

staying ahead

Ad



2009

ANNUAL REPORT

"In 2009, Alfa-Bank not only succeeded in retaining market share in its main business segments, but also increased it in certain areas."



Mikhail Fridman

*Chairman of the Supervisory Board
of Alfa Group Consortium*

Alfa-Bank 2009*

countries	5
branches and offices	326
employees	14 117
corporate clients	53 000
retail clients	3 900 000
profit, usd million	77
equity, usd million	2 698
loan portfolio, usd million	14 953
total assets, usd million	21 646

* For the purposes of this report, the term “Alfa-Bank” is used to describe ABH Financial Limited and its subsidiaries.

Alfa-Bank Awards and Recognition in 2009

JP MORGAN and Commerzbank AG

“The Best Correspondent Bank in Dollar Settlements”

“Excellence in Commercial Payments and Money Transfers Co-operation”

EUROMONEY Magazine

Alfa-Bank was recognised as “The Best Bank in Russia”

Price Waterhouse Coopers and SENTE0 AWARD

«Customer Experience Index — 2009: Who is Winning the Retail Banking Race in Russia»

NEXTEP Group

Alfa-Bank was rated the Best Customer Service Bank in Moscow

Mediologia Mass Media Analysis and Monitoring System

Alfa-Bank was the Most Frequently Cited Bank

SPEAR'S UK Magazine

Alfa-Bank was awarded Russia's first SPEAR'S Russia Wealth Management Awards for achievements in private banking & wealth management

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Mikhail Fridman

Chairman of the Supervisory Board
of Alfa Group Consortium

Rushan Khvesyuk

Chairman of the Executive Board,
Member of the Board of Directors

Johann Jonach

Chairman of the Board of Directors



The Board of Directors report on Alfa-Bank's results in its priority business areas

We are proud to present Alfa-Bank's 2009 annual report. Looking back over the year, we can safely say that we saw signs of a recovery in the Russian and global economy after the disruption caused by the financial crisis. Nevertheless, 2009 was a difficult year for the majority of financial institutions in Russia as well as the rest of the world. Alfa-Bank was no exception; however, the year proved successful for Alfa-Bank as a direct result of management's strategy, which saw Alfa-Bank through this challenging period. The year's results confirm beyond doubt that we took the correct course of action.

In 2009, Alfa-Bank not only succeeded in retaining market share in its main business segments, but also increased it in certain areas. In particular, Alfa-Bank's retail business performed extremely well, ranking number three in Russia in terms of demand deposits received from individuals and substantially increasing its share of the general deposit market. Moreover, Alfa-Bank continued to expand the variety of its retail products and initiated new projects focused on delivering added value to its customers. This has not gone unnoticed, judging by our ever-growing number of retail customers and soaring demand for new products developed and offered by Alfa-Bank.

Cooperation with corporate clients has also brought about positive results, even though some of Alfa-Bank's borrowers found themselves in financial difficulty at the beginning of the year. In order to minimise losses, management identified all existing and potential problem loans. As a result, we managed to substantially reduce overdue and impaired loans, boost reserves and improve our financial position. This enabled Alfa-Bank to produce a competitive product for its target clients and attract creditworthy borrowers.

Last year was a very successful one for Alfa-Bank's investment business. 2009 revenues were 50% higher than in pre-crisis 2007, largely thanks to the merger of our corporate and investment sectors to create a single Corporate and Investment banking unit. The synergies from this merger began to appear at the end of 2008, and became fully apparent over the course of 2009. This did not just increase Alfa-Bank's income; it also created new opportunities for clients. Now, using the combined resources of the Corporate and Investment Bank, we are able to tailor our services to the needs of each of our corporate clients.

In 2009, Alfa-Bank's development of the risk-free segments of corporate and retail banking, such as factoring and settlement operations, began to bear fruit. This line of business is currently a priority for Alfa-Bank,



although we already enjoy strong competitive advantages, primarily the cutting-edge technology we use to serve our clients. Furthermore, we are very proud of the high quality of our services in all segments.

Alfa-Bank continued its regional expansion in 2009. Following the integration of Severnaya Kazna with Alfa-Bank in 2009, Alfa-Bank became the leader in the Urals region. Throughout the year, Alfa-Bank also developed its A-Club network in the regions and opened more branches for high-net-worth customers in various Russian cities, and it will continue to expand in 2010. Alfa-Bank has always believed in the need to maintain a consistently high level of customer service, both to corporate and retail clients, at all of its regional branches, and it endeavours to provide the same opportunities in remote and thinly populated parts of the country that are available to our customers in large cities. We have continued to develop and implement high-tech systems, such as Project Eurasia, which provide clients with a secure and convenient means of doing business with us.

Alfa-Bank combines successful financial operations with an active role in charity work and social programmes. Alfa-Bank has always supported those in need and sponsored socially and culturally significant projects. For example, we donate funds to the Life Line Charity, which has provided aid to critically ill children for many years. These days, financial aid comes not only from Alfa-Bank itself, but also from its employees, many of whom make donations as part of our Give as You Earn programme. Alfa-Bank also supports the World Wildlife Fund (WWF) and cultural initiatives in many Russian regions. In addition, we have a longstanding tradition of sponsoring performances in Russia by both international stars and renowned artists.

Alfa-Bank's excellent performance has not gone unnoticed, as our numerous awards and prizes can attest. In 2009, Alfa-Bank once again came out on top in terms of customer service, being recognized as "The Best Bank in Russia" by Euromoney magazine. However, our most valued achievement is the recognition we have won from our clients.

In 2010, Alfa-Bank will do its utmost to ensure that it keeps its customers satisfied by continuing to offer new services to clients, and it will endeavour to remain a successful and reliable bank that cares for its customers, meets investor expectations and strives to become the bank of choice for more and more companies and individuals.

Mikhail Fridman

Chairman of the Supervisory Board
of Alfa Group Consortium

Rushan Khvesyuk

Chairman of the Executive Board,
Member of the Board of Directors

Johann Jonach

Chairman of the Board
of Directors of Alfa-Bank



Alfa-Bank Entities

Abakan
Almetevsk
Amsterdam
Angarsk
Arkhangelsk
Artemovskiy
Astrakhan
Barnaul
Belgorod
Buzuluk
Cheboksary

Chelyabinsk
Chita
Ekaterinburg
Glazov
Irkutsk
Ivanovo
Izhevsk
Kachkanar
Kaliningrad
Kaluga
Kamensk-Uralsky

Kazan
Kemerovo
Khabarovsk
Krasnodar
Krasnoyarsk
Kurgan
Kursk
Lipetsk
London
Magnitogorsk
Megion

Moscow
Murmansk
Naberejnye Chelny
Nakhodka
New-York
Nicosia
Nizhnevartovsk
Nizhniy Tagil
Nizhny Novgorod
Novokuznetsk
Novorossisk

Novosibirsk
Novotroitsk
Novouralsk
Omsk
Orenburg
Orsk
Penza
Perm
Pervouralsk
Raduzhny
Rostov-on-Don



• Usolye-Sibirskoye
• Angarsk
• Irkutsk

• Chita

• Yakutsk

• Khabarovsk

• Yuzhno-Sakhalinsk

• Vladivostok • Nakhodka

Ryazan
Samara
Saratov
Sochi
Severomorsk
St.Petersburg
Stavropol
Surgut
Syktyvkar
Tambov
Tolyatti

Tomsk
Tuapse
Tula
Tyumen
Ufa
Ulyanovsk
Uvat
Usolye-Sibirskoye
Vladimir
Vladivostok
Verhnya Pyshma

Vologda
Volgograd
Voronezh
Volzhskiy
Yakutsk
Yaroslavl
Yurga
Yuzhno-Sakhalinsk
Zelenogorsk
Zheleznogorsk

Alfa Capital Markets:

UK, London

Alforma Capital Markets Inc.:

USA, New-York

Amsterdam Trade Bank N.V.:

Netherlands, Amsterdam

Alfa Capital Holding Ltd.:

Cyprus, Nicosia

Board of Directors and Executive Board



Ildar Karimov

Member of the Board of Directors

Andrei Sokolov

First Deputy Chairman of the Executive Board

Rushan Khvesyuk

Chairman of the Executive Board, Member of the Board of Directors and acting Chief Executive Officer

Mikhail Fridman

Chairman of the Supervisory Board of Alfa Group Consortium, Member of the Board of Directors of Alfa-Bank

Alexander Lukanov

Member of the Board of Directors

Sergei Mednov

Member of the Executive Board, Head of Information Technology

Andrei Kosogov

Member of the Board of Directors

Andrew Baxter

Deputy Chairman of the Executive Board, Chief Financial Officer

Alex Knaster

Member of the Board of Directors



Petr Aven

President, Member of the Board of Directors

Oleg Sysuev

First Deputy Chairman of the Board of Directors

Johann Jonach

Chairman of the Board of Directors

Valeriy Novikov

Member of the Executive Board, Chief Operating Officer

Edward Kaufman

Member of the Executive Board, Co-head of Corporate-Investment Banking

Vladimir Tatarchuk

Deputy Chairman of the Executive Board, Co-head of Corporate-Investment Banking

Alexey Marey

Member of the Executive Board, Head of Retail Business

Petr Smida

Member of the Board of Directors



Rushan Khvesyuk

Chairman of the Executive Board,
Member of the Board of Directors and
acting Chief Executive Officer

Message from the Chairman of the Executive Board. Key Achievements of 2009 and Priorities for 2010

2009 saw the beginning of a recovery in both the Russian and global economies. The financial crisis had a significant impact on every country in the world, and it will be a long time before international markets witness the same level of activity as before the crisis. Although we have weathered the most difficult phase of the financial crisis, it is too early to say when we will see economic stability. The year also proved difficult for most Russian companies, as they were forced to adopt new operational strategies to adapt to the crisis and post-crisis period.

Alfa-Bank also had to make some tough decisions. In this challenging environment, we set out to identify all potential problems caused by the financial difficulties of our corporate borrowers and minimise potential losses while also boosting income by developing the risk-free segments of corporate and retail banking. Alfa-Bank carried out the necessary measures, and it managed to significantly cut NPLs in the second half of 2009 and increase loan loss reserves by up to 10.1% by the year end.

This challenging period for the financial sector required a concerted effort by all divisions of Alfa-Bank in order to achieve these excellent results. Of particular note is the synergy created by the consolidation of the corporate and investment segments to create an integrated Corporate and Investment Bank. Today, the Corporate and Investment Bank has a single customer base and offers a wide variety of both corporate and investment products. The segment is led by a single management team with common objectives who work together to make strategic decisions on developing our business and improving the service our corporate clients receive. The priority for the Corporate and Investment Bank is to create solutions tailored to the individual needs of each client.

This advantage proved vital in light of the financial difficulties experienced by many of Alfa-Bank's corporate clients in 2009. It was crucial for Alfa-Bank to identify all current and potential problems and accurately assess the amount of its troubled debt. In order to minimise losses, we worked closely with borrowers to help them restructure or repay their troubled debts. Assets received by Alfa-Bank that had been pledged as collateral on unpaid debt were managed in cooperation with A1, part of the Alfa Group.

«In 2010, Alfa-Bank will continue to expand its corporate and retail loan portfolio by attracting reliable and quality borrowers; increase the share of risk-free income derived from settlement operations and the investment banking business; develop its competitive advantages, such as the implementation of advanced technology; widen its product range and customer base; and further train personnel and introduce incentives to encourage the best employees».

All of this enabled Alfa-Bank to significantly reduce bad loans, create a management system for troubled debt and make allowances for overdue and impaired debt. Alfa-Bank's annual performance results show that it adopted the correct strategy. In the second half of 2009, Alfa-Bank offered attractive products to reliable borrowers, competed with state-owned banks and began rebuilding its loan portfolio.

Notably, Alfa-Bank is capable of engaging quality customers from large business as well as small and medium-sized enterprises owing to its advantage, including good value for money, transparent credit scoring and availability of a state-of-the-art technology platform for customer service. Also, Alfa-Bank offers a consistently high level of client services across the country.

Another crucial business line for the Corporate Bank was building up the share of risk-free income generating segments, in particular settlement business. For instance, we developed a unique platform for our settlement business that will enable Alfa-Bank to substantially increase its income from this segment. The programme improves the automated processing of settlement transactions for corporate clients and offers a single settlement platform for all time zones across Russia. The implementation of this platform will bring in more clients by offering convenient, technologically advanced and high-quality services.

This technology platform will also be used to strengthen our most important project in the settlement business: the handling of settlements between participants on the wholesale electricity market (GOELRO). We believe our performance shows that we are worthy of the trust that large companies have put in Alfa-Bank. One of Alfa-Bank's greatest achievements in 2009 was being chosen to handle settlements for the Russian Association of Auto Insurers. Currently, all weekly settlements between insurance companies under compulsory third-party liability insurance are performed through Alfa-Bank. The two achievements mentioned above are two important steps toward reaching the ambitious goals Alfa-Bank has set for itself in this segment, and we will continue to work towards them by developing our competitive advantages: innovative technology that makes it easy to liaise with Alfa-Bank, and an extensive product range for all types of client.

