	138	-	13 381	76	-
UAH, effective contractual rate of 0.0-2.0%	623	-	-	-	-	-
<b>Term deposits as at the year end</b>	<b>55 268</b>	<b>969 191</b>	<b>21 664</b>	<b>36 659</b>	<b>287 671</b>	<b>2 975</b>
RUR, effective contractual rate of 2.0% - 12.5%	19 332	5 767	21 664	4 295	34	-
USD, effective contractual rate of 1.8% - 7.3%	35 936	963 424	-	32 364	287 637	2 975
Interest expense for the year (based on effective contractual interest rates)	1 914	25 596	1 174	3 822	4 131	-

**26 Related Party Transactions (Continued)**

	2004			2003		
	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other	TNK-BP	Alfa Group Consortium and its shareholders (Note 1)	Other
<b>Promissory notes issued as at the year end</b>	<b>1 296</b>	<b>2 552</b>	-	<b>5 694</b>	<b>44 288</b>	-
RUR, effective contractual interest rate of 0.0%	1 259	209	-	3 019	83	-
RUR, effective contractual interest rate of 5.0% - 11.1%	22	2 343	-	1 732	422	-
RUR, effective contractual interest rate of 12.0% - 19.0%	-	-	-	943	-	-
USD, effective contractual interest rate of 4.1%-7.7%	15	-	-	-	43 783	-
<b>Payables as at the year end</b>	-	298	11 821	-	7 154	8 341
<b>Guarantees issued by the Group as at the year end</b>	96 883	18	-	45 119	-	885
<b>Import letters of credit as at the year end</b>	-	-	6 101	13 536	-	-
<b>Fee and commission income for the year</b>	3 191	2 340	452	6 591	13 741	4 015
<b>Fee and commission expense for the year</b>	-	-	-	997	687	-
<b>Other income for the year</b>	1 444	3 977	1 797	775	1 351	-
<b>Other expenses for the year</b>	117	1 190	-	-	5 788	320

In November 2002 Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., granted to the Group for no consideration a call option (the "Option") representing the right of the Group to acquire an interest of up to 6% in Golden Telecom Inc, an associated company of Alfa Telecom Limited. The Option was exercisable in whole or in part at any time until 11 May 2004. In December 2003 Alfa Telecom Limited and the Group agreed to cancel the Option and Alfa Telecom Limited paid to the Group a cancellation fee of USD 25 000 thousand approximating the fair value of the Option as at the date of the Option cancellation. In December 2003 the gain received under the transaction was recorded directly in shareholders' equity as a contribution from the shareholder.

During 2004 the Group disposed an asset management business to a company within the Alfa Group Consortium for USD 4 832 thousand realising a gain of USD 3 971 thousand.

For the year ended 31 December 2004 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 28 967 thousand (2003: USD 9 987 thousand). As at 31 December 2004 accrued remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 11 821 thousand (2003: USD 5 996 thousand).

**27 Principal Consolidated Subsidiaries**

<b>Russian Federation and CIS</b>	<b>Rest of the World</b>
Alfa Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Bank Ukraine	Alfa Debt Market Limited (Cyprus)
	Alfa MTN Issuance Limited (Cyprus)
Alfa Leasing	Alfa FI Limited (Cyprus)
	Alfa-Russia Finance B.V. (Netherlands)
	Alfa Securities Limited (UK)
	Amsterdam Trade Bank (Netherlands)

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As at 31 December 2004 and 31 December 2003 all principal consolidated subsidiaries of the Group, except for Alfa Bank Ukraine (94.7% owned and controlled), were wholly owned and controlled by the Group.

**ABH Financial Limited**  
**Consolidated Financial Statements**  
**31 December 2003**

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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 2003, 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 2003 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers*

Moscow, Russian Federation  
20 April 2004

**ABH Financial Limited**  
**Consolidated Balance Sheet as at 31 December 2003**  
*(expressed in thousands of US dollars - Note 3)*

	Note	2003	2002
<b>Assets</b>			
Cash and cash equivalents	5	923 191	382 234
Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks		293 294	214 252
Trading securities	6	694 575	416 238
Due from other banks	7	131 621	211 342
Loans and advances to customers	8	3 440 680	2 440 366
Investments	9	65 443	95 776
Other assets and receivables	10	185 609	222 054
Premises and equipment	11	149 721	135 928
<b>Total assets</b>		<b>5 884 134</b>	<b>4 118 190</b>
<b>Liabilities</b>			
Due to other banks	12	796 301	672 120
Customer accounts	13	3 400 406	1 997 416
Promissory notes issued		594 940	644 976
Other borrowed funds	14	323 917	212 684
Other liabilities and payables	15	201 517	146 011
Deferred tax liability	21	13 448	10 312
<b>Total liabilities</b>		<b>5 330 529</b>	<b>3 683 519</b>
<b>Minority interest</b>		<b>6 635</b>	<b>3 485</b>
<b>Shareholders' equity</b>			
Share capital	16	160 800	160 800
Fair value reserve for investments available for sale	9	22 798	62 657
Revaluation reserve for premises and equipment	11	5 195	6 267
Retained earnings		358 177	201 462
<b>Total shareholders' equity</b>		<b>546 970</b>	<b>431 186</b>
<b>Total liabilities and shareholders' equity</b>		<b>5 884 134</b>	<b>4 118 190</b>

Approved for issue by the Board of Directors and signed on its behalf on 20 April 2004

\_\_\_\_\_  
Mr. Oleg Tumanov  
Deputy Chief Executive Officer

\_\_\_\_\_  
Mr. Teijo Pankko  
Chief Financial Officer

**ABH Financial Limited**  
**Consolidated Statement of Income for the Year Ended 31 December 2003**  
*(expressed in thousands of US dollars - Note 3)*

	Note	2003	2002
Interest income	17	477 475	367 125
Interest expense	17	(242 490)	(177 132)
<b>Net interest income</b>		<b>234 985</b>	<b>189 993</b>
Provision for loan impairment	7, 8	(42 069)	(38 021)
<b>Net interest income after provision for loan impairment</b>		<b>192 916</b>	<b>151 972</b>
Fee and commission income	18	135 818	91 300
Fee and commission expense	18	(41 150)	(39 800)
Gains less losses arising from trading securities		18 987	19 742
Gains less losses arising from investments available for sale	9	31 054	43 684
Gains less losses arising from trading in foreign currencies		38 908	26 638
Foreign exchange translation gains less losses		(15 968)	854
Other provisions	9, 10, 24	(4 450)	(3 978)
Other operating income	19	65 244	46 150
<b>Operating income</b>		<b>421 359</b>	<b>336 562</b>
Operating expenses	20	(305 553)	(245 945)
Monetary gain		-	17 582
<b>Profit from operations</b>		<b>115 806</b>	<b>108 199</b>
Share of results of associated company after tax		920	-
<b>Profit before tax</b>		<b>116 726</b>	<b>108 199</b>
Income tax expense	21	(11 011)	(3 573)
<b>Profit after tax</b>		<b>105 715</b>	<b>104 626</b>
Minority interest		(96)	(36)
<b>Net profit</b>		<b>105 619</b>	<b>104 590</b>

**ABH Financial Limited**  
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2003**  
*(expressed in thousands of US dollars - Note 3)*

Note	2003	2002
<b>Cash flows from operating activities</b>		
Interest received	495 426	340 437
Interest paid	(222 764)	(156 590)
Fees and commissions received	138 417	88 701
Fees and commissions paid	(39 011)	(39 800)
Income received from trading in securities	24 566	15 573
Income received from trading in foreign currencies	36 595	26 091
Other operating income received	37 246	39 465
Operating expenses paid	(272 190)	(230 236)
Income tax paid	(6 162)	(2 453)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>192 123</b>	<b>81 188</b>
<b>Changes in operating assets and liabilities</b>		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks	(59 818)	(84 526)
Net increase in trading securities	(288 031)	(267 041)
Net decrease/(increase) in due from other banks	85 985	(93 190)
Net increase in loans and advances to customers	(961 752)	(1 092 620)
Net increase in other assets and receivables	(27 303)	(15 536)
Net increase in due to other banks	102 211	356 639
Net increase in customer accounts	1 302 254	623 786
Net (decrease)/increase in promissory notes issued	(94 326)	202 956
Net increase/(decrease) in other liabilities and payables	17 090	(18 345)
<b>Net cash from/(used in) operating activities</b>	<b>268 433</b>	<b>(306 689)</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of investments available for sale, net	87 487	48 634
Acquisition of investments available for sale	(2 047)	(3 469)
Additional acquisition of investment in associated company	(8 210)	-
Acquisition of premises and equipment, net	(24 917)	(30 714)
Proceeds from disposal of subsidiary, net	4 000	-
Dividend income received	1 486	1 862
<b>Net cash from investing activities</b>	<b>57 799</b>	<b>16 313</b>
<b>Cash flows from financing activities</b>		
Contribution from shareholder	73 000	56 400
Proceeds from other borrowed funds	132 318	200 625
Repayment of other borrowed funds	(24 034)	(40 533)
<b>Net cash from financing activities</b>	<b>181 284</b>	<b>216 492</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>33 441</b>	<b>59 817</b>
<b>Effect of inflation on cash and cash equivalents</b>	<b>-</b>	<b>(62 473)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>540 957</b>	<b>(76 540)</b>
Cash and cash equivalents as at the beginning of the year	382 234	458 774
<b>Cash and cash equivalents as at the end of the year</b>	<b>923 191</b>	<b>382 234</b>

The notes set out on pages 5 to 43 form an integral part of these consolidated financial statements.

3

**ABH Financial Limited****Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2003***(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
<b>Balance as at 1 January 2002</b>	<b>112 800</b>	<b>45 678</b>	<b>7 339</b>	<b>112 207</b>	<b>278 024</b>
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 (Note 9)	-	(17 968)	-	-	(17 968)
Translation movement	-	-	-	(16 407)	(16 407)
Transfer of realised revaluation of premises and equipment	-	-	(1 072)	1 072	-
Net profit	-	-	-	104 590	104 590
Share issue (Note 16)	48 000	-	-	-	48 000
<b>Balance as at 31 December 2002</b>	<b>160 800</b>	<b>62 657</b>	<b>6 267</b>	<b>201 462</b>	<b>431 186</b>
Net fair value gains arising on investments available for sale (Note 9)	-	7 104	-	-	7 104
Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)	-	(12 503)	-	-	(12 503)
Effect of change in accounting treatment of investment in associated company (Note 9)	-	(34 460)	-	-	(34 460)
Translation movement	-	-	-	25 024	25 024
Transfer of realised revaluation of premises and equipment	-	-	(1 072)	1 072	-
Net profit	-	-	-	105 619	105 619
Contribution from the shareholder (Note 26)	-	-	-	25 000	25 000
<b>Balance as at 31 December 2003</b>	<b>160 800</b>	<b>22 798</b>	<b>5 195</b>	<b>358 177</b>	<b>546 970</b>

## **1 Principal Activities of ABH Financial Limited**

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

ABH Financial Limited is wholly owned by Alfa Finance Holdings S.A., which is a subsidiary within the Alfa Group Consortium (the “Consortium”). The Consortium operates in the following business segments: oil and gas, financial services, telecommunications, domestic commodities and retail trade. Refer to Note 28 for information on the planned restructuring of the ownership and control over ABH Financial Limited.

A summary of the constituent entities within the Group is set out below. Refer to Note 27 for a listing of principal subsidiaries. The number of employees of the Group as at 31 December 2003 was 6 256.

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

**Commercial Banking.** Open Joint Stock Company Alfa Bank (the “Bank”) is a wholly owned subsidiary of ABH Financial Limited. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1991. The Bank operates in all sectors of the Russian financial markets, including interbank and retail deposits, foreign exchange operations and debt and bond trading. In addition, a complete range of banking services is provided in Russian Roubles and foreign currencies to its clients.

As at 31 December 2003 the Bank had 32 branches within the Russian Federation. The Bank’s major wholly owned subsidiaries comprise Alfa Bank Kazakhstan, Alfa Russia Finance B.V., Amsterdam Trade Bank, Alfa Securities Limited and Alfa Capital Markets.

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

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

## **2 Operating Environment of the Group**

The majority of the Group’s operations are tied to the Russian market and accordingly the operating environment present in the Russian Federation is important to the overall operations of the Group. Although located in the Russian Federation, a majority of the Group’s assets and liabilities as at 31 December 2003 are denominated and settled in US Dollars.

The Russian Federation continues to display some 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, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

## **2 Operating Environment of the Group (Continued)**

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.

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. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

## **3 Basis of Preparation**

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The predominant measurement currency of the Group is US Dollar (“USD”). A significant portion of the transactions, settlements and profits of the Group are denominated in US Dollars. Moreover, the Group’s (and the Bank’s) assets and liabilities are largely denominated and settled in US Dollars (refer to Note 23). The US Dollar is used to a significant extent in, and has a significant impact on, the operations of the Group and the Group’s cash flows are primarily denominated in US Dollars. Also, the US Dollar is the currency in which Management of the Group manages business risks and exposures, and measures the performance of its business.

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

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

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. Accrued interest income and accrued interest expense previously disclosed along with other assets and other liabilities, respectively, are presented within the related balance sheet items in these consolidated financial statements.

**Consolidated financial statements.** Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which power to control is transferred to the Group and are removed from consolidation from the date the power to 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.

### **3 Basis of Preparation (Continued)**

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

**Foreign currency translation.** The Group determines the appropriate measurement currency for each subsidiary. Monetary assets and liabilities originally denominated in US Dollars are stated at their original US Dollar amounts. Monetary assets and liabilities in other currencies have been translated to US Dollars using the exchange rate in effect as at the balance sheet date. Non-monetary assets and liabilities (excluding those expressed in currencies of countries with hyperinflationary economies), whose values are denominated in currencies other than the US Dollar, have been translated at the exchange rates in effect as at the date of transaction. Income and expenses, which were earned and incurred in other currencies, have been translated into US Dollars using a basis that approximates the rate of exchange in effect as at the date of transaction. Gains and losses arising from translation of assets and liabilities are recorded in the consolidated statement of income as foreign exchange translation gains less losses. Translation differences on non-monetary items, such as equity securities 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 and, 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. Balance sheets of the foreign entities are translated into the Group's measurement currency at the exchange rates in effect as at the balance sheet date and the related statements of income and of cash flows are translated at the average exchange rates for the period. Exchange differences arising from the translation of the net investment in foreign entities are recorded as the translation movement in the consolidated statement of changes in shareholders' equity.

Prior to 1 January 2003 the Bank and other Russian companies of the Group applied the provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") and their financial information had been adjusted for hyperinflation and then translated into US Dollars at the exchange rates in effect as at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group have no longer applied the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed below.

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

As at 31 December 2003 the principal exchange rate used for translating foreign currency balances was USD 1 = RR 29.4545 (2002: USD 1 = RR 31.7844) and the average exchange rate for the year ended 31 December 2003 was USD 1 = RR 30.6875 (2002: USD 1 = 31.3470). During the year ended 31 December 2003 the devaluation of the US Dollar against the Russian Rouble was 7.3% (2002: appreciation of 5.5%).

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.

**Accounting for the effects of hyperinflation.** A significant proportion of the Group's activities are carried out in the Russian Federation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29. Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records of the Bank and other Russian companies of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank and other Russian companies of the Group no longer apply the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.



### 3 Basis of Preparation (Continued)

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 restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The 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:

	CPI	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

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The main guidelines followed in restating the corresponding figures were:

- All amounts were stated in terms of the measuring unit current as at 31 December 2002;
- Monetary assets and liabilities held as at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as at 31 December 2002) and components of shareholders’ equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item was originated to 31 December 2002;
- All items in the consolidated statements of income and of cash flows were restated by applying the change in the CPI from the dates when the items were initially transacted to 31 December 2002;
- Gains and losses that arose as result of holding monetary assets and liabilities during the year ended 31 December 2002 were included in the consolidated statement of income.

### 4 Significant Accounting Policies

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

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

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

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

#### **4 Significant Accounting Policies (Continued)**

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

All related realised 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 and is recognised on an effective yield basis. Dividends received are included in dividend income within other operating income.

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

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

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

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

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

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

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

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

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

#### **4 Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

**Associated companies.** Associated companies are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated companies includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

#### **4 Significant Accounting Policies (Continued)**

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

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

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

**Premises and equipment.** Premises and equipment are stated at cost, restated, where applicable, to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

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 for premises and equipment 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, where applicable, to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment where required. 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.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset’s net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the assets recoverable amount”.

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.

#### **4 Significant Accounting Policies (Continued)**

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

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

**Operating leases.** Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

**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. Lease income is recorded over the term of the lease using the effective yield method.

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.

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

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

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

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

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

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

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

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

#### **4 Significant Accounting Policies (Continued)**

**Accrued interest income and accrued interest expense.** Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

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

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

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

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

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

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

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

Changes in the fair value of derivative instruments 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 apply hedge accounting.

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

#### 4 Significant Accounting Policies (Continued)

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

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

**Staff costs and related contributions.** The Group's 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

	2003	2002
Cash on hand	169 099	105 819
Cash balances with the CBRF and local central banks (other than mandatory cash balances)	227 528	72 460
Correspondent accounts with other banks		
- Russian Federation	33 014	13 399
- Other countries	168 827	89 793
Overnight placements with other banks		
- Russian Federation	45 262	48 090
- Other countries	279 461	52 673
<b>Total cash and cash equivalents</b>	<b>923 191</b>	<b>382 234</b>

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

#### 6 Trading Securities

	2003	2002
Russian Federation Eurobonds	305 759	156 669
Corporate Eurobonds	183 300	102 980
Corporate bonds	72 698	62 393
Eurobonds of other states	52 644	20 213
Corporate shares	35 119	29 588
Promissory notes	12 138	17 604
ADRs and GDRs	6 297	10 582
Other	26 620	16 209
<b>Total trading securities</b>	<b>694 575</b>	<b>416 238</b>

**6 Trading Securities (Continued)**

Russian Federation Eurobonds are interest-bearing securities denominated in US Dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from June 2007 to March 2030, coupon rates of approximately 5.0% to 12.8% in 2003 and yields to maturity from 6.7% to 7.4% as at 31 December 2003, depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars and Euros, issued mainly by large Russian companies, and are freely tradable internationally. These bonds have maturity dates ranging from February 2004 to February 2033, coupon rates of approximately 5.8% to 12.8% during in 2003 and yields to maturity from 5.0% to 11.7% as at 31 December 2003, depending on the type of bond issue.

Corporate bonds are interest-bearing securities denominated in Russian Roubles, issued by large Russian companies, and freely tradable in the Russian Federation. These bonds have maturity dates ranging from February 2004 to July 2009, coupon rates of approximately 7.8% to 20.5% in 2003 and yields to maturity from 7.0% to 16.0% as at 31 December 2003, depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in US Dollars, issued by governmental bodies of other states, and are freely tradable internationally. These bonds have maturity dates ranging from March 2004 to January 2033, coupon rates of approximately 7.4% to 14.5% in 2003 and yields to maturity from 4.3% to 9.9% as at 31 December 2003, depending on the type of bond issue.

Corporate shares are shares of Russian and Ukrainian companies.

Promissory notes are securities denominated in Russian Roubles, issued at a discount by large Russian companies, and freely tradable in the Russian Federation. These notes have maturity dates ranging from January 2004 to July 2005 and yields to maturity from 9.4% to 13.0% as at 31 December 2003, depending on the type of note issue.

Trading securities with a fair value of USD 319 126 thousand (2002: USD 136 772 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

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

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

**7 Due from Other Banks**

	<b>2003</b>	<b>2002</b>
Term placements with other banks	91 552	110 911
Reverse sale and repurchase agreements with other banks	40 069	100 481
Less: Provision for loan impairment	-	(50)
<b>Total due from other banks</b>	<b>131 621</b>	<b>211 342</b>

Movements in the provision for loan impairment are as follows:

	<b>2003</b>	<b>2002</b>
<b>Provision for impairment as at 1 January</b>	<b>50</b>	<b>630</b>
Release of provision for loan impairment during the year	(50)	(580)
<b>Provision for impairment as at 31 December</b>	<b>-</b>	<b>50</b>



**7 Due from Other Banks (Continued)**

As at 31 December 2003 fair value of securities purchased under reverse sale and repurchase agreements with other banks was USD 45 626 thousand (2002: USD 120 750 thousand).

As at 31 December 2002 balances due from other banks in the amount of USD 1 825 thousand were of a restricted nature.

As at 31 December 2003 the estimated fair value of due from other banks was USD 131 621 thousand (2002: USD 211 342 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**

	<b>2003</b>	<b>2002</b>
Current loans	3 585 253	2 559 825
Overdue loans	31 150	15 462
Less: Provision for loan impairment	(175 723)	(134 921)
<b>Total loans and advances to customers</b>	<b>3 440 680</b>	<b>2 440 366</b>

Movements in the provision for loan impairment are as follows:

	<b>2003</b>	<b>2002</b>
<b>Provision for loan impairment as at 1 January</b>	<b>134 921</b>	<b>96 320</b>
Provision for loan impairment during the year	42 119	38 601
Loans and advances written off during the year as uncollectable	(1 317)	-
<b>Provision for loan impairment as at 31 December</b>	<b>175 723</b>	<b>134 921</b>

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

	<b>2003</b>		<b>2002</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Manufacturing and construction	1 471 294	41	772 419	30
Energy and oil and gas	1 049 572	29	965 195	37
Trade and commerce	520 365	14	405 628	16
Telecommunications	205 547	6	246 147	10
Finance and investment companies	98 775	3	56 477	2
Individuals	49 858	1	17 954	1
Agriculture	13 570	-	29 284	1
Other	207 422	6	82 183	3
<b>Total loans and advances to customers (aggregate amount)</b>	<b>3 616 403</b>	<b>100</b>	<b>2 575 287</b>	<b>100</b>

As at 31 December 2003 the Group had 16 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of these loans is USD 1 742 925 thousand or 48.2% of the gross loans and advances to customers. As at 31 December 2002 the Group had 13 borrowers with aggregated loan amounts equal to or above USD 50 000 thousand. The aggregate amount of those loans was USD 1 480 366 thousand or 57.5% of the gross loans and advances to customers.

**8 Loans and Advances to Customers (Continued)**

As at 31 December 2002 loans and advances to customers included USD 33 078 thousand of interest income accrued on a loan to Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings, S.A., in the amount of USD 110 000 thousand issued in May 2001 with an initial maturity in May 2004 and carrying a nominal interest rate of 20% p.a., payable at maturity. In June 2003 the parties agreed to change the maturity of the loan to 1 September 2003. On 1 September 2003 the loan was fully repaid along with the interest income accrued to date.

As at 31 December 2003 the estimated fair value of loans and advances to customers was USD 3 454 249 thousand (2002: USD 2 438 552 thousand). Refer to Note 25.

As at 31 December 2003 loans in the amount of USD 23 765 thousand (2002: nil) have been pledged to third parties as collateral with respect to due to other banks. Refer to Note 12.

As at 31 December 2002 loans in the amount of USD 50 000 thousand have been pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organizations. Refer to Note 14.