Alfa-Bank's investment banking business also benefited from the synergies created by the merger with corporate banking. The year was a resounding success for the investment division, with total income exceeding the pre-crisis 2007 figure by 50%. Also, the segment managed to cut costs and improve overall efficiency. Alfa-Bank's investment business is currently one of the most efficient in Russia. In addition, Alfa-Bank's long-standing competitive advantages, such as strong risk-management, excellent knowledge of the Russian market and the confidence of our customers, remained intact.



The Investment Bank generated most of its income on the fixed income securities market. There was little M&A activity in 2009; nevertheless, Alfa-Bank continued to advise its clients in this segment. The market is expected to pick up again in 2010. The equities market was also quiet; however, the Investment Bank managed to complete a major transaction: the recapitalisation of Russian oilfield services company Integra, which was a good example of the joint capabilities of our integrated Corporate and Investment Bank.

2009 was also a good year for Alfa-Bank's retail segment. The Retail Bank increased its share of the demand deposits market to 5.06% and ranked number three in Russia in terms of funds attracted on demand. Alfa-Bank also increased its market share in terms of general deposits. However, we believe our most notable achievement was the increase in our client base to 3.9 million customers, as this proves that people trust Alfa-Bank and that it has maintained its reputation as a reliable and stable private bank. Alfa-Bank outperformed both private and state-owned banks developing retail banking.

Alfa-Bank continued lending to individuals and preserved its market share while improving the quality of its loan portfolio. For example, a smaller loan portfolio, combined with Alfa-Bank's conservative approach to mortgage lending and auto finance, allowed us to end the year with an extremely low level of troubled debt in our retail portfolio. At the same time, the consumer lending segment expanded considerably. The volume of loans extended rose 60% last year, including a seven-fold increase in loans issued at minimum cost to Alfa-Bank, i.e. those which were processed automatically, without the involvement of Alfa-Bank employees.

Unlike many other financial organisations, Alfa-Bank expanded its retail product range in 2009. In particular, we continued our progress in one of the most promising directions: value-added products. In addition to our already successful products – the Aeroflot MasterCard Alfa-Bank card and the co-branded Alfa-Bank Cosmopolitan Visa card, we introduced three new products for different types of Retail Bank client in 2009. The first was the extensively advertised launch of the ManCard, a new brand developed by Alfa-Bank specifically for its male customers. The second was the issue of the M.Video Bonus Alfa-Bank co-branded card, and the third was a new card created for business customers in the Urals region: the Ural Airlines Visa Alfa-Bank card. All these products enjoy steady demand from their target demographics. Our involvement with the Yandex. Dengi payment system, which began in 2009, was also very successful. In a year, turnover reached one billion roubles, with 40,000 customers making use of the service. This project would not be possible without, among other things, Alfa-Bank's use of the most up-to-date technology.

Cutting-edge technology has always given Alfa-Bank a competitive edge in corporate and retail banking, and this remained true in 2009. In particular, technology was the driving force behind the expansion of remote customer service channels, and the number of customers using these tools increased 50%. State-of-the-art technology was also fundamental in developing new software solutions for online banking and producing a platform for customer relationship management (CRM). The implementation of these new systems will open up new opportunities to extend our customer base and enhance our services.

Alfa-Bank did not close any of its regional offices in 2009. Moreover, it opened three new A-Club offices: in Samara, Ekaterinburg and Novosibirsk. We expect our VIP network to expand in the coming years.

The large-scale project to integrate the client base of the largest bank in the Urals region – Severnaya Kazna Bank – posed a significant challenge to Alfa-Bank's retail, corporate and investment segments. Nevertheless, Alfa-Bank rose to the challenge, gaining new clients and consolidating its position in Ekaterinburg and

the Sverdlov Region, Chelyabinsk and other regions around the Urals via this acquisition. In December 2009, Severnaya Kazna's loan portfolio was fully transferred onto Alfa-Bank's books. The integration of Severnaya Kazna was significant for Alfa-Bank, making it one of the region's leading financial institutions.

Alfa-Bank's strategy during this difficult period was reflected in its "Honesty Pays" advertising campaign. Our 2009 performance results show that Alfa-Bank ended the year in good shape thanks to its policy of openness and integrity in relations with clients and investors, and also owing to its identification and resolution of potential problems. Alfa-Bank now looks to the future with confidence.

We are optimistic that Alfa-Bank chose the right course of action in 2009. This view is backed by the support Alfa-Bank received from the government and its shareholders. In January 2009 Alfa-Bank obtained a 10,2 billion rouble subordinated loan and in October 2009, Alfa-Bank obtained a 29.3 billion rouble subordinated loan from Vnesheconombank, including 29.1 billion roubles under the new required ratio of shareholder to state funding of 1:3. Alfa-Bank was the first private bank to receive this type of government support under the new terms. In addition, Alfa-Bank's shareholders extended a subordinated loan of USD 320 million for 16 years from their own funds, which was converted into the Bank's core capital in September 2009. These moves on the part of the government and shareholders prove that the right course of action was taken under the economic circumstances. This is also confirmed by our management team's unwavering loyalty during this challenging time.

Given the troubles in the country's financial system, we decided not to pay annual bonuses to our senior management in 2009 (for the 2008 financial year). We did, however, pay bonuses to our staff. Alfa-Bank's executives supported this decision and focused their efforts on strengthening the bank's position as a leader on the Russian market.

In 2009, Alfa-Bank's operations won government and public recognition. As in previous years, we received praise for our consistently high level of service. For example, Alfa-Bank was rated the number one retail bank for client services in Russia by Kommersant-Dengi magazine and Nextep Group. JP Morgan Chase once again awarded Alfa-Bank its Elite Quality Recognition Award. And, finally, for the third year in a row, Alfa-Bank was named the Best Bank in Russia by Euromoney magazine.

Public recognition of Alfa-Bank is essential, as it increases investor confidence. At the beginning of 2010, Alfa-Bank floated Eurobonds, which were five-times oversubscribed. As a result, the bond issue was increased from the planned USD 500 million to USD 600 million, and the Eurobonds were placed at a very low fixed coupon rate of 8% p.a.

In 2010, Alfa-Bank will continue to expand its corporate and retail loan portfolio by attracting reliable and quality borrowers; increase the share of risk-free income derived from settlement operations and the investment business; develop its competitive advantages, such as the implementation of advanced technology; widen its product range and customer base; and further train personnel and introduce incentives to encourage the best employees. The loyalty of Alfa-Bank's employees is an essential driver of its success, which Alfa-Bank fully appreciates.

2010 will be another year of integration, this time between the Corporate and Investment Bank and the Retail Bank. This move is aimed at developing a universal product for retail and corporate clients, ensuring the joint development of settlement products, and encouraging collaboration in further promoting the products and services offered by Alfa-Bank.



Petr Aven

President,
Member of the Board of Directors

Russian Economy and Banking Sector Overview

Weakness of internal economic drivers comes to the fore

Russia's economy shrank by 7.9% in 2009, more than a number of other countries. This sharp decline clearly resulted from the country's high exposure to international financial and commodity markets: on the eve of the crisis, about 20% of Russian banking assets were funded through foreign debt, and fuel made up 60-65% of exports. The collapse of international markets in the third quarter of 2008 undermined the external base of Russian economic growth and caused a rapid capital outflow, which mostly reflected deteriorating confidence in the ruble as a savings currency.

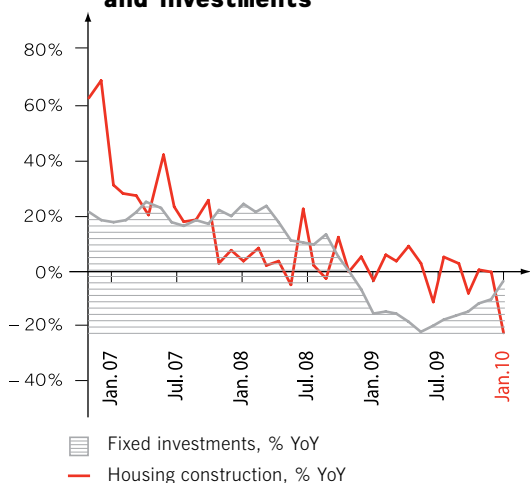
The worsening of the external economic environment drew attention to the risks that had been building up in Russia's economy over the last several years. A number of Russian companies turned out to have excessive debt positions accumulated just before the crisis. This issue was particularly acute for construction and retail companies. As a result, investment growth became fragile. The unavailability of lending compelled construction companies to cut activity long before the beginning of the crisis in autumn 2008. In particular, residential construction growth fell from 20.6% per annum in 2007 to 4.6% in 2008, and in 2009 that modest growth turned into a 6.7% decline. As a result, in 2009 investments contracted by 16.2%.

Deteriorating finances in the real sector forced companies to sharply cut costs. Russia's unemployment rate last year was around 8% compared with 5-7% during the period of economic growth. Real disposable income managed to grow thanks to a significant increase in budget spending, but only by 2.3%. A big problem in the first half of 2009 was wage arrears, which put additional pressure on consumer demand. While Russian companies previously enjoyed an environment in which household income grew by 20-30% per annum, in 2009 they were forced to lower their expectations considerably in line with consumer demand. As a result, stock-building, which in previous years had accounted for 2-3% of annual GDP, fell by RUB860 bln, or 2% of 2009 GDP.

By the middle of 2009, the decline of the Russian economy had slowed thanks to the recovery in external demand. The continuing growth of the Chinese economy and excess global liquidity led to a recovery in energy prices. These external factors helped to revive volumes in export-oriented industries such as metals and min-

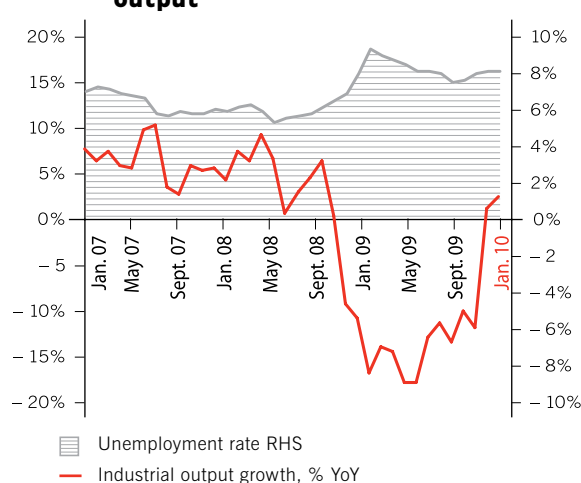
«In an unstable global economic environment, the optimal strategy is to support investment activity and create new drivers of internal growth».

Fig. 1: **Residential construction and investments**



Source: Rosstat

Fig. 2: **Unemployment and industrial output**



Source: Rosstat

ing, but internal drivers of Russia's economy have remained weak. After declining slightly in 2009, the unemployment rate began to rise in the second half of the year. The unclear outlook for demand forced a number of companies to continue destocking, though Q3 did see some growth in industrial stocks. Industrial production fell 10.8% in 2009. The key risk factors that could hamper an economic recovery in 2010-2011 remain high unemployment and sluggish consumption growth owing to increased household saving rates.

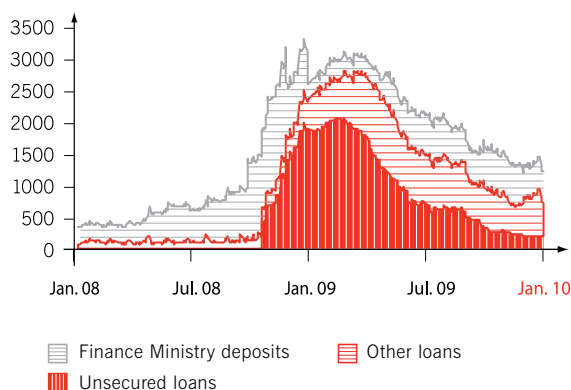
Financial sector hit hard by the crisis

The road to economic recovery in Russia is made much more difficult by the fact that the country's banking sector was hit hard by last year's economic turmoil. This was the first full-fledged crisis that Russian banks had experienced since 1998.

The CBR managed to resolve the liquidity squeeze that virtually paralyzed the banking system at the end of 2008 through an unprecedented expansion of the refinancing instruments made available to Russian banks. More than 200 of the largest banks were given access to uncollateralized CBR loans. Via this tool, the Russian monetary authorities provided about RUB3.5 trln to Russian banks.

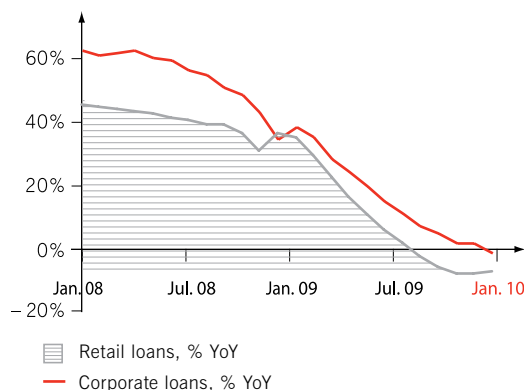
However, the resolution of the liquidity crisis was not enough for banks to resume lending. At the beginning of 2009, Russian banks' total loan portfolio reached a historical high of RUB17.4 trln, after which it began contracting. In FY09, the aggregate loan portfolio decreased 2.5%, including 0.3% growth of the corporate loan portfolio and an 11% decrease in retail.

Fig. 3: **Liquidity support to banks**



Source: [CBR](#)

Fig. 4: **Corporate and retail lending growth**



Source: [CBR](#)

Corporate lending outperformed retail so significantly because the two types of clients reacted differently to the crisis, and banks, too, used different approaches to dealing with bad loans. In the corporate segment, many customers tried to renegotiate the terms of their loans at the very onset of the crisis, claiming that the debt burden was too high and they were unable to service their debts according to the pre-crisis schedule. Many banks had to agree to restructure overdue loans. As a result, in 2009, the total volume of restructured loans on banks' balance sheets was an estimated 25-30% of the loan portfolio; at the same time, the share of corporate loans due in over a year increased from the pre-crisis 52% in 2007 to 66% in 2009. This means that bad loans remain on banks' balance sheets and will threaten their stability in the coming years.

Unlike corporate borrowers, retail borrowers began to reduce their exposure to bank loans during the crisis. Retail loan portfolios declined mainly because of the contraction in the mortgage and auto-loan segments, which reflected the stricter credit requirements that banks were forced to introduce because they had lost access to long-term funding. Consumer and personal-loan portfolios suffered much less, as both creditors and borrowers preferred short-term money.

The Russian government took steps to boost demand in the economy. Russia was among those G-20 countries that provided massive stimulus packages to support the real sector. The government had actually begun to run a budget deficit in 2Q09, and this was not aimed at mitigating the first wave of the crisis. However, even the RUB2.3 trln injected into the economy from March to December last year failed to stimulate lending growth. Almost all of these funds remained in the accounts of Russian banks, which used them to cut their exposure to the CBR and increase their securities portfolios rather than making new loans.

Though the Russian economy is now growing modestly, bank lending is still contracting. The corporate loan portfolio decreased 1.0% in January-February 2010. This is despite significantly lower interest rates, increased short-term ruble liquidity and continuing growth in deposits, which gives banks more lending opportunities. However, declining lending suggests that demand for loans by high-quality borrowers is still limited and that NPLs will continue to plague banks' balance sheets for a long time to come. The latter could seriously damage the stability of the banking sector, which is still in need of capital.

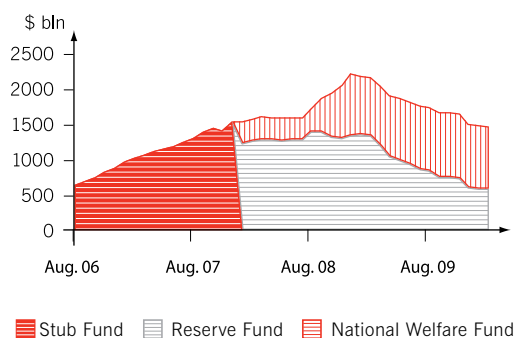
Macroeconomic risks: Still under control

One of Russia's undisputed economic achievements of the last several years is its low level of state financial risk. While other countries are plagued by spiraling debts and the dilemma of choosing between holding down the budget deficit and stimulating the economy, Russia has a broad range of tools for stimulating growth at its disposal.

First of all, Russia still has its Reserve Fund, which it is using to finance this year's budget deficit. Later, the government will be able to use the National Welfare Fund, which currently holds RUB2.7 trln. These funds will likely be used to cover the pension system deficit, as the main culprit behind the 2009 budget shortfall was increased pension spending.

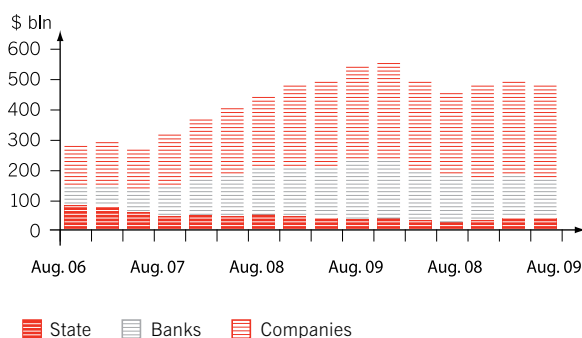
Second, it should be noted that Russia's state debt is very low. Government foreign debt equals 2.3% of GDP, while domestic debt is 4.6% of GDP. This light debt load means that Russia should be able to access foreign debt markets in the coming years. The domestic debt market is also attractive, as last year's significant decline in inflation drove down lending rates.

Fig. 5: **State savings, \$ bln**



Source: [Finance Ministry](#)

Fig. 6: **Russia's foreign debt, \$ bln**



Source: [CBR](#)

It also should be noted that the crisis did not do much damage to the country's balance of payments. Last year, the current account remained in the black and posted a surplus of \$49 bln. Though 2009 saw a capital outflow of \$52 bln, 2010 may see an inflow thanks to ruble appreciation.

Further evidence of Russia's macroeconomic stability is the performance of corporate debt. Russian banks cut their foreign debt by \$39 bln in 2009, the first decrease since 1999. Last year, Russian companies' foreign debt totaled approximately \$300 bln. The aggregate foreign debt of Russian issuers was \$470 bln, equivalent to 40% of Russia's GDP, an acceptable level.

However, data for 2009 also reveal signs of growing imbalances in the economy. The primary imbalance is the Russian budget's increasing sensitivity to oil prices. While between 2000 and 2005, an oil price of \$20-30/bbl was necessary to balance the budget, the breakeven price rose to \$34/bbl in 2007, \$62/bbl in 2008 and \$99/bbl in 2009. This means that in the coming years, the government will need to either restrain spending or start accumulating debt. However, increasing state debt in order to finance social expenditures could make managing the budget much more difficult in the years ahead.

It is clear that rising indebtedness would negatively affect the country's balance of payments, given that the inflow of FDI is still very low. In 2009, the inflow of FDI to Russia shrank by 41% vs. 2008, i.e. the country received only \$16 bln compared with \$27 bln the previous year. This sharp drop makes the Russian economy more dependent on speculative capital, which could negatively influence the stability of the ruble in the future.

Finally, the Russian economy's ability to resume strong growth depends on whether it can improve its business climate. The lack of infrastructure in the regions, declining quality of education, unjustifiably high price of starting a business and weak competition are hindering an economic rebound. In order to grow, the Russian economy needs to support investment activity and create new drivers of internal growth.





*Effective solution
for my business*



Vladimir Tatarchuk

Deputy Chairman of the Executive Board,
Co-head of Corporate-Investment Banking

Corporate-Investment Banking

«2009 saw the final stage of the merger of Alfa-Bank's corporate and investment businesses, which created a single Corporate and Investment Bank. The merger was a milestone in Alfa-Bank's history and had a positive impact on its yearly financial results and general operations. Today, the Corporate and Investment Bank benefits from having a single team, a common customer base, a unified range of products and a business development strategy drawn up jointly by the management of the corporate and investment segments».

Corporate Banking

2009 saw the final stage of the merger of Alfa-Bank's corporate and investment businesses, which created a single Corporate and Investment Bank. The merger was a milestone in Alfa-Bank's history and had a positive impact on its yearly financial results and general operations. Today, the Corporate and Investment Bank benefits from having a single team, a common customer base, a unified range of products and a business development strategy drawn up jointly by the management of the corporate and investment segments. The synergies created by the merger became apparent immediately, and they came in very handy during the financial crisis, which was a trying period for the corporate banking sector. In 2010, Alfa-Bank intends to develop the competitive advantages gained thanks to the integration of these two key business units.



Edward Kaufman

Member of the Executive Board,
Co-head of Corporate-Investment Banking

Work with Corporate Clients

The year 2009 was one of the most difficult periods in the history of corporate banking in modern Russia. The year before, no one could have predicted the scale of the financial problems that companies would face. Despite receiving state support, many companies found themselves in extremely tight situations, since it took time for funds earmarked for supporting business at the beginning of the year to find their way to the intended recipients. This obliged most Russian banks to quickly determine how much of their loan book was in default or danger of default and to mitigate the fallout from bad loans. Some financial institutions preferred to restructure their troubled debt, thereby indefinitely putting off dealing with their financial problems. Alfa-Bank, on the other hand, opted to openly tackle its problems there and then, which proved to be the right choice under the circumstances.

In 2009, Alfa-Bank's corporate business was faced with the task of accurately and quickly identifying troubled or delinquent loans and determining which companies were likely to have problems repaying their debts. Alfa-Bank then had to take measures to minimise possible losses. Alfa-Bank managed to perform these two tasks more quickly and successfully than many other financial institutions. By mid-2009, we had completed the process of detecting potential problems and begun implementing a programme to reduce losses. This was performed in conjunction with the A1 Company, part of Alfa Group. We took a tough approach to identifying and dealing with troubled loans. This enabled us to cut defaulted loans (defined as past due installments on loans) from USD 2.5 billion to USD 2.0 billion in the second half of 2009. Alfa-Bank only restructured loans that it was certain would ultimately be repaid. By the end of 2009, Alfa-Bank was confident that it had dealt with or was able to deal with its problem loans, and by the end of March 2010 the share of defaulted loans in Alfa-Bank's portfolio had fallen to under 10% of total corporate loans. As a result, we believe we will be able to whittle down defaulted debt to less than 4-5% by the end of 2010. In addition, our overall corporate loan portfolio shrank by about 22% last year (from USD 16.5 billion in 2008 to USD 12.8 billion in 2009). These figures make Alfa-Bank the No. 7 bank in Russia in terms of corporate loan portfolio, according to RosBusinessConsulting. More importantly, Alfa-Bank does not expect its corporate business to encounter any financial problems this year as a result of non-performing loans. This allows us to take a more flexible approach to setting prices for lending and other corporate services than our competitors.

Given the difficulties faced by the banking sector last year, the question of how our clients perceived Alfa-Bank's actions was crucial. Although the measures taken by the Corporate and Investment Bank to prevent financial losses were tough, our clients understood that Alfa-Bank's policy was meant to protect its interests and ensure that it could fulfil its obligations to its depositors and business partners. Alfa-Bank has always been willing to work with those customers who are facing financial difficulties but remain committed to fulfilling their obligations.

Despite the financial crisis, Alfa-Bank's Corporate and Investment Bank set itself the task of minimising potential losses in its credit portfolio while also making a profit. As a result of these efforts, the Corporate and Investment Bank made a bigger profit in 2009 than it did in 2008, which was a successful year overall. Total earnings before tax amounted to USD 450 million. This strong performance resulted from the high price of loans, the investment bank's successful operations, debt capital transactions and the sale of other products. The Corporate and Investment Bank's *other income* (apart from loan portfolio, fee and commission income, investments and transactions in securities and currencies) grew more than five-fold compared with the year before, to USD 78 million.

Despite the major difficulties on the corporate lending market in 2009, Alfa-Bank clinched a number of major deals. Here are some of the most notable:

Credit facility for Sibir Airlines

Alfa-Bank extended an 8.9 billion rouble loan to Sibir Airlines, part of S7 Group, for a term of five years. The loan is secured by a controlling stake in Sibir Airlines and surety provided by the principal companies and owners of S7 Group.

Long-term cooperation agreement with Prodo Group

In December 2009, Alfa-Bank and Prodo Group signed a seven-year cooperation agreement, which includes the restructuring of Prodo's debt to Alfa-Bank. The loans extended by Alfa-Bank were collateralised by a considerable portion of the Group's assets, including shares of major plants, real estate and equipment.

Multi-currency line of credit for Mariisky NPZ

In June 2009, Alfa-Bank concluded a credit agreement with OOO Mariisky NPZ (Limited Liability Company Mariisky Petroleum Refinery) for a multi-currency line of credit in roubles, US dollars and euros for a period of 18 months. The credit was collateralised by the refinery's chattels and real property.

Credit to Gazenergoset

In 2009, Alfa-Bank concluded a facility agreement for 1.5 billion roubles with Open Joint Stock Company Gazenergoset. The credit facility was intended to facilitate the sale of liquefied natural gas and oil products. This agreement expanded Alfa-Bank's oil and gas sector portfolio, which currently exceeds 20 billion roubles.

Line of credit for Moscow United Electric Grid Company (MOESK)

In May 2009, Alfa-Bank opened a two-year line of credit for 8.7 billion roubles for Open Joint Stock Company Moscow United Electric Grid Company (MOESK). The funds were earmarked for the company's investment programme in Moscow and the Moscow Region.