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

**9 Investments**

	<b>2003</b>	<b>2002</b>
Investments available for sale	45 885	95 776
Investment in associated company	19 558	-
<b>Total investments</b>	<b>65 443</b>	<b>95 776</b>

**Investments available for sale.** The movements in the fair value of investments available for sale were as follows:

	<b>2003</b>	<b>2002</b>
<b>As at 1 January</b>	<b>95 776</b>	<b>137 180</b>
Net fair value gains arising on investments available for sale	7 104	34 947
Acquisition of investments available for sale	2 047	3 469
Disposal of investments available for sale	(35 483)	(104 876)
Effect of change in accounting treatment of investment in STS	(42 110)	-
Gains less losses arising from investments available for sale operations, net of gains previously recorded directly in shareholders' equity	18 551	25 716
Impairment of investments available for sale	-	(660)
<b>Total investments available for sale as at 31 December</b>	<b>45 885</b>	<b>95 776</b>

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:

<b>Name</b>	<b>Nature of business</b>	<b>Country of registration</b>	<b>Fair value</b>	
			<b>2003</b>	<b>2002</b>
Akrikhin	Pharmaceutical	Russia	38 630	30 540
STS	Television	Russia	-	42 110
Borskoe Steklo	Manufacturing	Russia	-	9 000
Svet	Manufacturing	Russia	-	5 500
Other			7 255	8 626
<b>Total</b>			<b>45 885</b>	<b>95 776</b>

**9 Investments (Continued)**

External independent market quotations were not available for 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.

As at 31 December 2002 investments available for sale with a fair value of USD 5 227 thousand have been pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organisations. Refer to Note 14.

**Investment in associated company.** As at 31 December 2003 an investment in an associated company in the amount of USD 19 558 thousand represents a 25% interest in Story First Communications Inc. (“SFC”), a Delaware corporation primarily investing in television and radio ventures.

In 1999 the Group acquired a 25% plus 2 shares as an investment in the STS Network (“STS”), a national television network in Russia and a 75% owned subsidiary of SFC, with an intention to sell it within a short period after purchase. The investment in STS was carried on the consolidated balance sheet at fair value within investments available for sale. As at 31 December 2002 the fair value of the investment in STS was USD 42 110 thousand.

In August 2003 the Group restructured its entire interest in STS into 25% interest in SFC. In the course of restructuring the Group forgave indebtedness of STS to the Group in amount of USD 10 428 thousand and paid USD 8 210 thousand to STS and one of the shareholders of SFC.

Following the restructuring the Group classified its investment in SFC as an investment in associated company accounted for by the equity method of accounting. The carrying value of the investment in STS as at the date of restructuring was recalculated using the equity method of accounting retrospectively from the date of its acquisition for the purposes of determination of the cost of acquisition of the investment in SFC.

Fair value gains in the amount of USD 34 460 thousand previously recorded directly in shareholders’ equity in relation to the investment in STS were reversed in the consolidated statement of changes in shareholders’ equity for the year ended 31 December 2003.

**10 Other Assets and Receivables**

	<b>2003</b>	<b>2002</b>
Receivables on operations with securities	41 663	62 966
Net investment in lease	26 328	12 243
Trade debtors and prepayments	26 287	10 065
Plastic card debtors and other settlements with clients	25 959	13 882
Precious metals	21 258	121
Conversion operations and derivative financial instruments	17 723	5 971
Receivables from related parties	10 252	94 919
Prepaid taxes	6 212	7 713
Settlement on disposal of subsidiary	3 000	-
Other	14 679	16 049
	<b>193 361</b>	<b>223 929</b>
Less: Provision for impairment of receivables	(7 752)	(1 875)
<b>Total other assets and receivables</b>	<b>185 609</b>	<b>222 054</b>

**10 Other Assets and Receivables (Continued)**

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

	Note	2003	2002
<b>Provision for impairment of receivables as at 1 January</b>		<b>1 875</b>	<b>4 082</b>
Provision/(recovery of provision) for impairment of receivables during the year		6 130	(2 207)
Disposal of subsidiary	27	(253)	-
<b>Provision for impairment of receivables as at 31 December</b>		<b>7 752</b>	<b>1 875</b>

As at 31 December 2003 precious metals include gold with a carrying value of USD 19 943 thousand (2002: nil) that has been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 12.

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

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

**11 Premises and Equipment**

	Premises	Leasehold improvements	Office and computer equipment	Intangible assets	Construction in progress	Total
<b>Net book amount as at 31 December 2002</b>	<b>50 336</b>	<b>8 024</b>	<b>48 540</b>	<b>23 681</b>	<b>5 347</b>	<b>135 928</b>
<b>Cost or valuation</b>						
Opening balance	57 188	9 342	84 781	31 725	5 347	188 383
Additions and transfers	512	2 880	11 063	13 701	4 791	32 947
Disposals	(3 015)	(1 083)	(6 377)	(364)	-	(10 839)
Translation movement	4 082	739	5 884	854	325	11 884
<b>Closing balance</b>	<b>58 767</b>	<b>11 878</b>	<b>95 351</b>	<b>45 916</b>	<b>10 463</b>	<b>222 375</b>
<b>Accumulated depreciation</b>						
Opening balance	6 852	1 318	36 241	8 044	-	52 455
Depreciation charge	1 262	225	12 496	5 417	-	19 400
Disposals	(24)	(66)	(2 709)	(10)	-	(2 809)
Translation movement	556	57	2 671	324	-	3 608
<b>Closing balance</b>	<b>8 646</b>	<b>1 534</b>	<b>48 699</b>	<b>13 775</b>	<b>-</b>	<b>72 654</b>
<b>Net book amount as at 31 December 2003</b>	<b>50 121</b>	<b>10 344</b>	<b>46 652</b>	<b>32 141</b>	<b>10 463</b>	<b>149 721</b>

**11 Premises and Equipment (Continued)**

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

As at 31 December 2003 no premises and equipment were pledged to third parties. As at 31 December 2002 premises and equipment with the carrying value of USD 3 571 thousand were pledged as collateral with respect to a loan from the Agency for Restructuring of Credit Organizations. Refer to Note 14.

**12 Due to Other Banks**

	<b>2003</b>	<b>2002</b>
Term placements of other banks	369 465	280 815
Sale and repurchase agreements with other banks	289 341	164 434
Correspondent accounts of other banks		
- Russian Federation	70 725	158 405
- Other countries	66 770	68 466
<b>Total due to other banks</b>	<b>796 301</b>	<b>672 120</b>

Trading securities with a fair value of USD 319 126 thousand (2002: USD 136 772 thousand) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 6.

In addition, as at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 thousand (2002: USD 61 811 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Note 7.

Gold with a carrying value of USD 19 943 thousand (2002: nil) has been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 10.

As at 31 December 2003 loans in the amount of USD 23 765 thousand (2002: nil) have been pledged to third parties as collateral with respect to due to other banks. Refer to Note 8.

As at 31 December 2003 the estimated fair value of due to other banks was USD 796 301 thousand (2002: USD 672 120 thousand). Refer to Note 25.

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

**13 Customer Accounts**

	<b>2003</b>	<b>2002</b>
<b>Commercial organisations</b>		
- Current/settlement accounts	944 284	848 927
- Term deposits	1 076 782	268 846
<b>Individuals</b>		
- Current/demand accounts	331 236	233 529
- Term deposits	961 926	558 092
<b>State and public organisations</b>		
- Current/settlement accounts	7 817	53 585
- Term deposits	78 361	34 437
<b>Total customer accounts</b>	<b>3 400 406</b>	<b>1 997 416</b>

**13 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

	2003		2002	
	Amount	%	Amount	%
Individuals	1 293 162	38	791 621	40
Energy and oil and gas	832 203	24	436 579	22
Manufacturing and construction	337 220	10	156 520	8
Trade and commerce	258 047	8	146 261	7
Finance and investment companies	173 278	5	229 432	11
State and public organisations	86 178	3	88 022	5
Mass media and telecommunications	70 447	2	80 995	4
Science	61 341	2	20 925	1
Other	288 530	8	47 061	2
<b>Total customer accounts</b>	<b>3 400 406</b>	<b>100</b>	<b>1 997 416</b>	<b>100</b>

As at 31 December 2003 the Group had 5 customers with aggregated balances equal to or above USD 50 000 thousand. The aggregate amount of these deposits was USD 906 962 thousand or 26.7% of the total customer accounts.

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

Included in customer accounts are balances in amount of USD 45 337 thousand (2002: USD 10 463 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 24.

As at 31 December 2003 the estimated fair value of customer accounts was USD 3 400 406 thousand (2002: USD 1 997 416 thousand). Refer to Note 25.

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

**14 Other Borrowed Funds**

	2003	2002
Eurobonds	174 535	173 390
Syndicated loan	82 237	-
Euro-Commercial Papers	50 442	-
Russian Rouble denominated bonds	16 703	22 780
Loan from the Agency for Restructuring of Credit Organisations	-	15 930
Other	-	584
<b>Total other borrowed funds</b>	<b>323 917</b>	<b>212 684</b>

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

On 5 December 2003 the Group received a syndicated loan in amount of USD 82 000 thousand from a consortium of large international banks. The loan matures on 24 November 2004 and bears a floating interest rate equal to LIBOR plus 2.4% per annum. As at 31 December 2003 the interest rate was 4.0% per annum.

**14 Other Borrowed Funds (Continued)**

On 11 December 2003 the Group established a Euro - Commercial Paper Programme (the “Programme”). The aggregate principal amount of outstanding notes issued under the Programme at any time may not exceed USD 200 000 thousand and the tenor of the notes may not be more from 365 days. By 31 December 2003 the Group issued four tranches of US Dollar denominated notes with a total nominal amount of USD 51 550 thousand. The issued notes mature from March 2004 to June 2004 and carry a fixed coupon rate ranging from 4.2% to 5.0% per annum payable at maturity. The notes were issued at a discount to the nominal value ranging from 1.0% to 2.5%. Thus, net issue proceeds amounted to USD 50 318 thousand and the average effective interest rate at origination was 10.5%.

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 2003 coupon was to be paid at an interest rate of 7.5% per annum. The Bank has issued an irrevocable offer to redeem the bonds at nominal value along with accrued interest on 11 June 2004.

As at 31 December 2003 the estimated fair value of other borrowed funds was USD 335 978 thousand (2002: USD 215 338 thousand). Refer to Note 25.

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

**15 Other Liabilities and Payables**

	Note	2003	2002
Payable on operations with securities		51 393	41 414
Accrued staff compensation expenses		49 254	43 160
Trade payables		29 796	12 479
Plastic card payables		15 568	13 079
Settlements with clients		9 738	518
Payable to related parties		9 499	7 298
Provision for losses on credit related commitments	24	7 782	9 462
Conversion operations and derivative financial instruments		7 005	2 708
Taxation payable		4 968	407
Other		16 514	15 486
<b>Total other liabilities and payables</b>		<b>201 517</b>	<b>146 011</b>

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

**16 Share Capital**

As at 31 December 2003 and 31 December 2002 authorised, issued and fully paid share capital of ABH Financial Limited comprised 160 800 000 ordinary shares. All shares have nominal value of USD 1 per share, rank equally and carry one vote.

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

**17 Interest Income and Expense**

	<b>2003</b>	<b>2002</b>
<b>Interest income</b>		
Loans and advances to customers	403 393	311 824
Trading securities	55 713	24 202
Due from other banks	18 369	31 099
<b>Total interest income</b>	<b>477 475</b>	<b>367 125</b>
<b>Interest expense</b>		
Term deposits of individuals	57 899	41 174
Promissory notes issued	52 736	55 653
Term deposits of legal entities	45 952	4 318
Due to other banks	38 592	44 322
Other borrowed funds	24 249	8 253
Current/settlement accounts	23 062	23 412
<b>Total interest expense</b>	<b>242 490</b>	<b>177 132</b>
<b>Net interest income</b>	<b>234 985</b>	<b>189 993</b>

Refer to Note 26 for details of related party transactions.