Other significant events last year were debt restructuring agreements negotiated with Basic Element Group companies and Mirax Group Corporation.

Factoring

One of the Corporate Bank's major achievements in 2009 was the launch of its factoring service. Alfa-Bank is now one of the top five factoring institutions on the Russian market in terms of assigned receivables. The segment's turnover totalled 21,115 million roubles in 2009, and more than 70 companies concluded agreements with Alfa-Bank. These include suppliers of the country's largest retail chains, such as X5 Retail Group, Auchan and Metro, and suppliers and contractors of oilfield service companies, power companies and major manufacturers. Our strengths include our ability to set high limits and offer financing at the most competitive rates on the market.

Settlement Operations

Last year, Alfa-Bank continued to develop its settlement business. In 2008, we started handling settlements between participants in the wholesale electricity market. The project, named GOELRO, was a milestone in the history of our settlement business and proved indispensable for Alfa-Bank at a time when liquidity was short. In 2009, Alfa-Bank chalked up another major success in developing this business area: Alfa-Bank was selected as the settlement bank for the Russian Association of Auto Insurers. In anticipation of the entry into force of the national law on direct payment of damages under compulsory third-party liability insurance for motor vehicles, a tender was held to select a financial institution to process weekly settlements between insurance companies, and the contract was awarded to Alfa-Bank. An important element of the settlements system proposed by Alfa-Bank is that it guarantees timely settlements by introducing two mandatory requirements for market participants: a minimum balance on the company's account and a security deposit calculated individually for each insurer. Settlement is a priority business segment for Alfa-Bank, and we will continue to expand it this year.

Lending to small and medium-sized businesses

Alfa-Bank attaches significant importance to lending programmes for small and medium-sized enterprises (SME). Though there are difficulties with collecting troubled debt that are particular to the sector, Alfa-Bank sees SME lending as one of its priority lines of business. Throughout 2009, Alfa-Bank adjusted its requirements for potential borrowers and debt collection strategy for small and medium-sized businesses, and we intend to rebuild our loan portfolio to the pre-crisis level in 2010. There is considerable competition in this

sector, since many of the financial institutions that participate are too small to compete for larger borrowers. Even so, Alfa-Bank enjoys material advantages that will ensure steady portfolio growth, including good value for money, transparent credit scoring and the latest technology.

Alfa-Bank's technological advantage: Project Eurasia

In late 2008, Alfa-Bank successfully completed the implementation of Project Eurasia, which created a unified technology platform for all of Russia's regions. This brought Alfa-Bank's corporate business into the digital era. Since the beginning of 2009, Project Eurasia has operated in all of Russia's territory. The platform ensures quality services for Alfa-Bank's corporate customers in every Russian city thanks to its five components: a centralised technology platform, an optimised credit process, a unified product offering, customised pricing plans, a streamlined reporting system and an equally high quality of service for all customers. In 2009, we also launched Alfa-Client Online, a new software platform intended for our corporate clients. To date, Project Eurasia is the best product on the Russian market in terms of technical support and ease of liaising with Alfa-Bank. The project has already fully paid for itself thanks to the resources saved and costs cut by the state-of-the-art technology.

Structured Finance

During a time of global financial difficulty, it is very important to have reliable financial partners. This is why many banks chose Alfa-Bank as their partner in structured finance transactions in 2009. Despite the decrease in the number of structured transactions since the financial crisis began, Alfa-Bank has completed several projects in cooperation with Russian and Western companies. In addition, many financial institutions selected Alfa-Bank as their agent bank to protect the interests of all banks involved in the transaction.

Amsterdam Trade Bank N.V.

Amsterdam Trade Bank N.V. (ATB) was incorporated in 1994 in the Netherlands and holds a full banking licence from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, Alfa-Bank acquired a 100% interest in ATB, making the latter's resources available for promoting foreign direct investment in Russia and other CIS countries. ATB offers a wide range of banking services, with a particular focus on trade finance involving clients from Russia, other CIS countries and the European Union.

At the end of 2009, ATB's assets totalled EUR 2,635 million, and its loan portfolio amounted to EUR 1,018 million. Total customer accounts as of the end of 2009 were EUR 2,174 million, and total net profit in 2009 was EUR 14 million. Alfa-Bank's equity as of 31 December 2009 was EUR 224 million.

Forecasts and Priorities for 2010

Though the Russian economy has survived the most difficult phase of the crisis, and the funds allocated by the government to support businesses have reached their intended recipients, we do not expect any

meaningful economic growth in 2010. Rather, as expected, the country's economy is recovering only very slowly. The funds injected by the government resulted in excessive liquidity on the market, but the number of creditworthy borrowers fell. Still, as a major player on the corporate lending market, Alfa-Bank is able to compete for quality borrowers with both private and state-owned banks. Alfa-Bank's efforts last year to identify defaulted loans was therefore crucial. Now, Alfa-Bank has an opportunity to capitalize on the competitive advantages that are crucial in the current environment.

The first of these advantages is support from Alfa-Bank's shareholders, which allows it to obtain sufficient funding from the government and, consequently, make competitive offers to potential borrowers.

The second advantage is our wide product range, technological superiority and development of additional services that are highly sought-after by customers. These services include our settlement and factoring operations, investment banking services and top-notch retail business, which helps us to develop more competitive offers for corporate clients. Especially important are Alfa-Bank's efforts to work with more corporate clients, i.e. by lending to smaller companies. Making the best of the considerable experience Alfa-Bank accumulated when developing its retail chain, the corporate bank intends to build a conceptually new system for selling banking products to corporate clients, including through Alfa-Bank's lending and cash services offices.

Finally, we offer prompt decision-making on loans and flexibility in our customer relationships. In these respects, we are far ahead of the state-owned banks, and these advantages could prove decisive in competing for creditworthy borrowers in 2010.

Investment Banking

«As a result, in 2009 Alfa-Bank earned twice as much income as it had forecast and more than twice as much as in 2008 while managing to cut costs by a third, making us one of the most profitable and efficient investment banks in Russia. This is a record we are very proud of».

2009 was a year of recovery on global capital markets. The sell-off in the second half of 2008 and first quarter of 2009 reduced the value of the Russian stock markets by almost 80%. Equities and bonds plunged, while the RTS Index slumped from 2400 to 600. However, the situation turned around in April, when markets began to rise. Alfa-Bank weathered this challenging period and started growing its business again at the first opportunity. As a result, in 2009 Alfa-Bank earned twice as much income as it had

forecast and more than twice as much as in 2008 while managing to cut costs by a third, making us one of the most profitable and efficient investment banks in Russia. This is a record we are very proud of.

One of the main reasons behind our excellent performance was our clients' confidence in Alfa-Bank. The strong team of professionals we had put together in 2007-2008, as well as our exclusive focus on the Russian market and commitment to finding the best solution for each individual company, helped us to expand our customer base and boost income in 2009. In the post-crisis period, there was a substantial need for additional capital, and Alfa-Bank was able to offer our clients a variety of ways to obtain funds.

The Investment Bank's total operating income in 2009 was USD 318 million – not only more than twice as much as in 2008, but also above the pre-crisis 2007 number (USD 204 million). Because of the situation on the market, the Fixed Income division made the majority of the Investment Bank's revenue. The equity market was quieter, while rising substantially on secondary trading. There were very few initial or secondary public offerings. The picture was similar on the M&A market. Corporate Finance focused on restructuring troubled debt and addressing existing clients' difficulties. The investment business launched debt programmes to handle the overdue and impaired debt of Russian and CIS companies as well as public debt in 2009.

The consolidation of the corporate and investment “blocks” into a single entity was a distinct advantage for Alfa-Bank as it emerged from the crisis and continued to develop its business in 2009. Today, front-office professionals sell all of Alfa-Bank's products, from loans to investment banking services. At weekly meetings, senior executives of the investment and corporate segments work together to develop a common strategy. The Corporate and Investment Bank aims to offer the best solution for each client by taking advantage of all available opportunities and products. Our Investment Banking team does much more than just make transactions: they work hard to earn customer confidence and loyalty so that clients continue to return to Alfa-Bank for financial services.

Cooperation with Stock Exchanges

In April 2009, Alfa-Bank increased its interest in OJSC Russian Trading System (RTS) from 5.36% to 9.59%. The past year has shown that during periods of market volatility, the trading-systems business grows in response to increased trading volumes and sales of innovative products. The new products offered by OJSC RTS included a spot market for RTS Standard equities, whose share of the total volume of trading in the most liquid Russian securities reached 30%; new derivatives, such as USD/RUB futures; central counterparty (CCP) technology; a new processing platform, and more. The company also increased its share of the Ukrainian stock market to 50%.

OJSC RTS's efforts over the year helped share prices rise substantially.

In 2010, Alfa-Bank intends to increase its presence on RTS's Board of Directors and help the exchange develop new initiatives.

Equity Markets

The recapitalisation of Integra, a Russian oilfield services company, is an excellent example of what the combined Corporate and Investment Bank team can achieve.

In February 2009, Alfa-Bank acted as a mandated arranger of a USD 250 million international syndicated loan extended to Integra and organized by the European Bank for Reconstruction and Development (EBRD), ING Wholesale Banking and BNP Paribas (Suisse). Alfa-Bank's share of the loan was USD 25 million. The company then underwent debt restructuring and recapitalisation in the fourth quarter of 2009.

Despite the difficult market conditions, Alfa-Bank also acted as a joint global coordinator and underwriter of Integra's GDR placement, which totalled USD 95 million. The transaction was one of the first post-crisis flotations by a Russian company outside Russia. It was a huge success for the company itself as well as the investment community thanks to the shares' stellar performance after the offering.

Alfa-Bank was able to help ensure the success of the flotation thanks to its excellent knowledge of the Russian market, clear understanding of the client's financial situation and comprehensive approach to the task at hand.

Alfa-Direct

Despite a material decline in trading volumes in 2008 and the first half of 2009, Alfa-Bank invested substantially in its Alfa-Direct system of Internet securities trading. Alfa-Bank opened three regional training centres, providing advice on how to work with the system and free classes on the basics of how the stock market operates. Training centres are now up and running in Moscow, St. Petersburg, Ekaterinburg, Ufa, Novosibirsk and Nizhniy Novgorod. This is crucial for the development of this segment of investment banking, since Alfa-Direct has already developed from an electronic trading system into a useful tool that, thanks to the availability of substantial educational resources, makes trading accessible to a large number of individuals with no special training. As of the fourth quarter of 2009, the number of Alfa-Direct users was growing every week, as were trading volumes and general turnover of the e-trading system. For 2009, the trading volume was approximately USD 25 billion.

Alfa-Bank believes internet trading in Russia has huge potential, and we will continue to invest in Alfa-Direct, both as a system for electronic trading and a source of information and advice for private investors.

Rouble Bonds

In 2009, Alfa-Bank focused on transactions on the fixed income and derivatives market. As a market leader, Alfa-Bank offers a wide range of products to both current and potential clients. For example, Alfa-Bank handles a wide range of debt instruments, including government and corporate bonds, promissory notes and fixed income instruments; it also conducts repo transactions, operates on debt capital markets and performs in-depth fixed income analysis.

One of the most substantial transactions on the fixed income market last year was the arrangement of a bond placement for construction company CJSC CCMO LenSpetzSMU, which was the only debt issue in the construction sector in 2009. The coupon rate was fixed at 16% per annum. The bonds, totalling 2 billion roubles, were placed for three years, which was a great achievement for Alfa-Bank given the market conditions. The offering proved that there was investor interest in creditworthy borrowers and confirmed Alfa-Bank's leadership in primary offerings of second-tier bonds.

Furthermore, in 2009, Alfa-Bank arranged the successful placement of series O2 rouble bonds for Inter-regional Distributing Grid Company (MRSK) of the South, totalling 6 billion roubles, with a coupon rate of 17.5% p.a. The rate was lowered during bidding from the initially expected 18.5% p.a.

Most of the transactions completed in 2009 involved extending existing debt issues in response to the difficult economic situation in Russia and its effects on the finances of local businesses.

Corporate Finance

In Russia, as in the rest of the world, corporate finance operations declined in 2009 because of the financial crisis. As a result, last year our Corporate Finance division mainly handled debt restructuring transactions. In particular, it focused on restructuring large and complex troubled loans issued by Alfa-Bank that involved debt-to-equity conversion. Such transactions took place in the metals, transportation and real estate sectors.

Alfa Capital Holdings (Cyprus) Limited

Investment company Alfa Capital Holdings (Cyprus) Limited was registered in the Republic of Cyprus in 1996 and now has one of the most extensive product ranges on the market. Alfa Capital Holdings (Cyprus) Limited holds a European licence from the Cyprus Securities and Exchange Commission to provide investment services, a wide range of financial services and financial instruments. The company operates on key global markets, as well as in Ukraine and Russia. Its branch in the UK, Alfa Capital Markets (ACM UK), organises deals involving Russia and other CIS countries.