**18 Fee and Commission Income and Expense**

	<b>2003</b>	<b>2002</b>
<b>Fee and commission income</b>		
Commission on settlement transactions	51 595	40 058
Commission on cash and foreign exchange transactions	24 134	15 719
Commission for consulting services	12 537	3 175
Commission income from Alfa Eco Group	10 430	-
Commission on guarantees issued	9 916	13 846
Commission on transactions with securities	9 225	5 803
Commission income in relation to formation of TNK-BP Limited	4 015	-
Commission income from Golden Telecom	-	3 297
Other	13 966	9 402
<b>Total fee and commission income</b>	<b>135 818</b>	<b>91 300</b>
<b>Fee and commission expense</b>		
Commission for consulting services	24 480	27 013
Commission on settlement transactions	5 162	8 518
Commission on cash and foreign exchange transactions	4 752	908
Commission on transactions with securities	3 672	933
Other	3 084	2 428
<b>Total fee and commission expense</b>	<b>41 150</b>	<b>39 800</b>
<b>Net fee and commission income</b>	<b>94 668</b>	<b>51 500</b>



**18 Fee and Commission Income and Expense (Continued)**

During 2003 commission income in the amount of USD 10 430 thousand from Alfa Eco Group, a party related to the Group, represented fees in relation to significant investment transactions of Alfa Eco Group.

During 2003 commission income in relation to formation of TNK-BP Limited was received from a company jointly controlled by the Consortium and its joint venture partner, Access/Renova Group.

Refer to Note 26 for details of related party transactions.

**19 Other Operating Income**

	Note	2003	2002
Structured debt operations		36 161	6 938
Leasing and other income on premises and equipment		6 825	5 719
Gains less losses from trading in precious metals		4 618	(2 285)
Gains from disposal of subsidiary	27	4 617	-
Income from insurance operations		4 001	4 468
Late charges on loans and other penalties		3 466	17 640
Dividend income		1 486	1 862
Other		4 070	11 808
<b>Total other operating income</b>		<b>65 244</b>	<b>46 150</b>

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

**20 Operating Expenses**

	2003	2002
Staff costs	142 315	122 172
Depreciation and other expenses related to premises and equipment	26 932	17 850
Rent, heat and utilities	22 151	13 025
Taxes	20 770	22 620
Advertising and marketing	19 906	11 602
Maintenance	18 798	8 508
Consulting and professional services	13 462	19 551
Computer and telecommunications expenses	13 422	20 292
Travel expenses	3 608	4 217
Other	24 189	6 108
<b>Total operating expenses</b>	<b>305 553</b>	<b>245 945</b>

**21 Income Taxes**

Income tax expense comprises the following:

	<b>2003</b>	<b>2002</b>
Current tax charge	7 875	2 453
Deferred taxation movement due to origination and reversal of temporary differences	3 136	1 120
<b>Income tax expense for the year</b>	<b>11 011</b>	<b>3 573</b>

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

	<b>2003</b>	<b>2002</b>
<b>IFRS profit before tax</b>	<b>116 726</b>	<b>108 199</b>
Theoretical tax charge at the applicable statutory rate	28 014	25 968
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Difference in provisions in accordance with IFRS and statutory rules	(15 459)	(42 673)
- Non deductible expenses	5 943	13 091
- Income which is exempt from taxation	(2 211)	(62 141)
- (Gain)/Loss earned in tax free jurisdictions	(7 560)	21 481
- Negative taxable base which has no future income tax benefit	-	10 494
- Effect of change in statutory taxation legislation	-	41 304
- Other IFRS adjustments	8 607	(4 522)
Tax effect of loss used during 2003	(1 648)	-
Tax effect of loss carry forward	(4 675)	571
<b>Income tax expense for the year</b>	<b>11 011</b>	<b>3 573</b>

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

	<b>2002</b>	<b>Movement</b>	<b>2003</b>
<b>Tax effect of deductible temporary differences</b>			
Accumulated depreciation of premises and equipment	7 777	2 045	9 822
Tax loss carry forward	2 283	3 207	5 490
Accruals	876	3 034	3 910
Other	(257)	1 618	1 361
<b>Gross deferred tax asset</b>	<b>10 679</b>	<b>9 904</b>	<b>20 583</b>
<b>Tax effect of taxable temporary differences</b>			
Valuation of premises and equipment	(16 010)	(1 282)	(17 292)
Provision for loan impairment	(4 857)	5 310	453
Accruals	(124)	(9 802)	(9 926)
Other	-	(7 266)	(7 266)
<b>Gross deferred tax liability</b>	<b>(20 991)</b>	<b>(13 040)</b>	<b>(34 031)</b>
<b>Total net deferred tax liability</b>	<b>(10 312)</b>	<b>(3 136)</b>	<b>(13 448)</b>

**21 Income Taxes (Continued)**

	<b>2001</b>	<b>Movement</b>	<b>2002</b>
<b>Tax effect of deductible temporary differences</b>			
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)
<b>Gross deferred tax asset</b>	<b>15 126</b>	<b>(4 447)</b>	<b>10 679</b>
<b>Tax effect of taxable temporary differences</b>			
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)
<b>Gross deferred tax liability</b>	<b>(24 318)</b>	<b>3 327</b>	<b>(20 991)</b>
<b>Total net deferred tax liability</b>	<b>(9 192)</b>	<b>(1 120)</b>	<b>(10 312)</b>

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.

**22 Analysis by Segment Continued)**

Segment information for the main reportable business segments of the Group for the years ended 31 December 2003 and 31 December 2002 is set out below:

<b>2003</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	<b>554 123</b>	<b>213 363</b>	<b>-</b>	<b>767 486</b>
<b>Segment results</b>	219 605	201 754	-	421 359
Unallocated costs				(305 553)
Share of results of associated company after tax				920
<b>Profit before tax</b>				<b>116 726</b>
Income tax expense				(11 011)
<b>Profit after tax</b>				<b>105 715</b>
Minority interest				(96)
<b>Net profit</b>				<b>105 619</b>
<b>Total assets</b>	<b>4 911 911</b>	<b>1 179 505</b>	<b>(207 282)</b>	<b>5 884 134</b>
<b>Total liabilities</b>	<b>5 103 637</b>	<b>434 174</b>	<b>(207 282)</b>	<b>5 330 529</b>
<b>Other segment items</b>				
Capital expenditure	(30 500)	(2 447)	-	(32 947)
Depreciation expense	(17 959)	(1 441)	-	(19 400)
Other non-cash income/(expenses)	(43 919)	(2 600)	-	(46 519)
Net fair value gains arising on investments available for sale recorded directly in shareholders' equity	-	7 104	-	7 104
Effect of change in accounting treatment of investment in associated company	-	(34 460)	-	(34 460)

**ABH Financial Limited****Notes to the Consolidated Financial Statements – 31 December 2003***(expressed in thousands of US dollars - Note 3)***22 Analysis by Segment Continued)**

<b>2002</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total revenues</b>	<b>474 327</b>	<b>120 312</b>	<b>-</b>	<b>594 639</b>
<b>Segment results</b>	227 295	109 267	-	336 562
Unallocated costs				(245 945)
Monetary gain				17 582
<b>Profit before tax</b>				<b>108 199</b>
Income tax expense				(3 573)
<b>Profit after tax</b>				<b>104 626</b>
Minority interest				(36)
<b>Net profit</b>				<b>104 590</b>
<b>Total assets</b>	<b>3 375 167</b>	<b>865 397</b>	<b>(122 374)</b>	<b>4 118 190</b>
<b>Total liabilities</b>	<b>3 555 751</b>	<b>250 142</b>	<b>(122 374)</b>	<b>3 683 519</b>
<b>Other segment items</b>				
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

**22 Analysis by Segment (Continued)**

**Geographical segments.** Segment information for the main geographical segments of the Group is set out below for the year ended 31 December 2003.

	<b>Russia</b>	<b>Europe</b>	<b>CIS</b>	<b>USA</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	460 975	289 833	19 045	152 527	811	923 191
Mandatory cash balances with the CBRF and other local central banks	278 976	13 623	695	-	-	293 294
Trading securities	626 495	15 213	8 689	4 136	40 042	694 575
Due from other banks	94 149	19 408	14 895	3 169	-	131 621
Loans and advances to customers	3 266 180	39 371	129 238	5 891	-	3 440 680
Investments	65 443	-	-	-	-	65 443
Other assets and receivables	134 117	43 424	7 087	-	981	185 609
Premises and equipment	136 356	985	12 380	-	-	149 721
<b>Total assets</b>	<b>5 062 691</b>	<b>421 857</b>	<b>192 029</b>	<b>165 723</b>	<b>41 834</b>	<b>5 884 134</b>
<b>Liabilities</b>						
Due to other banks	273 496	423 786	95 919	87	3 013	796 301
Customer accounts	3 216 110	97 450	86 711	135	-	3 400 406
Promissory notes issued	585 726	-	9 214	-	-	594 940
Other borrowed funds	16 703	307 214	-	-	-	323 917
Other liabilities and payables	130 028	51 505	11 959	-	8 025	201 517
Deferred tax liability	13 448	-	-	-	-	13 448
<b>Total liabilities</b>	<b>4 235 511</b>	<b>879 955</b>	<b>203 803</b>	<b>222</b>	<b>11 038</b>	<b>5 330 529</b>
<b>Net balance sheet position as at 31 December 2003</b>	<b>827 180</b>	<b>(458 098)</b>	<b>(11 774)</b>	<b>165 501</b>	<b>30 796</b>	<b>553 605</b>
<b>Net balance sheet position as at 31 December 2002</b>	<b>791 499</b>	<b>(322 816)</b>	<b>(1 988)</b>	<b>18 939</b>	<b>(50 963)</b>	<b>434 671</b>

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

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

The majority of the Group's revenues are generated from counterparties that are of Russian origin.

The majority of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

## **23 Financial Risk Management**

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

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

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

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

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

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

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

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

**23 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values. As at 31 December 2003 the Group had the following positions in currencies:

	USD	RR	EURO	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	293 596	372 767	242 111	14 717	923 191
Mandatory cash balances with the CBRF and other local central banks	-	278 976	13 623	695	293 294
Trading securities	566 228	101 528	23 973	2 846	694 575
Due from other banks	60 859	65 876	3 321	1 565	131 621
Loans and advances to customers	1 997 240	1 305 161	101 744	36 535	3 440 680
Investments	65 443	-	-	-	65 443
Other assets and receivables	105 656	44 356	10 863	24 734	185 609
Premises and equipment	-	136 356	985	12 380	149 721
<b>Total assets</b>	<b>3 089 022</b>	<b>2 305 020</b>	<b>396 620</b>	<b>93 472</b>	<b>5 884 134</b>
<b>Liabilities</b>					
Due to other banks	515 948	225 587	30 014	24 752	796 301
Customer accounts	1 652 194	1 453 457	275 640	19 115	3 400 406
Promissory notes issued	171 661	394 669	28 610	-	594 940
Other borrowed funds	307 214	16 703	-	-	323 917
Other liabilities and payables	164 390	22 523	7 345	7 259	201 517
Deferred tax liability	-	13 448	-	-	13 448
<b>Total liabilities</b>	<b>2 811 407</b>	<b>2 126 387</b>	<b>341 609</b>	<b>51 126</b>	<b>5 330 529</b>
<b>Net balance sheet position</b>	<b>277 615</b>	<b>178 633</b>	<b>55 011</b>	<b>42 346</b>	<b>553 605</b>
<b>Off-balance sheet net notional position (Note 24)</b>	<b>(34 973)</b>	<b>(26 026)</b>	<b>70 659</b>	<b>374</b>	<b>10 034</b>
<b>Credit related commitments (Note 24)</b>	<b>541 296</b>	<b>93 694</b>	<b>60 531</b>	<b>784</b>	<b>696 305</b>
As at 31 December 2002 the Group had the following currency positions:					
	USD	RR	EURO	Other currencies	Total
<b>Net balance sheet position</b>	<b>464 681</b>	<b>14 423</b>	<b>(22 022)</b>	<b>(22 411)</b>	<b>434 671</b>
<b>Off-balance sheet net notional position</b>	<b>(13 814)</b>	<b>6 254</b>	<b>(484)</b>	<b>9 366</b>	<b>1 322</b>
<b>Credit related commitments (Note 24)</b>	<b>713 032</b>	<b>14 095</b>	<b>23 072</b>	<b>1 342</b>	<b>751 541</b>



**23 Financial Risk Management (Continued)**

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

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. 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 and Liability Committee of the Group.