Alfa Capital Markets (UK)

Alfa Capital Markets (ACM UK) is the London branch of Alfa Capital Holdings (Cyprus) Ltd and holds a licence from the Cyprus Securities and Exchange Commission (CySEC). ACM UK's brokerage, investment banking and research operations are regulated by the UK Financial Services Authority. The branch is a member of the London Stock Exchange (LSE), provides services to a number of institutional investors and hedge funds in the UK and continental Europe and works with assets in Russia and other CIS countries.

Alforma Capital Markets, Inc.(USA)

Alforma Capital Markets, Inc. (USA), previously known as Alfa Capital Markets Inc. (USA), is Alfa-Bank's investment subsidiary in New York. The company has been operating in the USA since 2001. It holds a licence from the US Securities and Exchange Commission (SEC) and focuses on working with institutional investors and hedge funds in the USA, Canada and Latin America.

Cooperation with Other Banks

Practically all investment transactions handled by Alfa-Bank involve its Russian and international partner banks. Alfa-Bank's global correspondent network currently comprises more than 400 banks. Clients are attracted by Alfa-Bank's impeccable reputation and operational transparency. Many foreign banks also choose Alfa-Bank because it is a recognised expert on the Russian market and has an in-depth knowledge of the financial positions of Russian issuers. Russian corporations apply to Alfa-Bank when they need international financing or other banking services connected with their cross-border operations. Alfa-Bank always protects the positions of Russian issuers and acts as a reliable representative on the international market.

Investment Conferences

In 2009, Alfa-Bank arranged a number of investment conferences, the most notable of which was, "The Russian Banking Sector: Growth or Survival?", which was attended by over 160 journalists from leading foreign and domestic media, including reporters from Russia's regions. At the conference, speakers discussed the latest trends in the Russian banking sector and forecasts for future developments. The speakers included Alfa-Bank President Petr Aven, President of the Russian Union of Industrialists and Entrepreneurs Alexander Shokhin, First Deputy Chairman of the Management Board of Central Bank of Russia Alexei Ulyukayev, Higher School of Economics Director of Sciences Evgeny Yasin, Chairman of the Alfa - Bank Executive Board Rushan Khvesyuk and others.

Outlook for 2010

The market growth that began in 2009 will continue in 2010. Despite increased competition in investment banking, Alfa-Bank is confident that this year will be a success. Alfa-Bank's key competitive advantages in the current financial environment are its stability and the trust of its clients. In addition, further integration between corporate and investment banking will open up new opportunities for business development. The two departments already share a consolidated customer base and a common strategy for managing operations.

In 2010, we expect to see an increase in revenues from both equities and bonds, continued growth in the number of Alfa-Direct clients and rising demand for research. One of our focuses will be our team of professionals, as the investment business depends on knowledgeable and experienced people who enjoy the trust of their clients. As part of this effort, we will recruit new professionals and develop an incentive plan for talented employees.



RELIABLE,
QUICK AND
HANDY!

Russia
United Kingdom
United States of America
The Netherlands
Ukraine
Kazakhstan



corporate
banking

retail
banking

research

News

04 May 2010



Alfa-Bank Presents the Russian National V-Day Exhibition The War on the Front Pages – Moscow

To mark the 65th anniversary of Russia's victory in the Second World War, Alfa-Bank and *Komsomolskaya Pravda* have launched a one-of-a-kind exhibition showing how the war was portrayed on the front pages of one of the most popular newspapers of the time, read by both soldiers and workers on the home front.

28 April 2010



Alfa-Bank announces financial results for 2009 – Moscow

Alfa-Banking Group, which includes Alfa-Bank and its subsidiaries, today reported audited IFRS financial results for 2009.

Alfa-Bank ranked one of Russia's top three banks in terms of reputation

Alfa-Bank ranked one of Russia's top three banks in terms of reputation – Moscow

The survey was carried out according to GRI (Global Reputation Index), a research methodology that takes into account a wide range of factors, including brand awareness, customer satisfaction, and the frequency and favorability of media coverage.

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Morning Brief

Surgutneftegas, Magnit, macroeconomics, Vozrozhdenie Bank, Novatek, TGK-2, Severstal, Uralkali, Sibinif

17 May 2010

[01524.pdf](#) 196.8 KB

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Investor Confidence Index

AB-ICI Focus on Fiscal Risks

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<http://www.alfabank.com/>





Alexey Marey

Member of the Executive Board,
Head of Retail Business

Retail Business

Although 2009 marked another year of recession for the country's economy in general and the banking sector in particular, the Retail Bank managed to weather the storm particularly well. Alfa-Bank's share in its priority market segments outpaced the market. For example, Alfa-Bank's share of the demand deposits market grew from 4.86% in December 2008 to 5.06% at the end of 2009. We therefore managed to meet management's goal set before the crisis of increasing the market share up to 5% of demand accounts. We are committed to sustaining this positive trend. As of January 2010, our market share was already at 5.42%. In absolute terms, demand funds deposited with Alfa-Bank amounted to USD 2.901 million at the end of 2009, which makes Alfa-Bank number three in Russia in terms of funds attracted on demand, behind the two leading state-owned banks, Sberbank and VTB 24, and ahead of all private banks.

Alfa-Bank believes it is very important that demand balances are available on individual accounts, as this encourages customers to be loyal and use Alfa-Bank for current settlements in everyday life, i.e. as their principal banking institution.

Despite a substantial outflow of funds from individuals from the Russian banking system in October 2008, in 2009 the government restored trust in the country's banking system and overall market stability. The volume of temporary fund withdrawals from Alfa-Bank was less (about 10%) than in other banks, and customers returned funds to their accounts with Alfa-Bank much quicker. By April 2009, cumulative balances (and term and demand deposits) returned to pre-crisis levels in individuals' accounts, and by the year end they had increased 40% vs. the pre-crisis level at the end of 2007.

At the end of 2009, the total balance on individuals' accounts with Russian banks was USD 247.5 billion, including USD 207 billion of term deposits. At that time, term deposits received from individuals

«I am grateful to our clients, partners and employees for their support that enabled us to build up and continue improving the best retail bank in Russia. Assisting our clients with resolving all of their emerging financial issues and providing prompt and professional advice are not our only objectives; we also aim at making these services as convenient and pleasant as possible».

in Alfa-Bank amounted to USD 4.037 million. If we exclude the funds obtained via the integration of Severnaya Kazna bank, Alfa-Bank's market share in terms of cumulative balances grew from 1.35% to 1.75%. At the beginning of 2009, Alfa-Bank ranked number seven in Russia in terms of funds attracted from individuals. By the end of the year it had moved into sixth place, which we view as a remarkable achievement. During the reporting year, the total number of customers using Alfa-Bank's settlement and deposit services increased 19% (up to 2,571,000). The total retail customer base across all operating segments increased 27% to 3,895,000 in 2009. This combined with an 5% reduction in staff resulted in a substantial improvement in the efficiency of the Retail Bank.

Retail Lending

In 2009, the retail lending market's loan portfolio decreased in line with the nationwide trend. Mortgages and car loans saw especially sharp declines. Alfa-Bank's retail portfolio shrank 22% to USD 2.1 billion, although its market share did not shrink and amounted to 2.64% (net of mortgage lending). The crisis sparked an increase in the popularity of credit cards among customers, increasing Alfa-Bank's credit card portfolio from USD 179 million to USD 218 million, while the number of customers using credit cards increased from 154,000 to 186,000. Alfa-Bank will continue to focus on this product in 2010.

Consumer Lending

The consumer lending segment went through some fundamental changes in 2009. Alfa-Bank is currently the only bank that cooperates with all nation-wide retail chains. When competitors weakened, Alfa-Bank managed to negotiate new and more favourable terms of cooperation. This naturally impacted on the segment's performance in 2009: the average monthly volume of loans extended by Alfa-Bank increased 70%, while the total number of loans issued throughout the year increased 70% (from 631,000 loans in 2008 to 1,056,000 loans in 2009). At the same time, people started to be more cautious with their spending habits, and the average consumer loan decreased 13%. Fulfilling our target was paramount, i.e. increasing the volume of

consumer loans extended using our automated system, meaning that the credit is formalised by an employee of the point-of-sale itself. At the beginning of 2009, the Retail Bank had 1,000 points of sale issuing credits using this technology or about 5% of the total number of loans (1,500-2,000 loans every month). By the end of 2009, there were 7,000 points of sale issuing about 50-55,000 loans a month, or 35% of the total number of loans. As a result, Alfa-Bank moved from fourth to second place in terms of consumer lending volumes, a considerable improvement.

Auto Finance and Mortgage Lending

There was little activity on the auto finance and mortgage markets in 2009. In both of these segments, Alfa-Bank's approach was quite conservative. Net losses in mortgage lending amounted to USD 18 million (IFRS) owing to accrued provisions of about USD 16 million in the first half of the year. Most of these provisions will likely be released as Alfa-Bank disposes of seized collateral and the overall economic climate improves. We expect a certain revival on the mortgage market in 2010 and consider building up the volume of mortgage loans extended by Alfa-Bank itself.

Alfa-Bank decided to develop its auto finance segment for its corporate and VIP customers only as an element of the retail product range, as there is no legal or regulatory framework for safe operations in this sphere. This strategy resulted in a very low level of overdue loans in 2009. This came at the cost of a substantial reduction in the number of issued loans, in line with the strategy adopted for this segment.

Regional Development

The economic crisis exposed huge regional differences in retail banking. For example, by the end of 2009, it was clear from customer behaviour that the financial crisis in Moscow was coming to an end. However, the picture in the regions was very different. In some regions, the situation stabilised, but at substantially lower levels than before the crisis. In others, e.g. in Nizhniy Novgorod, Togliatti and Samara, the situation remained difficult. Alfa-Bank modified its retail business priorities to take these trends into account.

Alfa-Bank is currently actively developing consumer lending in the regions, as it is the easiest and most accessible form of credit for individuals during an economic downturn. We are also steadily expanding our A-Club network for Alfa-Bank's high-net-worth clients. In 2009, Alfa-Bank opened A-Club branches in Samara, Ekaterinburg and Novosibirsk. As this type of banking service is in great demand in the regions, the Bank intends to increase the number of its VIP branches in Moscow and other cities.

Severnaya Kazna Integration

One of the Retail Bank's most important and labour-intensive projects in 2009 was the integration of Severnaya Kazna Bank's customer base. Severnaya Kazna, a major regional bank operating in the Urals region, was acquired by Alfa-Bank in 2008, bringing Alfa-Bank around 120,000 new clients and considerably strengthening its position in this region, primarily Ekaterinburg and the Sverdlov Region, where 85% of Severnaya Kazna's business was concentrated. After the acquisition, our branches in Ekaterinburg and the Sverdlov Region swelled from 6 to 24. Alfa-Bank also nearly doubled its presence in Chelyabinsk to nine branches from five. In total, 28 Severnaya Kazna branches were converted to Alfa-Bank format. In December 2009, we also completed the process of transferring Severnaya Kazna's individuals loan portfolio onto Alfa-Bank's books.

We were able to learn a lot from the incorporation of Severnaya Kazna's client base and technological capability. For example, we borrowed certain features of Severnaya Kazna's Internet Bank as well as some of its achievements in settlement operations. Generally, although the integration was not an easy process, especially given the tough economic climate, that Alfa-Bank, particularly its Retail Bank team, was able to successfully integrate a bank with thousands of customers within six months is a sign of its outstanding capabilities. The merger of Severnaya Kazna with the Retail Bank brought considerable experience that will be of great use in further operations.

Remote Customer Service Channels

2009 was a milestone in Alfa-Bank's work on developing remote customer service channels. The number of customers who use remote services rocketed. For example, Alfa-Click Internet Bank users grew from 415,000 to 770,000 in 2009, while customers who opted for the Alfa-Check SMS service surged from 700,000 to nearly a million. We continue to promote our remote customer service channels. New functions are currently being added to the Alfa-Click Internet Bank, such as display of new customer offers, new beneficiaries are added on to the list of authorised payees making cash transfers even easier.

We are committed to further developing Internet Bank in 2010. In particular, integration with the "Gorod" payment system was completed in 2009 in Chelyabinsk and few other cities. The initiative allows Alfa-Bank customers to make all utility payments through a single payment integrator. In addition, this year we will begin upgrading the underlying platform (IT architecture) and client interface of our Internet Bank. We expect to complete this project in 2011.

Our cooperation with the Yandex.Dengi virtual payment system, which began in 2009, has been a great success. We launched the "Money A to Ya" project in February 2009, and within a year, turnover for this

project (pay-ins and payouts using Alfa-Bank accounts) totalled 1 billion roubles with about 40,000 customers taking the opportunity to link their e-wallet in the Yandex.Dengi system to their Alfa-Bank account. In 2010, we intend to offer clients the opportunity to integrate their Alfa-Bank account with the Webmoney payment system, which is the second-largest player on the e-money market.