The table below shows assets and liabilities as at 31 December 2003 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. 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 2003 is set out below.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	923 191	-	-	-	-	923 191
Mandatory cash balances with the CBRF and other local central banks	293 294	-	-	-	-	293 294
Trading securities	694 575	-	-	-	-	694 575
Due from other banks	120 298	885	10 438	-	-	131 621
Loans and advances to customers	170 325	956 856	1 405 910	907 589	-	3 440 680
Investments	-	-	-	-	65 443	65 443
Other assets and receivables	97 553	47 146	5 539	14 113	21 258	185 609
Premises and equipment	-	-	-	-	149 721	149 721
<b>Total assets</b>	<b>2 299 236</b>	<b>1 004 887</b>	<b>1 421 887</b>	<b>921 702</b>	<b>236 422</b>	<b>5 884 134</b>
<b>Liabilities</b>						
Due to other banks	616 669	132 485	33 689	13 458	-	796 301
Customer accounts	1 751 938	1 322 406	286 524	39 538	-	3 400 406
Promissory notes issued	181 361	256 652	140 258	16 669	-	594 940
Other borrowed funds	-	59 452	90 746	173 719	-	323 917
Other liabilities and payables	158 853	37 149	1 017	4 498	-	201 517
Deferred tax liability	-	-	-	-	13 448	13 448
<b>Total liabilities</b>	<b>2 708 821</b>	<b>1 808 144</b>	<b>552 234</b>	<b>247 882</b>	<b>13 448</b>	<b>5 330 529</b>
<b>Net liquidity gap as at 31 December 2003</b>	<b>(409 585)</b>	<b>(803 257)</b>	<b>869 653</b>	<b>673 820</b>	<b>222 974</b>	<b>553 605</b>
<b>Cumulative liquidity gap as at 31 December 2003</b>	<b>(409 585)</b>	<b>(1 212 842)</b>	<b>(343 189)</b>	<b>330 631</b>	<b>553 605</b>	
<b>Cumulative liquidity gap as at 31 December 2002</b>	<b>(683 213)</b>	<b>(759 612)</b>	<b>(264 156)</b>	<b>184 306</b>	<b>434 671</b>	

## **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 of a short term nature, 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.

**23 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to interest rate risks as at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	923 191	-	-	-	-	923 191
Mandatory cash balances with the CBRF and other local central banks	293 294	-	-	-	-	293 294
Trading securities	653 159	-	-	-	41 416	694 575
Due from other banks	120 298	885	10 438	-	-	131 621
Loans and advances to customers	170 325	956 856	1 405 910	907 589	-	3 440 680
Investments	-	-	-	-	65 443	65 443
Other assets and receivables	97 553	47 146	5 539	14 113	21 258	185 609
Premises and equipment	-	-	-	-	149 721	149 721
<b>Total assets</b>	<b>2 257 820</b>	<b>1 004 887</b>	<b>1 421 887</b>	<b>921 702</b>	<b>277 838</b>	<b>5 884 134</b>
<b>Liabilities</b>						
Due to other banks	616 669	132 485	33 689	13 458	-	796 301
Customer accounts	1 751 938	1 322 406	286 524	39 538	-	3 400 406
Promissory notes issued	181 361	256 652	140 258	16 669	-	594 940
Other borrowed funds	-	158 392	8 509	157 016	-	323 917
Other liabilities and payables	158 853	37 149	1 017	4 498	-	201 517
Deferred tax liability	-	-	-	-	13 448	13 448
<b>Total liabilities</b>	<b>2 708 821</b>	<b>1 907 084</b>	<b>469 997</b>	<b>231 179</b>	<b>13 448</b>	<b>5 330 529</b>
<b>Net sensitivity gap as at 31 December 2003</b>	<b>(451 001)</b>	<b>(902 197)</b>	<b>951 890</b>	<b>690 523</b>	<b>264 390</b>	<b>553 605</b>
<b>Cumulative sensitivity gap as at 31 December 2003</b>	<b>(451 001)</b>	<b>(1 353 198)</b>	<b>(401 308)</b>	<b>289 215</b>	<b>553 605</b>	
<b>Cumulative sensitivity gap as at 31 December 2002</b>	<b>(743 712)</b>	<b>(821 236)</b>	<b>(318 909)</b>	<b>153 597</b>	<b>434 671</b>	

**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.

	2003				2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
<b>Assets</b>								
Correspondent accounts and overnight placements with other banks	4.0%	2.3%	2.3%	0.0%	5.9%	16.2%	0.0%	0.0%
Mandatory cash balances with the CBRF and other local banks	-	0.0%	0.0%	0.0%	-	0.0%	0.0%	0.0%
Debt trading securities	7.5%	11.1%	5.7%	5.1%	8.8%	14.1%	-	-
Due from other banks	3.7%	4.3%	6.5%	5.0%	4.3%	14.5%	3.1%	14.5%
Loans and advances to customers	11.9%	16.1%	9.6%	14.2%	13.2%	20.1%	11.4%	14.0%
<b>Liabilities</b>								
Due to other banks	3.2%	7.1%	3.8%	1.0%	3.3%	12.3%	5.4%	5.0%
Customer accounts								
- current and settlement accounts	1.8%	0.5%	0.2%	0.0%	2.1%	2.3%	2.1%	2.3%
- term deposits	3.9%	6.2%	3.3%	4.8%	6.1%	10.2%	6.1%	10.2%
Promissory notes issued	4.0%	12.5%	2.7%	-	6.1%	15.6%	3.0%	15.6%
Other borrowed funds	9.6%	7.5%	-	-	12.0%	17.6%	-	17.0%

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

**24 Contingencies, Commitments and Derivative Financial Instruments**

**Legal proceedings.** In February 2002, Norex Petroleum Limited, a Cypriot company, filed a lawsuit against the Bank, Alfa Capital Markets (USA) and certain other defendants related to the Group in the United States District Court for the Southern District of New York over the ownership of a company which is currently owned by TNK Industrial Holdings Limited. The Group believes that it has substantial defences to jurisdiction and venue in the United States, and it has filed a comprehensive motion to dismiss the complaint. Also, the Group believes that the allegations in the complaint are without merit and intends to vigorously defend this action. Management does not expect to incur any material future losses in relation to this lawsuit. Refer to Note 28.

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

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

In addition, 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.

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.

The Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2003 no provision for potential tax liabilities had been recorded (2002: no provision).

**Capital commitments.** As at 31 December 2003 the Group had capital commitments in respect of new computer systems in the amount of USD 6 687 thousand (2002: USD 13 287 thousand) and new retail business in the amount of USD 5 169 (2002: nil). In addition, other capital commitments amounted to USD 6 793 thousand (2002: USD 4 434 thousand). The Group's Management has already allocated the necessary resources in respect of these commitments. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

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

	2003	2002
Not later than 1 year	11 700	10 876
Later than 1 year and not later than 5 years	31 614	15 965
Later than 5 years	11 025	5 210
<b>Total operating lease commitments</b>	<b>54 339</b>	<b>32 051</b>

**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.

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

Outstanding credit related commitments are as follows:

	Note	2003	2002
Guarantees issued		387 073	538 946
Export letters of credit		241 843	191 712
Import letters of credit	13	75 171	30 345
Less: provision for losses on credit related commitments	15	(7 782)	(9 462)
<b>Total credit related commitments</b>		<b>696 305</b>	<b>751 541</b>

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.

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

	2003	2002
<b>Provision for losses on credit related commitments as at 1 January</b>	<b>9 462</b>	<b>3 937</b>
(Release of provision)/Provision for losses on credit related commitments during the year	(1 680)	5 525
<b>Provision for losses on credit related commitments as at 31 December</b>	<b>7 782</b>	<b>9 462</b>

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2003. These contracts were entered mainly into in December 2003 and are short term in nature.

**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
<b>Deliverable forwards</b>						
Foreign currency						
- sale of foreign currency	112 594	(170)	63	287 804	(187)	141
- purchase of foreign currency	134 164	(68)	305	253 781	(19)	2 238
Securities						
- sale of securities	369 447	(1 592)	6 380	119 172	(1 460)	907
- purchase of securities	48 645	-	1 542	9 847	-	499
Precious metals						
- sale of precious metals	-	-	-	1 161	-	4
- purchase of precious metals	-	-	-	20 393	(86)	1 008
<b>Spot</b>						
Foreign currency						
- sale of foreign currency	129 805	(408)	356	80 493	(6)	247
- purchase of foreign currency	237 241	(425)	795	38 905	(37)	7
<b>Total</b>		<b>(2 663)</b>	<b>9 441</b>		<b>(1 795)</b>	<b>5 051</b>

For these deals the Group has recorded a net gain of USD 2 832 thousand which is included within gains less losses arising from trading in foreign currency, a net gain of USD 6 276 thousand which is included within gains less losses arising from trading securities and a net gain of USD 926 thousand which is included within gains less losses arising from trading in precious metals within other operating income.

Deliverable forward positions in securities as at 31 December 2003 are summarized below. As at 31 December 2003 respective securities long balance sheet positions of the Group exceeded respective securities short deliverable forward positions. Refer to Note 6.

	2003	
	Sale Fair value	Purchase Fair value
Eurobonds of RF	263 548	-
Corporate Eurobonds	149 388	48 645
Eurobonds of other states	33 867	9 847
Corporate bonds	29 841	-
Municipal bonds	7 691	-
Other	4 284	-
<b>Total</b>	<b>488 619</b>	<b>58 492</b>

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

**24 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

**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:

	<b>2003</b>	<b>2002</b>
	<b>Nominal value</b>	<b>Nominal value</b>
Shares in companies held in custody	225 694	212 879
Corporate bonds held in custody	153 355	64 574
Promissory notes of companies held in custody	103 425	275 294
Eurobonds	43 151	135 450
OVGYZ held on account with Vneshtorgbank	31 162	40 343
Client OFZ securities held on an account with NDC	15 131	18 521
Other	200	2 842

**Assets pledged.** As at 31 December 2003 the Group has the following assets pledged as collateral:

	<b>Notes</b>	<b>2003</b>	<b>2002</b>
Trading securities	6, 12	319 126	136 772
Loans and advances to customers	8, 12, 14	23 765	50 000
Precious metals	10, 12	19 943	-
Investments	9, 14	-	5 227
Premises and equipment	11, 14	-	3 571
<b>Total</b>		<b>362 834</b>	<b>195 570</b>

As at 31 December 2003 securities purchased by the Group under reverse sale and repurchase agreements with other banks with a fair value of USD 13 775 thousand (2002: USD 61 811 thousand) were sold by the Group under sale and repurchase agreements with other banks. Refer to Notes 7 and 12.

Mandatory cash balances with the CBRF and other local central banks in the amount of USD 293 294 thousand (2002: USD 214 252 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day to day operations.

As at 31 December 2002 25% of the Bank's shares were pledged to the Agency for Restructuring of Credit Organizations in relation to a loan from this organization (refer to Note 14). The pledge gave the creditor voting rights, but not an economic interest in the Bank. This loan was repaid during 2003.



## **25 Fair Value of Financial Instruments**

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

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

**Financial instruments carried at fair value.** Cash and cash equivalents, trading securities and investments available for sale are carried on the consolidated 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.

**Loans originated carried at amortised cost less provision for impairment.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair value of due from other banks and loans and advances to customers, respectively.

**Liabilities carried at amortized cost.** The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively. As at 31 December 2003 the estimated fair value of promissory notes issued was USD 596 068 thousand (2002: USD 643 462 thousand).

**Derivative financial instruments.** All derivative financial instruments are carried at fair value as asset when the fair value is positive and as a liability when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 24.

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

**26 Related Party Transactions (Continued)**

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:

	2003			2002		
	TNK	Alfa Group Consortium (Note 1)	Other	TNK	Alfa Group Consortium (Note 1)	Other
<b>Trading securities as at the year end</b>	7 180	25 919	-	29 635	32 558	-
<b>Loans and advances to customers as at the year end</b>	<b>52 369</b>	<b>48 843</b>	<b>3 270</b>	<b>120 733</b>	<b>343 639</b>	<b>439</b>
USD, effective contractual rate of 10.7% - 12.5%	2 200	45 093	2 964	-	3 569	-
USD, effective contractual rate of 12.6-14.0%	-	-	-	77 651	13 000	-
USD, effective contractual rate of 14.1%-18.0%	-	2 500	-	2 181	316 702	-
RUR, effective contractual rate of 2.5% - 6.5%	48 328	-	-	40 901	-	-
RUR, effective contractual rate of 13.0% - 19.0%	1 229	-	306	-	-	-
RUR, effective contractual rate of 23.0%-25.0%	-	-	-	-	10 359	439
RUR, effective contractual rate of 30.0%	-	-	-	-	9	-
EUR, effective contractual rate of 10.8%	612	1 250	-	-	-	-
Interest income for the year (based on effective contractual interest rates)	5 894	31 618	397	12 660	39 229	105
<b>Receivables as at the year end</b>	-	10 252	-	39 480	55 439	-
<b>Customer accounts</b>						
<b>Current/settlement accounts as at the year end</b>	<b>117 031</b>	<b>108 820</b>	<b>9 825</b>	<b>77 019</b>	<b>41 033</b>	<b>4 097</b>
RUR, effective contractual rate of 0.0-2.0%	97 847	34 226	6 766	35 474	9 427	3 736
USD, effective contractual rate of 0.0-2.0%	5 803	74 518	3 059	39 804	31 597	361
EUR, effective contractual rate of 0.0-2.0%	13 381	76	-	1 741	9	-
<b>Term deposits as at the year end</b>	<b>36 659</b>	<b>290 646</b>	<b>-</b>	<b>2 983</b>	<b>57 003</b>	<b>14</b>
RUR, effective contractual rate of 5.0% - 12.5%	4 295	34	-	2 983	55	14
USD, effective contractual rate of 2.5% - 4.3%	32 364	290 612	-	-	11	-
USD, effective contractual rate of 7.0%	-	-	-	-	56 937	-
Interest expense for the year (based on effective contractual interest rates)	3 822	4 131	-	8 868	1 593	-

**26 Related Party Transactions (Continued)**

	2003			2002		
	TNK	Alfa Group Consortium (Note 1)	Other	TNK	Alfa Group Consortium (Note 1)	Other
<b>Promissory notes issued as at the year end</b>	<b>5 694</b>	<b>44 288</b>	-	<b>52 625</b>	<b>35 278</b>	-
RUR, effective contractual interest rate of 0.0%	3 019	83	-	-	-	-
RUR, effective contractual interest rate of 5.0% - 11.0%	1 732	422	-	-	-	-
RUR, effective contractual interest rate of 12.0% - 19.0%	943	-	-	5	-	-
USD, effective contractual interest rate of 4.1%-7.7%	-	43 783	-	52 620	35 278	-
<b>Payables as at the year end</b>	-	7 154	8 341	2 055	4 424	1 619
<b>Guarantees issued by the Group as at the year end</b>	45 119	-	885	218 223	500	-
<b>Import letters of credit as at the year end</b>	13 536	-	-	-	-	-
<b>Export letters of credit as at the year end</b>	-	-	-	-	2 321	-
<b>Fee and commission income for the year</b>	6 591	13 741	4 015	15 087	7 756	-
<b>Fee and commission expense for the year</b>	997	687	-	1 062	3 686	-
<b>Other income for the year</b>	775	1 351	-	-	218	-
<b>Other expenses for the year</b>	-	5 788	320	-	719	-

In December 2002 the Group sold a construction company, Siracuse, an investment available for sale, to TNK, a significant associated company of Alfa Group Consortium for USD 39 345 thousand payable by instalments by the end of May 2003. Sale proceeds were received by the Group in full by the end of May 2003.

In November 2002 Alfa Telecom Limited, a wholly owned subsidiary of Alfa Finance Holdings S.A., granted to the Group for no consideration a call option (the "Option") representing the right of the Group to acquire an interest of up to 6% in Golden Telecom Inc, an associated company of Alfa Telecom Limited. The Option was exercisable in whole or in part at any time until 11 May 2004. In December 2003 Alfa Telecom Limited and the Group agreed to cancel the Option and Alfa Telecom Limited paid to the Group a cancellation fee of USD 25 000 thousand approximating the fair value of the Option as at the date of the Option cancellation. The gain received under the transaction was recorded directly in shareholders' equity as a contribution from the shareholder.

For the year ended 31 December 2003 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 9 987 thousand (2002: USD 5 504 thousand). Accrued remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounted to USD 5 996 thousand (2002: USD 800 thousand).

**27 Principal Consolidated Subsidiaries**

<b>Russian Federation and CIS</b>	<b>Rest of the World</b>
Alfa Bank	Alfa Capital Holding (Cyprus) Limited (Cyprus)
Alfa Bank Kazakhstan	Alfa Capital Markets (USA)
Alfa Bank Ukraine	Alfa-Russia Finance B.V. (Netherlands)
Alfa Capital Asset Management	Alfa Securities Limited (UK)
Alfa Leasing	Amsterdam Trade Bank (Netherlands)
Ostra Kiev Insurance Company (Ukraine) (disposed in December 2003)	Manwood Limited (Isle of Man)
	Tormead Marketing Limited (Isle of Man)
	Westlaw Incorporated (Nevis, West Indies)

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As at 31 December 2003 all principal consolidated subsidiaries of the Group, except for Alfa Bank Ukraine (94.7% owned and controlled), were wholly owned and controlled by the Group.

In December 2003 the Group disposed for USD 7 000 thousand its entire interest in Ostra Kiev Insurance Company and recorded a gain of USD 4 617 thousand on this transaction.

**28 Subsequent Events**

**Norex litigation.** On 18 February 2004 the Group received a ruling from the United States District Court for the Southern District of New York dismissing the litigation on the basis of “forum non convenience”.

**ABH Financial Limited ownership and control restructuring.** On 1 March 2004 the Supervisory Board of the Consortium decided to restructure ownership and control over ABH Financial Limited to comply with the new Russian Federation Federal Law on Deposit Insurance which establishes specific requirements for the ownership structure of banking institutions wishing to participate in the Russian Federation deposit insurance program. The restructuring is to be completed during 2004.

## ACCOUNTING PRACTICES

The Guarantor maintains its books of accounts and prepares its financial statements in U.S. Dollars in accordance with IFRS. The Guarantor's Russian affiliates, including Alfa-Bank, maintain their books of accounts and prepare their financial statements in Russian Rubles in accordance with the requirements of the Central Bank.

The consolidated financial statements are based on the statutory records with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS as promulgated by the International Accounting Standards Board.

The consolidated financial statements included in this Offering Circular are presented in U.S. Dollars.

### Highlights of Certain Differences Between IFRS and U.S. GAAP

Certain selected differences between U.S. GAAP and IFRS that may be significant relative to the Annual Financial Statements and Interim Financial Statements referred to in this Offering Circular are summarized below. Such differences involve methods for recognizing and measuring the amounts shown in the Annual Financial Statements and the Interim Financial Statements, as well as differing financial statement presentation and disclosure requirements. This summary should not be construed to be exhaustive, nor should it be expected to reveal all differences between U.S. GAAP and IFRS that are relevant to the Guarantor. Additionally, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the Annual Financial Statements and the Interim Financial Statements or notes thereto. Furthermore, no attempt has been made to identify future differences between U.S. GAAP and IFRS as the result of proposed changes in accounting standards. Standard-setting bodies that promulgate U.S. GAAP and IFRS have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between U.S. GAAP and IFRS that may affect the Annual Financial Statements and the Interim Financial Statements as a result of transactions or events that may occur in the future.

In making an investment decision, investors must rely upon their own examination of the Guarantor, the terms of the offering and the Guarantor's financial information. Potential investors should consult their own professional advisors for an understanding of the differences between U.S. GAAP and IFRS, and how these differences might affect the financial information herein.

#### *Consolidation*

Under IFRS, consolidation is based on control, which is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Assessment of whether a special purpose entity is controlled is generally made by evaluating benefits and risks related to its operations. Special purpose entities are defined as entities created to accomplish a narrow and well-defined objectives (*e.g.*, to effect a lease, conduct research and development activities, or transact a securitization of financial assets) that may take the form of a corporation, trust, partnership or unincorporated entity. Under IFRS, a special purpose entity shall be consolidated when the substance of the relationship between an entity and the special purpose entity indicates that the special purpose entity is controlled by the entity. Control may exist even in the case where an entity owns little or none of the special purpose entity's equity, for example, when in substance the entity has rights to obtain the majority of the benefits of the special purpose entity and therefore may be exposed to risks incident to the activities of the special purpose entity. Under IFRS, a minority interest is required to be measured as the minority's proportion of the net fair value of the identifiable net assets acquired at the time of an acquisition recognized under purchase accounting.

Under U.S. GAAP, a parent company is required to consolidate all of its majority-owned subsidiaries in which it holds more than 50% of the outstanding voting shares, subject to certain exceptions related to the parent company's inability to exercise control over the subsidiary.

U.S. GAAP also addresses the consolidation of what are termed variable interest entities, where the voting interest approach is not effective in identifying controlling financial interests in entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risks. An entity is considered a variable interest entity that shall be subject to consolidation if: (a) the entity's total equity at risk is insufficient to permit the entity to finance its activities without additional subordinated support, or (b) as a group, the holders of the equity investment at risk lack any of three characteristics of a controlling financial interest. An enterprise shall consolidate a variable interest entity if that enterprise has a variable interest, that variable interest will absorb a majority of the entity's expected losses, receive a majority of the entity's residual returns, or both, where variable interests are defined as contractual, ownership or other pecuniary interests in an entity that changes with changes in the fair value of the entity's net assets exclusive of variable interests.

#### *Classification of securities and other financial assets*

Under IFRS, securities, other financial assets, and financial liabilities are accounted for as at fair value through profit or loss if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or are derivatives, or if, upon initial recognition, they are designated as to be accounted for at fair value through profit or loss and certain conditions are met.

Under U.S. GAAP, non-trading securities and other financial assets cannot be accounted for at fair value through profit and loss based on designation upon initial recognition, and financial liabilities are not generally accounted for at fair value through profit and loss.

#### *Impairment of securities*

Under IFRS, if the amount of the impairment previously recorded on held-to-maturity securities decreases due to an event occurring subsequent to the write-down, then the impairment is reversed through net income. Further, an impairment loss on available-for-sale debt securities is reversed through net income if there is evidence that the increase in fair value is due to an event that occurred after the impairment loss was recognized.

Under U.S. GAAP, reversals of other temporary impairments recorded on held-to-maturity or available-for-sale securities are not permitted.

#### *Impairment of long-lived assets other than goodwill and intangible assets not subject to amortization*

Under IFRS, if there is an indication of impairment of a tangible fixed asset or a cash generating unit and if its carrying amount exceeds the higher of its fair value less costs to sell and its value in use (net present value of future cash flows), the excess is recognized as an impairment loss in the income statement. If the amount of a previously recognized impairment on the asset decreases, then the impairment loss shall be reversed through net income.

Under U.S. GAAP, if there is an indication of impairment of a long-lived asset and if its carrying amount exceeds the undiscounted expected future cash flows to be derived from the asset, the excess of the carrying amount over the fair value of such long-lived asset is recognized as an impairment loss. Reversal of the impairment loss recorded on a long-lived asset is not permitted.

#### *Property, plant and equipment*

Under IFRS, an entity elects whether to adopt the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Under the revaluation model, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value less any subsequent depreciation and accumulated impairment losses. Any surplus arising on the revaluation is recognized directly in a revaluation reserve to be presented in shareholders' equity, unless the surplus offsets a revaluation decrease that had been recognized in profit or loss. Depreciation is recognized based on the revalued amount.