Another significant project implemented in 2009 was the issue of a virtual card in the Alfa-Click Internet Bank. The card ensures secure online payments that do not jeopardise funds in the customer's principal account, as transactions using the card are only possible within a predetermined limit. This service was first offered at the end of August 2009, and at that time we issued 4000-5000 cards a month. By the end of 2009, we had issued 20,000 of these cards, and by March 31, 2010 this figure had jumped to 56,000.

The Retail Bank intends to develop its sharing technology capabilities with partner companies, enabling their clients to make online payments for goods and services. This B2B offering is a convenient business solution for several companies. Sibir (S7 Airlines) and Corbina Telecom (VimpelCom Group) broadband Internet service provider already incorporated this service into their business in 2009. Alfa-Bank considers this a strategically important market. According to a study by C-News publication, the share of Alfa-Bank cards in online settlements in 2009 was 17%. Alfa-Bank currently ranks second in this segment, behind Sberbank, whose card issue volumes substantially exceed those of Alfa-Bank.

Value-Added Products

A few years ago, Alfa-Bank began to issue value-added cards offering customers more than just a means to pay for goods or services. One such initiative was the Aeroflot MasterCard Alfa-Bank card. Cardholders can accumulate points (miles) by paying for goods and services with their MasterCard. Last year, we issued almost 100,000 Aeroflot MasterCard Alfa-Bank cards. According to SPEAR'S Magazine, the card was the best bank card of 2009 intended for affluent customers.

Our second project in this segment was the co-branded Alfa-Bank Cosmopolitan Visa card. The Cosmo-card is not only a payment tool, but also a discount card entitling holders to discounts in partner shops, beauty salons and restaurants. Over the three years that the cards have been in circulation, we have issued more than 200,000 cards. Alfa-Bank Cosmopolitan Visa card is now available from Alfa-Bank branches in 55 cities across Russia. In 2009, we issued 99,000 cards, 26% above our goal. On average, we issued 8100 Cosmo-cards a month (vs. 5200 cards a month in 2008). The number of partner companies is continuing to rise and the card currently offers discounts on goods and services from 1,500 companies across the country. We intend to continue our work promoting Alfa-Bank Cosmopolitan Visa card among target groups and launch a golden card for older, wealthier women.

In 2009, we also launched new value-added products, the most important of which was the ManCard. This new brand was developed specifically for its male customers by Alfa-Bank and key partners, including MAXIM magazine and Gameland Group. The ManCard, heralded by a massive advertising campaign, was launched on December 1, 2009 and an accompanying website was set up with regularly updated information on the joint program, cardholder privileges and male-interest news stories tailored to men's hobbies and interests. The project receives monthly coverage in MAXIM and Gameland publications and is also advertised on VKontakte and Facebook social networking sites. In order to promote the product we stepped out of the realm of usual banking marketing methods and focused on the interests of the target audience of the Man Card. As part of this initiative, we hold competitions among card holders to win prizes, such as tickets to the FIFA and Ice Hockey World Cups and rock concerts, etc. An increasing number of the cards are issued each month and new business partners in Moscow and St. Petersburg are joining the programme. There are currently 80 corporate partners, including music shops, car dealerships, men's clothing shops, bars and restaurants. In 2010, Alfa-Bank plans to issue the ManCard in over 30 cities across Russia.

In November 2009, Alfa-Bank first issued its co-branded M.Video Bonus Alfa-Bank card. M.Video is a long-standing partner of Alfa-Bank i.e. with salary card programmes and consumer lending. In 2009, we extended our partnership to include a co-branded project. The M.Video Bonus Alfa-Bank card offers its holders the opportunity to accumulate bonus roubles when purchasing goods in any stores that accept MasterCard. The bonus points can then be used to purchase goods from M.Video. This co-branded card is intended to appeal to a wider range of customers than, for example, the Aeroflot MasterCard Alfa-Bank card. In March 2010, we started issuing the card in a further 38 cities. Our cooperation with the M.Video chain opens the way to attract new clients from the retailer's holders of branded bonus cards, which exceeded 1.5 million at the end of 2009. Alfa-Bank expects to issue 50,000 additional M.Video Bonus Alfa-Bank cards over the next two years. If we look at the performance of the first two months following the launch of the card, these plans are realistic.

We also launched the Ural Airlines Visa Alfa-Bank card in 2009. This project primarily targets business customers in the Urals region, which expanded considerably after Alfa-Bank incorporated Severnaya Kazna Bank's client base. Holders of the Ural Airlines Visa Alfa-Bank card accumulate bonuses when making purchases and may use them to obtain award tickets. Holders of Gold cards may also upgrade (provided that free seats are available in the relevant cabin), check in excess luggage for free and travel on the aero-express to Domodedovo Airport free of charge. This project is a new step in developing co-branded projects launched by Alfa-Bank in cooperation with airline companies.

We expect to start advertising some of our new co-branded projects and value-added cards in 2010.

Focus on Alfa-Bank's Image: Advertising Campaign

We gained considerable public attention in 2009 with our large-scale advertising campaign. Our previous promotional campaign dated back to 2004. By the year 2009, it was obvious that a new advertising campaign was long overdue in order to reflect Alfa-Bank's policy and get our message across to existing and potential customers. We started working on the corporate advertising campaign as early as spring 2009. Our campaign caught the eye and the imagination and stood out among other banking advertisements. The commercials and posters aptly portray how Alfa-Bank operates and its commitment to transparency, honesty and openness.

We are currently involved in developing these values within Alfa-Bank's business itself, i.e. we want to incorporate the advertising campaign's philosophy in our working style and day-to-day decision making. Clients now expect openness from Alfa-Bank and for their opinions to be heard and acted on. For example, Alfa-Bank is the only financial institution that answers every message it receives at the banki.ru web portal and responds to all customer comments. This feedback also enables Alfa-Bank to rectify any emerging issues, avoid any negative implications or losses its customers might incur and also prevent the same problems occurring again. Alfa-Bank has a special department in charge of monitoring the feedback section of Alfa-Bank's web page and other industry specific sites to ensure that all comments posted on the Internet are dealt with in a timely manner.

Personnel Management

Alfa-Bank has a high level of customer service and a unique corporate culture. Alfa-Bank is constantly evolving, but is committed to maintaining its high level of customer service. As before, we relish honesty, openness and creativity of our employees, their capability to make decisions and bear the liability and, of course, their concern about our clients and Alfa-Bank's internal life.

Plans and Forecasts for 2010

In 2010, Alfa-Bank will continue building up its share on the market of demand deposits and general funds attracted from individuals. For example, its market share in terms of demand deposits is set to reach to 5.85% by 2011, according to forecasts, and in the long run Alfa-Bank intends to vie for the No. 2 spot on the market in terms of deposits attracted in this segment. The Retail Bank faces a challenging task to push up its share on the general deposit market to 2%. Alfa-Bank intends to boost its presence on the retail lending market and aggressively expand its business in the consumer lending segment and plans to increase turnover twofold and expand its credit card and personal installment loan portfolio.

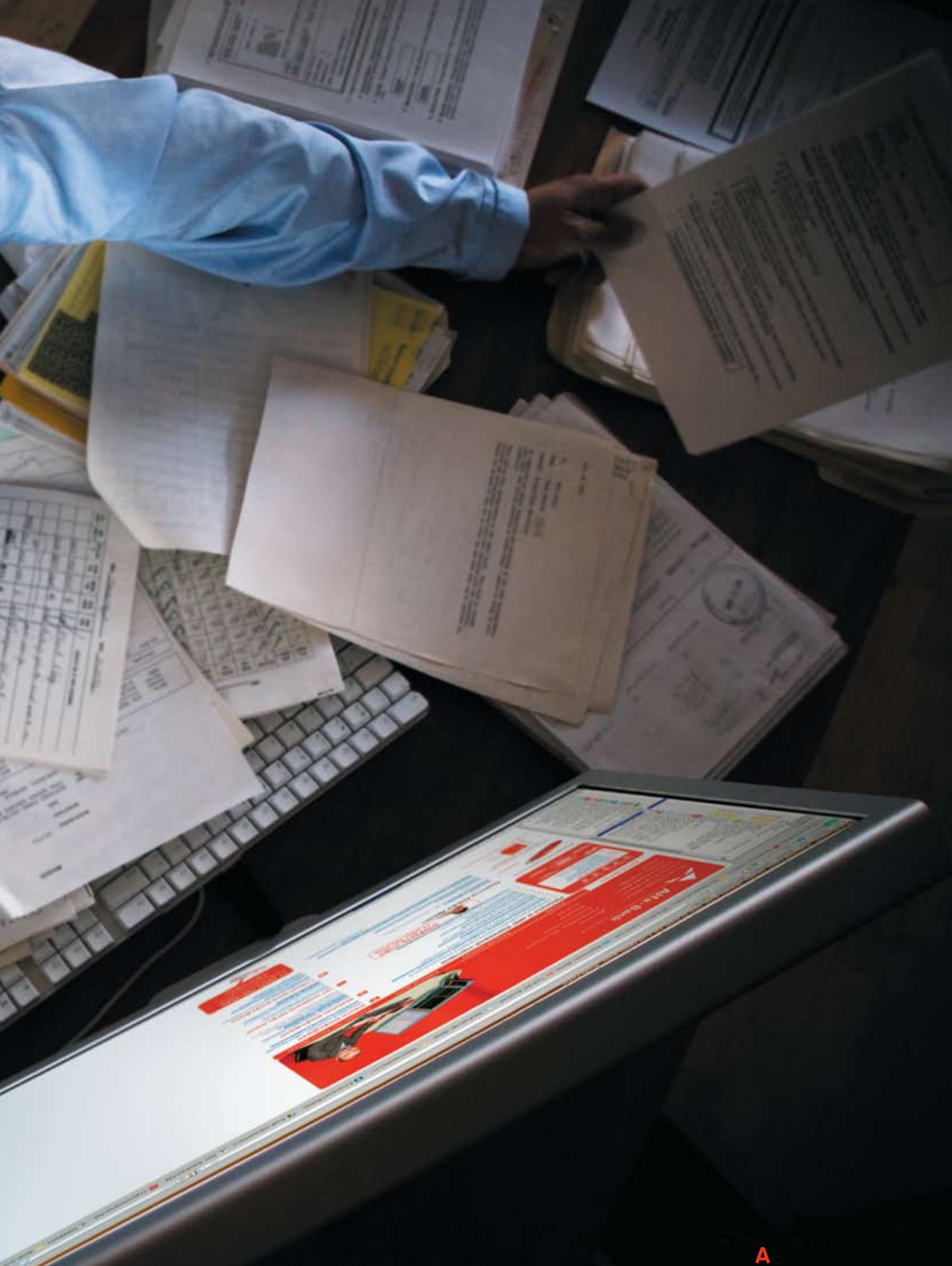
In addition, a number of major initiatives will be completed in 2010, including an ambitious project to replace front-office software solutions at all branches and offices. For the first time in the history of Alfa-Bank, the solution development involved input from front-office employees that use the software on a daily basis. The application will become faster and easier to use and is expected to reduce Alfa-Bank's costs when opening new offices. Another important project, the implementation of a client relationship management system on both the operating and analytical levels, was launched in early 2009 and should come into fruition in 2010.

We will expand our range of banking products by developing our VIP segment, opening new A-Club branches and continuing to develop our VIP service format in the regions. Alfa-Bank will continue to improve its Internet banking services and expects the number of users to increase 20-25%. In addition, we intend to create a web portal for external users in the first half of 2010. This innovative project will provide services and certain solutions for free to potential customers.

Our plans for 2010 include closer integration with Alfa Group companies, in particular Evroset, Beeline and X5 Retail Group. We are currently developing a number of initiatives that may be implemented next year. Integration within Alfa-Bank itself will gain momentum and boost synergies from collaboration between the Corporate and Investment Bank and the Retail Bank. This will also cover the implementation of salary card programmes and the collective promotion of products and services.

2010 will be a time of increased competition in the retail banking segment, in particular in the sphere of lending. Although we still cannot be certain that the crisis is fully behind us, we have to learn to work in the new environment and adjust our business model accordingly, prioritise our work, ascertain customer needs and develop customised technology and products. Alfa-Bank aims to be the bank of choice. It aims to build long-term relationships with customers who choose its services.





Financial Risk Management

Alfa-Bank systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. Alfa-Bank applies across all product lines a unified risk management practice comprising of credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of Alfa-Bank's risk management is to achieve an optimal level of risk-return of its operations.

The risk management function within Alfa-Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), and operational risks. The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise Alfa-Bank's exposure to internal and external risk factors other than those from financial instruments.

Alfa-Bank's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance

The Board of Directors of Alfa-Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of Alfa-Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that Alfa-Bank operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management

Department, the Retail Risk Management Department and Asset and Liability Management Committee (“ALCO”). In order to facilitate efficient decision-making, Alfa-Bank has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small and medium-size enterprises, mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal instalment loans, car loans and consumer loans portfolios. In 2009 Alfa-Bank set up the Problem Loans Department and the Problem Loans Committee to improve the workout and the collection of problem loans to corporate customers. The Problem Loans Committee considers and approves the strategy of problem loans workout. The Problem Loan Department implements the approved strategy. These units report to the Head of Corporate and Investment Banking and the Main Credit Committee.