Under U.S. GAAP, property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

#### *Business combinations*

Under both IFRS and U.S. GAAP, all business combinations in which one entity acquires net assets that constitute a business or acquires equity interests of one or more entities and obtains control over that entity or entities are to be accounted for using the purchase method. Under IFRS, minority interest is measured as the minority's proportion of the net fair value of the identifiable net assets acquired at the time of an acquisition recognized under purchase accounting, and negative goodwill is recognized immediately in net income.

Under U.S. GAAP, negative goodwill is initially allocated on a pro rata basis against the carrying amounts of certain acquired non-financial assets with any excess recognized as an extraordinary gain.

Under IFRS, the acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Under U.S. GAAP, the acquisition date is ordinarily the date on which the exchange is consummated, that is, the date assets are received and other assets are given, liabilities are assumed or incurred, or equity interests are issued.

#### *Discontinued operations*

Under IFRS, a discontinuing operation is a component of an entity that, pursuant to a single plan, is being disposed of or abandoned and that must represent a separate major line of business or geographical area of operation that can be distinguished operationally and for financial reporting purposes. The separate presentation of discontinued operations is required for those operations that are a separate major line of business or geographical area and subsidiaries acquired exclusively with a view to resale.

Under U.S. GAAP, the results of operations of a component of an entity that either has been disposed of or is classified as held for sale are reported in discontinued operations if the cash flows of the disposed component will be eliminated from the ongoing operations of the entity and the entity will not retain any substantial involvement in the disposed component. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity and may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

#### *Deferred tax*

In accordance with IFRS deferred tax assets are recognized when it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced if appropriate. U.S. GAAP requirements are similar to IFRS, but it recognizes all deferred tax assets and provides a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. There are a number of specific differences in application.

#### *Leases*

Under IFRS, a lease is classified as finance or operating based on its substance. If a sale and leaseback results in an operating lease that clearly is established at fair value, any profit or loss is recognized immediately.

Under U.S. GAAP, concepts are similar to IFRS. U.S. GAAP does not permit immediate gain recognition on sale and leaseback transactions involving operating leases.

## REGULATORY ENVIRONMENT

The Russian banking sector consists of the Central Bank, credit organizations (banks and non-bank credit organizations) and representative offices of foreign banks. Non-bank credit organizations provide only limited banking services, such as maintaining accounts and making payments, while banks provide a wide range of banking services.

The Central Bank in many respects is the successor to the former State Bank of the Soviet Union, Gosbank (“*Gosbank*”). Until 2002, the Central Bank operated under the general terms of reference of the law “On the Central Bank of the Russian Federation (the Bank of Russia)” of December 2, 1990 (as edited on April 26, 1995) with further amendment. In 2002, this law was superseded by the new law “On the Central Bank of the Russian Federation (Bank of Russia)” of July 10, 2002 (the “*Central Bank Law*”). According to the Central Bank Law, the state is not liable for the Central Bank’s obligations, nor is the Central Bank liable for the State’s obligations, unless the relevant liability has been undertaken or is required under other Russian laws. However, the Central Bank’s property is under federal ownership.

The Central Bank is legally and financially independent of the Russian Government. The Central Bank’s governing bodies are its Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the Central Bank, distribution of profits gained by the Central Bank, appointment of the Central Bank auditor and approval of the Central Bank’s accounting rules and requirements). The structure of the Central Bank comprises the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the Central Bank regional branches are called National Banks) and local branches. The Chairman of the Central Bank’s Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development and Trade have the right to participate in meetings of the Central Bank’s Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the Central Bank is a member of the National Banking Council *ex officio*.

Under the Central Bank Law, the Banking Law and the Currency Control Law, the Central Bank is authorized to adopt implementing regulations on various banking and currency control issues. The Central Bank has actively used this authorization in recent years, creating a detailed and extensive body of regulations.

Under current legislation the Central Bank has the following major functions:

<b>Function</b>	<b>Summary</b>
Issue of money and regulation of circulation	The Central Bank is the sole issuer of Russian Ruble banknotes and regulates their circulation. The Central Bank plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. However, the Central Bank is prohibited from issuing money for purposes of budget deficit financing.
Financing/Monetary policy	Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and other mandatory economic ratio requirements for banks. The Central Bank is prohibited from extending credits to the Government for the purposes of budget deficit financing.



Transactions and deals with banks	Rendering decisions on the state registration of banks; registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in Russian Rubles; providing banks with hard currency and regulating the circulation of guarantees; purchase and sale of Russian state securities, Central Bank bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the Central Bank is not permitted to participate in the charter capital of banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget accounts administration.
Exchange control	Regulation of dealing and settlements in Russian Rubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for Russian Ruble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licenses to banks.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 5%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).

## **Regulation**

Banking activities in Russia are broadly governed by the Banking Law and the Currency Control Law. The Central Bank supervises banks in various aspects (as outlined below). Generally, other institutions have only indirect influence over banks. The FSFM issues licenses to banking institutions acting as professional participants of the Russian securities market. The Federal Antimonopoly Service controls mergers and acquisitions of stakes in excess of 20% of total voting shares in credit organizations. Tax authorities supervise tax assessments of banks and register bank accounts. Other governmental authorities are largely inactive in relation to banks.

The Association of Russian Banks, comprising, as of February 22, 2006, 674 member credit organizations (of which 544 are banks), was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organization. It offers various technical support to its members and lobbies the interests of banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia.

## **Licensing**

A license must be obtained from the Central Bank for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation and submit an application for state registration with an attached feasibility report and detailed information on the suitability of the management together with certain other information. Under the Central Bank regulations, a bank can be created in the form of a joint-stock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. A license may be denied if the legal documents are not in order, if the financial or banking records of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet the qualification requirements.

## Mandatory Economic Ratios

The Central Bank is authorized to introduce various capital adequacy and liquidity requirements applicable to banks and, as the case may be, to banking groups. Such requirements currently exist in the form of the relevant mandatory economic ratios described in Instruction No. 110-i of the Central Bank of January 16, 2004 “On the Banks’ Mandatory Economic Ratios,” as amended.

Set out below is the system of mandatory economic ratios that banks are required to observe on a daily basis.<sup>(1)</sup> Unless stated otherwise, all ratios described below are calculated on the basis of RAR as formulated by applicable Russian laws and Central Bank regulations.

<b>Mandatory Economic Ratios</b>	<b>Description of Mandatory Economic Ratios</b>	<b>Central Bank Maximum/ Minimum Mandatory Economic Ratio Requirements</b>
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank’s insolvency and sets requirements for the minimum size of the bank’s capital base necessary to cover credit and market risks. It is formulated as a ratio of the size of the bank’s capital base to the amount of its risk-weighted assets.	Minimum 11% (where a bank’s capital base is below €5 million) and minimum 10% (where a bank’s capital base is equal or more than €5 million)
Instant liquidity ratio (N2)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within one operational day. It is formulated as the minimum ratio of a bank’s highly-liquid assets to the amount of the bank’s liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank’s liquid assets to the amount of the bank’s liabilities with terms of up to 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into long-term assets. It is formulated as the maximum permitted ratio of the bank’s credit claims maturing in more than one year, to the bank’s capital base and liabilities maturing in more than one year.	Maximum 120%
Maximum exposure to single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. It is formulated as the maximum ratio of the aggregate amount of the bank’s claims to a borrower or a group of related borrowers to the bank’s capital base.	Maximum 25%

<b>Mandatory Economic Ratios</b>	<b>Description of Mandatory Economic Ratios</b>	<b>Central Bank Maximum/ Minimum Mandatory Economic Ratio Requirements</b>
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks. It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of the bank's capital base.	Maximum 800%
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base.	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders ( <i>i.e.</i> , individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interest) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments into shares (participation interests) of other legal entities. It is formulated as the maximum ratio of the bank's investments into shares (participation interest) of other legal entities, to the bank's capital base.	Maximum 25%

(1) For the banks included in the system under the New Deposit Regime there are additional requirements for Mandatory Economic Ratios in accordance with Directive No. 1379-U of January 16, 2004 of the Central Bank.

The capital base of a bank is defined in Central Bank regulations as the aggregate amount of its fixed capital (including, *inter alia*, its charter and paid-in capital and certain reserve funds and approved profits) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and preferred shares) decreased by certain mandatory reserves and some other amounts.

Also, banks issuing mortgage-backed bonds are required to comply with the following mandatory economic ratios: (a) a minimum ratio of issued mortgage loans to a bank's capital base (N17, minimum 10%), (b) a minimum ratio of the amount of the "mortgage coverage" to the amount of issued mortgage-backed bonds (N18, minimum 100%) and (c) a maximum ratio of the aggregate amount of a bank's liabilities to creditors having a priority right to satisfy their claims to the bank's capital base (N19, maximum 50%). In addition, such banks should observe a higher capital adequacy ratio (N1) of a minimum of 14% (as opposed to the general 10% requirement).

The Central Bank some time ago changed the method of calculation of certain elements comprising N2 and N3 mandatory economic ratios. Also, methods of calculation of the following mandatory economic ratio were changed: N6, N7, N9.1, N10.1 and N12. The relevant amendments to Instruction No. 110-I entered into force on August 21, 2005.

## **Charter Capital Requirements**

The Central Bank sets minimum equity (charter capital) requirements for banks. Under Directive of the Central Bank No. 1346-U of December 1, 2003, the minimum capital requirement is set at EUR5 million for each newly founded bank. Those banks whose charter capital exceeds their capital base, are required to adjust their capital base (or, if impossible, their charter capital) accordingly. The procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by Directive of the Central Bank No. 1260-U of March 24, 2003.

## **Reporting Requirements**

Russian banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They must also inform the Central Bank about providing large loans (exceeding 5% of a bank's capital). Banking groups (*i.e.*, alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks with the alliance) and the consolidated groups (*i.e.*, alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other legal entities and non-lending organizations within such alliance) must regularly submit consolidated accounts to the Central Bank. The Central Bank may at any time carry out full or selective reviews of a bank's submission and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licensed auditor.

## **Mandatory Reserve Deposit Requirements**

To cover loan losses and currency, interest and financial risks, banks are required to comply with the Central Bank requirements for the formation of mandatory reserve deposits. Particular reserve requirements are set by the Board of Directors of the Central Bank from time to time. Banks are currently required to form mandatory reserve deposits to be held on non-interest bearing accounts with the Central Bank (starting from August 1, 2004, 2% in respect of funds in Russian Rubles and foreign currency attracted from foreign banks, and 3.5% in respect of other funds).

Prior to July 2004, mandatory reserves were to be calculated under Central Bank Order No. 02-77 of March 30, 1996. From July 1, 2004, the mandatory reserves are calculated by banks in accordance with Central Bank Regulation No. 255-P of March 29, 2004 (the "*New Reserves Regulation*"), which changed the methods of reserve calculation, but not the amounts set by the Board of Directors of the Central Bank. Both regimes require prompt reporting by banks to the Central Bank and its regional units after the end of each calendar month with calculation of reserves and prompt posting of additional reserves, if necessary. The Central Bank and its regional units have a right to conduct unscheduled audits of credit organizations to check their compliance with the reserve rules. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings, however, it requires posting of reserves for obligations to non-resident banks. In addition, credit organizations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

## **Provisioning**

The Central Bank put in place certain rules concerning the creation of loan impairment provisions for loans extended by banks. Beginning on August 1, 2004, Russian credit organizations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P of March 2, 2004. In particular, it requires credit organizations to rank their loans into five categories instead of the four that were used under the previous regulation. Furthermore, the range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, mortgages acquired in secondary markets, rights under repurchase agreements (if the securities transferred under such repurchase agreement are unlisted) and certain other operations. It has been established that loans classified as Category I loans (standard loans) do not require a provision. Additionally, credit organizations will be required to classify their loan security into two groups on the basis of quality.

The Central Bank also established rules concerning the creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forwards and other transactions. Central Bank Instruction No. 232-P of July 9, 2003 requires banks to rank such assets and operations into five risk groups rejecting the following situations: (a) no real or potential threat of losses, (b) moderate potential threat of losses, (c) serious potential or moderate real threat of losses, (d) simultaneous potential and moderate real threat of losses or material real threat of losses and (e) value of a particular type of asset or operation is going to be lost completely. Banks are then required to provide each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the Central Bank for each risk group indicated above, respectively: (a) 0%, (b) 1% to 20%, (c) 21% to 50%, (d) 51% to 100% and (e) 100%. Banks must report to the Central Bank on the amounts of created non-loan impairment provisions monthly within ten days following the reporting month. The Central Bank and its regional units are responsible for monitoring the compliance of banks with these rules. Mandatory provisions are also created for operations with residents of off-shore areas in the amount of up to the higher of: (a) 100% held on the bank's balance sheet accounts and (b) average daily turnover with residents of off-shore zones during the last month.

### **Regulation of Currency Exposure**

In its Instruction No. 124-I of July 15, 2005, "On the Establishment of the Amounts (Limits) of Open Currency Positions, on the Methods of Their Calculation and Particularities of Lending Organizations' Control over Compliance Therewith," the Central Bank established amounts and the procedure for recording a bank's open positions. The amounts (limits) of open currency positions in separate foreign currencies and separate precious metals, balance positions in Russian Rubles, sums of open currency positions in separate foreign currencies and separate precious metals and net worth (capital) of the lending organization. For these purposes lending organizations should determine daily, *inter alia*, net positions per separate currency and separate precious metals (balance position, "spot" position, term position, option position, position upon guarantees (banking guarantees), suretyships and letters of credit) and a balanced position in Russian Rubles the following requirements:

For the purpose of limiting the currency risk of banks, banks must now meet the following requirements on a daily basis:

- the total amount of all long (short) open currency positions for currencies and precious metals must not exceed 20% of the net worth (capital) of a lending organization, and
- any long (short) open currency positions for currencies and precious metals, as well as the balancing position in Russian Rubles, must not exceed 10% of the net worth (capital) of a lending organization.

Banks are required to report to the Central Bank about open currency positions each decade with breakdowns for each day or as of one day of the month following the reporting period.

### **Accounting Practices**

The Central Bank has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other financial information in accordance with the regulations of the Central Bank (including Directive No. 1375-U, "On the Rules for the Preparation and Submission of Reports to the Central Bank by Credit Organizations," dated January 16, 2004).

Beginning on January 1, 2004, all credit organizations were required to prepare their accounting reports in accordance with both RAR and IFRS. The first IFRS financial statements were to be prepared for the period ending September 30, 2004.

## **History of the Russian Banking Sector and Banking Statistics**

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of controls over companies and inter-bank settlements, a small group of dependent, specialized banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between RUR500,000 and RUR300 million. By the start of 1992, 1,500 licenses had been granted to banks.

In 1991, three of the specialized state dependent banks were transformed into joint-stock companies. Some regional branches became independent from head offices through management buy-outs.

The Central Bank assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Between 1991 and 1998 the Russian banking system experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. After August 17, 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organizations ("ARCO"). Due to the further stabilization of the Russian banking sector, the importance of ARCO as the administrator of credit organizations undergoing financial restructuring has decreased. On October 18, 2003, the last of such credit organizations was withdrawn from ARCO's administration. Pursuant to Federal Law No. 87-FZ, dated July 28, 2004, ARCO was liquidated on September 14, 2004.

Since the 1998 financial crisis the number of active credit organizations registered in Russia has fallen to 1,263 as of October 1, 2005. The 1998 financial crisis revealed the lack of effective controls in the banking sector, and strengthened concerns of the public about the integrity of the banking system with respect to misleading advertising, money laundering, corruption and criminal contacts.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the Central Bank and a crisis of confidence among Russian banking customers. During May-July 2004, the Central Bank revoked the banking licenses of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the inter-bank lending system and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors, and even reliable larger banks experienced depositor withdrawals.

Currently, the banking sector mostly offers services related to short-term and mid-term financing, because of the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted out of a fear that they may overwhelm nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a license - for example, there must be a degree of reciprocity in the home country of the foreign bank. The aggregate participation of foreign capital in the Russian banking system is determined by federal law proposed by the Government in conjunction with the Central Bank. No such law is currently in force.

## **Banking And Other Relevant Reforms**

Following the 1998 financial crisis, Russian banks undertook important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks gradually improved, as evidenced by substantial growth in the volume of private deposits in Russian banks between 2001 and 2003.

On April 5, 2005, the Russian government and the Central Bank issued their joint Strategy for the Development of the Banking Sector of the Russian Federation until 2008 (the “*Strategy*”). The Strategy replaces the five-year Strategy for the Development of the Banking Sector in the Russian Federation issued in December 2001, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008).

Among other things, the Strategy outlines the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also lists measures which should be implemented for the achievement of these targets.

Pursuant to the Strategy, the main objective of the development of the Russian banking sector is to increase the stability of the banking system and the effectiveness of banking activities. Among the main goals set forth by the Strategy are:

- improving the protection of the interests of depositors and creditors of banks,
- increasing the effectiveness of deposit-taking and lending activities of banks,
- increasing the competitiveness of Russian credit organizations,
- ensuring the transparency of banking activities,
- preventing the use of credit organizations for unlawful purposes (such as money laundering), and
- strengthening investors’, depositors’ and creditors’ trust in the Russian banking sector.

The Strategy lists the main measures that should be implemented by the Russian Government and the Central Bank, among which are:

- improving the legislative regulation of banking activities,
- facilitating banks’ role as financial intermediaries,
- increasing the efficiency of banking regulation and supervision,
- strengthening market discipline in the banking sector and ensuring equal competitive conditions for all credit organizations,
- upgrading corporate governance rules in credit organizations, and
- developing a banking infrastructure.

As part of the improvement of legislative regulation of banking activities, the Strategy outlines, *inter alia*, the following steps:

- improving the protection of creditors’ rights (in particular, those secured by collateral),
- improving the procedures for the liquidation of credit organizations whose banking licenses have been revoked,
- simplifying the procedures for mergers and acquisitions of credit organizations,
- facilitating an efficient system of depositing and use of credit history data, and

- continuing the improvement of taxation regime of credit organizations.

Among other priority tasks, the Strategy envisages the following measures:

- increasing the minimum amount of bank charter capital to five million Euros (starting 2007),
- increasing the minimum amount of a bank's net worth (capital) to 10% (mandatory economic ratio N1), irrespective of the type of a credit organization and the value of its net worth (starting 2007),
- easing procedures for the participation of non-residents in the capital of Russian banks (albeit without lifting the restrictions on the opening by foreign banks of branches in Russia), and
- introducing a simplified procedure for the assignment of bank loans.

Pursuant to the Strategy, the recommendations of the International Monetary Fund and the World Bank, as set forth in the 2002-2003 Russian Financial Sector Assessment Program, will be taken into account in the course of the implementation of the Strategy. Upon the achievement of the targets set forth in the Strategy, the next priority for the period 2009-2015 will be the effective positioning of the Russian banking sector on the international financial market.

The system of the insurance of private deposits was introduced late in 2003. According to the new law "On the Insurance of Individuals' Deposits held in the Russian Federation", banks holding a Central Bank license for attracting deposits from individuals and opening and administering individuals' accounts are required to qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies for the attraction of deposits and opening accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from the attraction of deposits and opening accounts for individuals. Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to a newly established insurance fund in the amount of up to 0.3% of the average account balances calculated under the new law.

On December 30, 2004, the President signed Federal Law No. 218-FZ "On Credit Histories" (the "*Credit Histories Law*"). Most of the provisions of the Credit Histories Law came into force on June 1, 2005. Pursuant to the Credit Histories Law, the "credit history" of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower's performance under loan or credit arrangements and which are stored with a "credit history bureau" (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue "reports" as defined in the Credit Histories Law).

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorized users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- the borrower itself,
- banks or other legal entities which are users of such data (with the consent of the borrower),
- courts and, with the consent of a prosecutor general, certain enforcement agencies, and
- the Central Credit History Catalogue administered by the Central Bank to allow the centralized search of all credit history data.



Lending organizations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences were introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments will address issues concerning bank secrecy, liability for unauthorized access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the law “On Mortgage-Backed Securities” and amendments to the Civil Code, Tax Code and the law “On Mortgage” were enacted in 2003-2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another purpose of this new legislation is to provide regulation of mortgage-backed securities in order to introduce a new debt instrument attractive for investors.

In order to build up an effective domestic system for combating money laundering, in July 2001, Russia adopted the Federal Law “On Combating of the Legalization of Illegal Earnings (Money Laundering)” and subsequently passed certain legislation to implement this law. As a result of the implementation of recent reforms to its anti-money laundering system, in October 2002 Russia was removed from the “black list” of non-cooperative countries and territories in the fight against money laundering maintained by the Financial Action Task Force on Money Laundering. The Central Bank monitors Russian banks’ compliance with the anti-money laundering requirements by way of issuing regulations and inspecting banks’ activities. In particular, Russian banks are required to comply with various customer identification, reporting and other related procedures. In line with the development of the anti-money laundering system, the Central Bank introduced certain restrictions relating to the banks’ operations involving foreign entities and individuals registered (residing) in certain off-shore areas. The Central Bank has compiled a list of such off-shore areas. In particular, the Central Bank restrictions apply to the establishment by Russian banks of correspondent relationships with foreign banks registered in these off-shore areas.

On June 18, 2004, the majority of the provisions of the New Currency Law came into force replacing almost in its entirety the former Federal Law “On Currency Regulation and Currency Control” of 1992. The New Currency Law is generally aimed at the gradual liberalization of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the placement of mandatory deposits with the Central Bank and the use of special accounts).

With respect to certain operations, the mandatory reserve (*i.e.*, Russian Ruble cash deposit) requirement may be imposed on residents or non-residents in the amount of either up to 100% of the amount of the operation for a period of up to 60 days or up to 20% for a period of up to one year (excluding export/import operations for which special rules are established). In addition, the Central Bank has the power to require residents and non-residents to carry out certain operations through special accounts which may also be accompanied by the above mandatory reserve requirements. In particular, settlements between residents and non-residents in relation to foreign currency and Russian Ruble loans, settlements in relation to securities, non-banking operations of banks and conversion operations may be restricted in various combinations by such special account and mandatory reserve requirements (however, conversion restrictions may not be imposed on authorized banks).

Pursuant to the New Currency Law, the new restrictive measures should be applied by the Central Bank and/or the Russian Government with reference to the current economic situation in order to prevent a substantial reduction in the gold and foreign exchange reserves, to neutralize the currency rate swings and secure a stable balance of payments of the Russian Federation. This implies that these restrictions should not be applied unless the Russian economy is subject to adverse trends. At the same time, the criteria for the introduction of these restrictive measures are vague enough to allow the Central Bank and the Russian Government to apply those at their discretion and on a long-term basis and unexpectedly vary the regime depending on their view of market conditions. Furthermore, under the New Currency Law, the Central Bank retains a right to introduce special rules relating to the application of currency control restrictions as set out in the New Currency Law to banking operations of credit organizations.

As part of implementing legislation contemplated by the New Currency Law, the Central Bank passed Directive No. 1425-U of April 28, 2004 which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorized banks and sets forth a list of non-banking transactions between authorized banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorized banks will fall under general currency control regime applicable to resident legal entities.

In addition, the Central Bank has introduced the following requirements in respect of foreign currency loans received by Russian residents (except for Russian banks) from non-residents if the repayment term of the principal amount of such loan exceeds three years.

- Under Central Bank Instruction No. 116-I of June 7, 2004, Russian residents are required to make “all payments and transfers relating to the receipt of such loans” through a special “R1” type foreign currency account to be opened with an authorized Russian bank.
- Under Central Bank Directive No. 1465-U of June 29, 2004, Russian residents are required to deposit the Russian Ruble equivalent of 2% of the amount of such loans actually received for a period of 365 calendar days into a non-interest bearing account with an authorized Russian bank.



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