Risk identification

Both external and internal risk factors are identified and managed throughout Alfa-Bank’s organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of Alfa-Bank.

Risk assessment, management and control

Alfa-Bank’s risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by Alfa-Bank’s Risk Management Department and Retail Risk Management Department. Compliance with Alfa-Bank’s standards is supported by periodic reviews undertaken by the Internal Audit Department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate and presented to the Audit Committee and senior management of Alfa-Bank.

There were no significant changes to the system of risk management in year 2009 compared to year 2008. Since the beginning of the financial crisis Alfa-Bank had been modifying the risk management policies and procedures to minimize the adverse impact of the crisis on Alfa-Bank’s business.

Credit risk

Alfa-Bank takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. Alfa-Bank 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, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

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.

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

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.

Alfa-Bank defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. During year 2008 the Lending Policy was revised by tightening the rules and increasing risk margins. Throughout year 2009 Alfa-Bank revised its Lending Policy on a quarterly basis to ensure conformity with the current risk and market conditions.

Alfa-Bank's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 million have to be approved by the Executive Board. In certain circumstances (for example, based on tenure or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.
- The Retail Credit committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio, makes other decisions regarding retail lending. The committee convenes monthly and its members are representatives of all key retail departments of Alfa-Bank.

Monitoring

The level of credit risk exposure of Alfa-Bank is subject to a monitoring process.

Exposure to credit risk is managed by the Credit 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. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation

procedures based on problem status. Any significant exposures to a customer with a deteriorating credit-worthiness are reported to and reviewed by the relevant Credit Committee.

Relationship managers and credit managers visit clients monthly/quarterly/semi-annually depending on credit quality of the customers and magnitude of the exposure. Analysis of clients' sales, margins and loan portfolio dynamics is carried out on a monthly basis.

Monitoring of retail portfolios is conducted by the Retail Risk Management Department every month end or earlier based on the need. Such monitoring includes tracking the following indicators: approval/decline rates across products/customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sector caps identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability; and performance across products where such cards are used; and efficiency of the verification segmentation.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with Alfa-Bank's risk appetite and portfolio limit structure. Throughout the year 2009 Alfa-Bank paid much attention to the workout of problem loans, which were subject to weekly reporting to the Main Credit Committee.

On a weekly basis the Committee for Collection of Corporate Overdue Loans monitors the problem loans: the perspectives of repayment, repossessing collateral, legal processes on collection cases, restructuring terms, claiming for additional collateral to secure loans.

Control

There is a control environment established in Alfa-Bank, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to Alfa-Bank's policies and procedures.

Alfa-Bank has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committees, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision making, (v) using statistically-based decision making techniques such as credit scoring for retail portfolios, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

In order to improve the collection of loans to individuals and to control delinquencies more effectively during 2009, the Retail Risk Management Department introduced collection scorecards across different stages of collection process and implemented closer monitoring of collection cure rates within different segments.

Credit risk mitigation

Alfa-Bank uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

At transaction level, an assessment of a borrower's ability to service the proposed level of debt is performed. Also Alfa-Bank obtains collateral, such as a mortgage, pledge of assets, or floating charge over inventories. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques.

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

A credit risk premium is incorporated in risk assessment and lending decisions. The risk premium seeks to provide a fair compensation for the amount of each credit risk assumed by Alfa-Bank.

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. In 2009 the latter two limits were introduced as non-obligatory but subject to monitoring and reporting. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of Alfa-Bank's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated statement of financial position. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Market risk

Alfa-Bank takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

Alfa-Bank manages its market risk through notional-based and risk-based limits for Alfa-Bank's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions and (ii) Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. Separate limits are established for the entities whose trading operations are performed through non-Moscow located trading desks. In

addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both Alfa-Bank's proprietary and trading portfolios consist predominantly of liquid, traded securities. Alfa-Bank's derivative operations are driven by two major factors: (i) the need of Alfa-Bank to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, derivatives) trading desks. The fixed income and overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 15 million (2008: USD 10 million). However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

During 2009 the following changes were made in market risk management: more frequent position limits review by ALCO, tightened restrictions on corporate exposures for fixed income desks, the Collateral Department was set up for the additional control of margin trading.

Equity price risk

As noted above, for the purpose of quantifying Alfa-Bank's equity price risks which is attributed to Investment Banking position only, Alfa-Bank uses a VaR model.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the frequency of bigger-than-VaR loss occurrence and compares it to the set confidence level.

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. Alfa-Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and Alfa-Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of Alfa-Bank were to be held unchanged for one business day.

According to the assessments made by Alfa-Bank as at 31 December 2009 and 2008, VaR estimates in respect of equity price risk do not exceed USD 10 million. The VaR measure of the exposure of the net equity position to market price fluctuations is not material: the long balance sheet position in equity in-

struments disclosed within trading securities and repurchase receivables is to considerable extent covered by the opposite position in equity derivatives.

Currency risk

In respect of currency risk, the Treasury Department of Alfa-Bank is responsible for the centralised management of the currency risk of Alfa-Bank. 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 Treasury Department of Alfa-Bank based on the management reports provided on open currency position. Alfa-Bank uses derivatives to manage current and forecast exposures resulting from foreign currencies.

Interest rate risk

Alfa-Bank 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 debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, Alfa-Bank's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of Alfa-Bank's objectives is to minimize losses from unexpected negative changes in interest margins.

Alfa-Bank's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of Alfa-Bank's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for Alfa-Bank's Russian Rouble, US Dollar and Euro positions and for Alfa-Bank's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

During 2009 the Treasury Department implemented additional interest rate risk measure "Earnings-at-Risk to 100 basis points interest rate shift" which measured the impact on the interest revenue for the nearest year of a 100 basis points rise of interest rates along the various maturities on the yield curve.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Alfa-Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin and other calls on de-

rivative instruments. Alfa-Bank 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 Treasury Department and ALCO of Alfa-Bank.

Alfa-Bank seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of Alfa-Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio, which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio, which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including central banks) and other inter-bank facilities, to ensure that sufficient liquidity is maintained within Alfa-Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. ALCO approved the increase of the limit for available for sale securities portfolio and liquidity cushion. The crisis liquidity scenario was revised to account for the higher probabilities of delays in payments on corporate and retail loans.

Corporate Governance

Alfa-Bank, recognizing corporate governance efficiency as a key condition of its stability and successful work on the financial market, as well as the importance of high standards of corporate governance and business ethics for the successful conduct of its business, has adopted the Code of Corporate Governance and closely follows it.

The Code was developed on the basis of the OECD (Organization for Economic Cooperation and Development) Principles of Corporate Governance, of April 22, 2004, the Basle Committee on Banking Supervision recommendations on “Enhancing Corporate Governance in Banking Organizations” (1999), the Federal Laws On Joint-Stock Companies and On Banks and Banking, the Code of Conduct recommended for use by Federal Securities Market Commission instruction No. 421, of April 4, 2002, and the Charter of Alfa-Bank.

Corporate governance refers to the general management of Alfa-Bank by the General Meeting of Shareholders and the Board of Directors, which includes the totality of their relations with the executive bodies of Alfa-Bank and other stakeholders (employees, creditors, depositors, other customers, partners, counterparties, banking regulation and supervision agencies, governmental authorities, and public authorities) with regard to:

- defining strategic goals for Alfa-Bank and an effective governance system;
- creating work incentives in order that the governing bodies and employees of Alfa-Bank carry out all the necessary actions towards achieving the strategic goals of Alfa-Bank;
- achieving a balance of interests between shareholders, members of the Board of Directors and executive bodies of Alfa-Bank, and other stakeholders;

- compliance with Russian Federation laws, the Charter of Alfa-Bank, the Code of Corporate Ethics, and other in-house documents, as well as the professional ethics principles adopted by banking unions, associations, and other self-regulating organizations.

Recognizing the important role of the Code, all Alfa-Bank governing bodies and employees are governed by its provisions in discharging their obligations to Alfa-Bank and shareholders. Corporate conduct is based on respecting the rights and lawful interests of its participants to foster Alfa-Bank's efficient operation, financial stability, and profitability.

With a view to upgrading its corporate governance policy, Alfa-Bank has declared its commitment to the following basic principles of corporate governance:

- Guarantee of shareholders' rights and interests;
- Efficient governance;
- Distribution of authority between governing bodies and effective control;
- Effective control of financial and economic activities;
- Ownership structure transparency and information openness;
- Observance of laws and moral standards;
- Effective interaction with employees and fair remuneration;
- Social responsibility and development of partnership relations with shareholders.

The structure of corporate governance of Alfa-Bank secures an adequate balance between its governing bodies, divides powers, and delimits the general management, implemented by the shareholders and the Board of Directors, and operational management of Alfa-Bank implemented by the executive bodies of Alfa-Bank. Guided by the interests of its shareholders, creditors, customers, business partners, and counterparties, Alfa-Bank continuously monitors the compliance of its activities with provisions of the Code.

The Code is available from Alfa-Bank upon request.

Our Partners

AlfaStrakhovanie Group

Alfa-Capital Management Company

AlfaStrakhovanie Group

AlfaStrakhovanie Group is the brand umbrella of AlfaStrakhovanie PLC, AlfaStrakhovanie-Zhizn Ltd. and AlfaStrakhovanie-MS Ltd. AlfaStrakhovanie Group is a part of Alfa-Group, one of the largest financial and industrial consortia in Russia (Alfa-Bank, Alfa Capital, TNK-BP, A1, Rosvodokanal, X5 Retail Group N.V., Altimo, STS Media etc.). The consolidated authorized capital of Alfastrakhovanie Group amounts to 5.5 billion RUR. Under its license the Group offers over 100 insurance products including life insurance products and accident insurance products. The Group's customers may use services of 380 regional establishments all over Russia.

AlfaStrakhovanie Group is accredited by the largest banks in Russia and broadly cooperates with them: Sberbank, VTB, VTB24, Gazprombank, Alfa-Bank, Raiffeisenbank, MDM-Bank, UniCreditBank, Russian Agricultural Bank, Promsvyazbank, TransCreditBank and many others.

In 2009, the Group's net profit amounted to 496,1 mln RUR. The Group's premiums amounted to 20.4 bln RUR. This includes premiums for property insurance of 12.3 bln RUR, personal insurance — 4 bln RUR and life insurance — 911 mln RUR, obligatory motor insurance — 2,3 bln RUR. Liability insurance — 682 mln RUR obligatory medical insurance — 2,7 bln RUR. The total amount of claims paid in 2009 equals 10 bln RUR.

Key principles

AlfaStrakhovanie Group is reputed to be a reliable and stable company. The Group reinsures its risks with the largest reinsurance companies of the world, such as Munich Re, Swiss Re, Hannover Re, SCOR, GenRe, Partner Re, Lloyd's of London, as well as the largest Russian companies.

According to Expert RA rating agency, AlfaStrakhovanie Group is in the Top-10 of open insurance market leading companies. In January, 2010 the Expert RA confirmed the Group's A++ rating, the highest integrity rating assigned in 2010.

Implementing its business and service quality development plan, AlfaStrakhovanie Group is currently creating a federal system of European-level clinics in Russia. In accordance with it, clinics in Kirov and Perm were established in 2009.

Customers

About 1.5 mln. private customers and more than 100,000 companies deal with the Group, among them are the leading banks, large shipowners and carriers, companies from the spheres of atomic energetics, metallurgy and machine building, representative offices of largest foreign companies, public and community institutions.

Alfa-Bank | Aeroflot Russian Airlines | VimpelCom | Belomortrans Group of companies | Megapolis Group of companies | Independence Group of companies | Rolf Group of companies | Titan Group of companies | DON - Stroi Group of companies | EvrazHolding Trading House | EUROCEMENT Group | Kommersant Publishing House | Kazanorgsintez | KMB-Bank | Continental Management Timber Industrial Company | The Magnitogorsk Iron and Steel Works Open Joint Stock Company | NOVATEK | Joint Depository Company | Slavneft-YANOS | MGESK | MOEK | Interregional Distribution Grid Company of the South | Interregional Distribution Grid Company of Center | Interregional Distribution Grid Company of the North-West | Interregional Distribution Grid Company of Urals | Interregional Distribution Grid Company of Siberia | Interregional Distribution Grid Company of Center and Volga region | Interregional Distribution Grid Company of Volga | Interregional Distribution Grid Company of Northern Caucasia | Lenenergo | Tyumenenergo | TGC-6 | TGC-5 | OGC-2 | OGC-5 | TGC-10 | SUAL Group | TAIF | TNK-BP | Transmashholding | FSK-EES | Transnefteproduct | BEIERSDORF | Campina | Daimler Chrysler AG | Electronic Arts Russia | Frito Lay Russia | Laktalis Group | METRO Cash&Carry | MIRAX Group | Philips | Sony CIS | Sony Ericsson | Urals Energy

Awards

AlfaStrakhovanie Group became an honorary member of the Society of Friends of Museums of the Moscow Kremlin, having received a diploma for support of projects of the museum.

AlfaStrakhovanie Group was recognised as the most attractive company in the insurance sector as the annual ceremony "HR-brand" in a nomination «Federal project».

AlfaStrakhovanie Group became the winner of the award «BRAND GODA/EFFIE». Group merits are estimated by the award for the successful project with Odnoklassniki.ru.

AlfaStrakhovanie Group became the winner of the award "Financial Olymp" in a nomination «Client service».

AlfaStrakhovanie Group became the winner of the award «Gold Salamander» in a nomination «Marketing project 2008» for the most creative advertising campaign of year.

Kommersant newspaper published Russia's Top 1000 Managers rating that is annually compiled by the Association of Managers and awarded to the best professional managers in various businesses. For the last six years AlfaStrakhovanie top managers have regularly been named among the best specialists in their sphere. This year top managers of the Group for the second time have been nominated in all six categories: insurance company CEO, CFO, HR Director, Commerce/Marketing Director, IT Director, Public and Corporate Relations Director.

Alfa-Capital Management Company

Alfa-Capital Management Company, one of the largest and most professional companies in the assets management market of Russia, has been in business since 1996. Its main activities include mutual funds management, non-state pension funds', insurance companies', and corporations' assets management, and individual trust management for large private investors. It is not an exaggeration to say that the Alfa-Capital brand is the symbol of high quality in the asset management market.

www.alfacapital.ru

2009 – the Year of Renewal

The year of 2009 was full of meaningful events for Alfa-Capital Management Company. The Company was proactively developing its business, and has worked out new ways for improving itself in the altered market of asset management services.

The crisis has accelerated the processes impelling the Company to form new market niches in the asset management sector and to strengthen the Company's market positions there. The situation required a total change in nearly all business procedures, and in 2009 Alfa-Capital Management Company embarked upon new business areas and started upgrading those already proven to be successful.

In particular, the Company has strengthened positions in its traditional sector of private investors asset management by offering its customers newly-structured financial products and absolutely new instruments which provide a wider range of opportunities to diversify and increase the efficiency of investments, and by establishing the Russia's first hedge fund, a closed-end mutual fund of private investments. Also a new business area — distressed corporate assets management — has been added to the Company's business activities.

In 2009, the Company launched a MultiFamily Office line offering its customers the assortment of the Company's own investment products and services (including financial consulting) together with financial products (investment, banking, and insurance products) of external service providers, as well as non-financial services, namely of the LifeStyle category.

The Company is focused on developing its financial consulting field allowing to provide its customers who give preference to direct investment instruments with recommendations and advice of experienced professionals qualified in various segments of the investment market, thus assisting such customers in making the best possible choice of underlying assets, providers, and investment terms.

In 2008, the Company adopted a new strategy of customer service development, and has been vigorous and successful in developing it throughout the whole year of 2009. One of its key points has to do with bringing up the quality of a communications channel between investment portfolio managers, personal managers, and customers, as well as the quality of the Company's analysis and expert advice services. Under the above strategy, a Key Customers Support Center has been established within the Company. And for the purpose of promoting the Company's service level, a Customer Relations Service has been formed within the Company having the organization and quality control of customized services for private investors among its key functions.

The Company's organizational structure has been changed as well. So, the leadership team has been strengthened considerably by Salavat Khalilov who joined the Company in the capacity of the head of the Financial Institutions Center, and by Victor Bark appointed as the Asset Management Department Director.

In 2009, the Management Board was established in the Company. Mikhail Khabarov, Director General at Alfa-Capital Management Company, has been elected the Board's Chairman. The Board's members also include Irina Krivosheeva, Deputy Director General and Executive Director; Iliya Khaikin, Deputy Director General; Salavat Khalilov, Director of the Financial Institutions Center, Yakov Galperin, Deputy Director General and Head of the MultiFamily Office, and Victor Bark, Deputy Director General and Director of the Assets Management Department.

Within the implementation of its organizational changes, Alfa-Capital Management Company has introduced a new comprehensive system of professional training and development. This system covers all key aspects of personnel work: new employees adaptation process, professional upgrading programs, succession pool creation, and generation of an innovative corporate environment within the Company.

As a result of all 2009 modifications and actions, Alfa-Capital Management Company has maintained its stable financial position and reputation showing the best earnings ever in the history of the Company — RUB 641 mln. And for the first time, the Company's year-end profit amounted to RUB 42 mln.

2010 Perspectives

In the new year, Alfa-Capital Management Company will concentrate on money (foreign exchange) market instruments, fixed interest bearing financial instruments (Eurobonds, bonds), and structured products with capital protection.

In particular, the customers will be offered trust management strategies with the use of treasury bonds, quasi-sovereign Eurobonds, credit notes, and contracts for baskets of bonds, currency, or gold.

The Company's corporate and institutional customers will be offered distressed asset management services for their distressed asset portfolios made up of corporate bonds, loans, and real estate.

The major portion of the Company's asset growth is expected to derive from the individual trust management sector development. The Company's favorable earnings performance in 2009 was achieved mainly due to its ancillary activities. The performance may be improved in 2010, however, this time the larger portion of earnings is anticipated to come from the Company's core business.

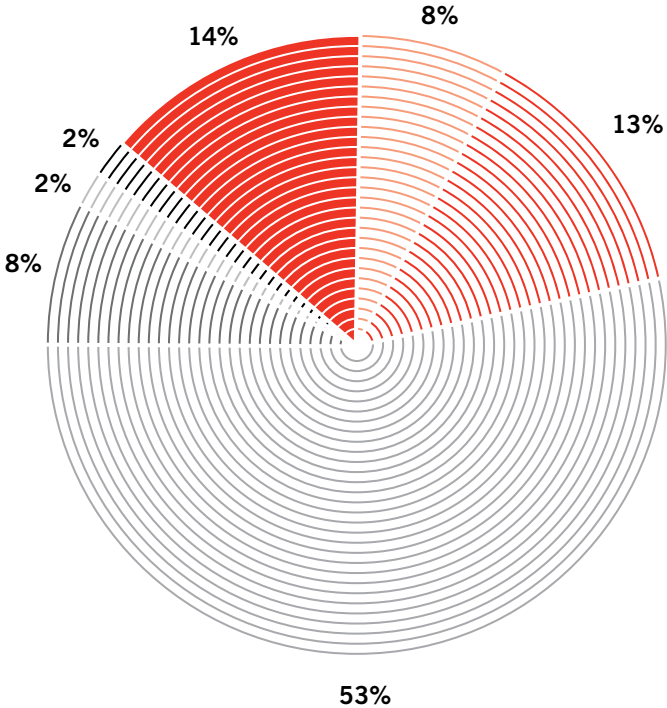
Market Recognition

Based on the results of 2009, Alfa-Capital's professional activity has been highly rated and awarded by independent experts:

- National Rating Agency has confirmed that Alfa-Capital Management Company's Credibility Rating is AAA (i.e. maximum credibility).
- Expert RA Rating Agency has evaluated the reliability and quality of services provided by Alfa-Capital Management Company and assigned an A++ rating (i.e. Extremely High / Highest Reliability and Quality of Services).
- Alfa-Capital Management Company is among the leaders of the Trust Managers Rating issued by State Corporation "Housing and Utilities Reforms Promotion Fund", showing the highest actual return on funds placed by the above Fund under trust management of Alfa-Capital Management Company.
- Financial Pearl award in the Stable Credibility category.
- Company of the Year title awarded by RosBusinessConsulting.
- Mikhail Khabarov, Director General of Alfa-Capital Management Company, has made it to the top

five of the most qualified financial sector managers according to the Russia's 1,000 Most Professional Managers Rating prepared by Kommersant Publishing House together with the Managers Association of Russia. The following persons were also included in the rating: Alexander Goncharenko, Financial Director of Alfa-Capital Management Company, Irina Krivosheeva, Executive Director of Alfa-Capital Management Company, and Iliya Khaikin, Business Development Director of Alfa-Capital Management Company.

Assets under Management of Alfa-Capital Management Company as of the End of 2009



- Institutional Customers
- State Funds
- Mutual Funds
- Individual Trust Management
- Corporate Customers
- Non-State Pension Funds
- International Funds

Summarised Consolidated Financial Statements and Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

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

- 1 The accompanying summarised consolidated financial statements have been derived from the consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") for the year ended 31 December 2009. These summarised consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on whether these summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.
- 2 We have audited the consolidated financial statements of ABH Financial Limited for the year ended 31 December 2009, from which these summarised consolidated financial statements were derived, in accordance with International Standards on Auditing. In our report dated 23 April 2010 we expressed an unqualified opinion on the consolidated financial statements from which the summarised financial statements were derived.
- 3 In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.
- 4 For a better understanding of the Group's financial position and the results of its operations for the year and of the scope of our audit, the summarised consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarised consolidated financial statements were derived and our independent auditor's report thereon.

23 April 2010

Moscow, Russian Federation

ABH Financial Limited

Consolidated Statement of Financial Position

<i>In millions of US Dollars</i>	<i>31 December 2009</i>	<i>31 December 2008</i>
ASSETS		
Cash and cash equivalents	1 966	3 860
Mandatory cash balances with central banks	150	79
Trading securities	1 372	588
Repurchase receivables relating to trading securities	-	151
Due from other banks	2 270	1 837
Loans and advances to customers	13 449	17 970
Investments	1 508	372
Repurchase receivables relating to investments	-	215
Other financial assets	251	1 195
Other assets	277	371
Premises and equipment	366	390
Deferred tax asset	37	24
TOTAL ASSETS	21 646	27 052
LIABILITIES		
Due to other banks	1 108	7 407
Customer accounts	13 686	12 582
Debt securities issued	1 565	2 391
Syndicated and other debt	295	1 064
Subordinated debt	1 747	464
Other financial liabilities	322	833
Other liabilities	123	110
Deferred tax liability	102	39
TOTAL LIABILITIES	18 948	24 890
EQUITY		
Share capital	1 265	945
Fair value reserve for investments available for sale	54	(45)
Revaluation reserve for premises	33	53
Cumulative translation reserve	(304)	(359)
Retained earnings	1 647	1 554
Net assets attributable to the Company's owners	2 695	2 148
Non-controlling interests	3	14
TOTAL EQUITY	2 698	2 162
TOTAL LIABILITIES AND EQUITY	21 646	27 052

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

ABH Financial Limited

Consolidated Statement of Comprehensive Income

<i>In millions of US Dollars</i>	2009	2008
Interest income	2 519	2 824
Interest expense	(1 403)	(1 406)
Expenses directly attributable to leasing and deposit insurance	(41)	(37)
Net margin	1 075	1 381
Provision for loan impairment	(589)	(956)
Net margin after provision for loan impairment	486	425
Fee and commission income	339	421
Fee and commission expense	(84)	(80)
Gains less losses arising from trading securities	173	(42)
Gains less losses arising from interest based derivatives	(118)	116
Gains less losses arising from foreign currencies and precious metals	(51)	281
Gains less losses arising from investments	(3)	(23)
Gains arising from acquisition of own debts	49	139
Other provisions	5	(53)
Loss of disposal of subsidiaries	(5)	-
Other operating income	80	79
Operating expenses	(747)	(813)
Share of results and impairment of associates	-	(49)
Profit before tax	124	401
Income tax expense	(47)	(171)
Profit for the year	77	230
Other comprehensive income:		
Available for sale investments:		
• Fair value gains less losses during the year	85	(61)
• Reclassification adjustments for losses included in profit or loss	33	5
Revaluation of premises	(19)	(5)
Effect of translation of the financial statements to US Dollars as presentation currency	(6)	(390)
Net change in hedge of net investment in foreign operations	61	249
Share of other comprehensive income of associates	-	(1)
Income tax recorded directly in other comprehensive income	(15)	15
Other comprehensive income/(loss) for the year	139	(188)
Total comprehensive income for the year	216	42
Profit is attributable to:		
The Company's owners	88	230
Non-controlling interests	(11)	-
Profit for the year	77	230
Total comprehensive income is attributable to:		
The Company's owners	227	43
Non-controlling interests	(11)	(1)
Total comprehensive income for the year	216	42

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

ABH Financial Limited

Consolidated Statement of Changes in Equity

<i>In millions of US Dollars</i>	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises	Cumulative translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2008	695	-	57	(218)	1 321	1 855	-	1 855
Total comprehensive income for the year	-	(45)	(1)	(141)	230	43	(1)	42
Realised revaluation reserve	-	-	(3)	-	3	-	-	-
Business combinations	-	-	-	-	-	-	15	15
Share capital contribution	250	-	-	-	-	250	-	250
Balance as at 31 December 2008	945	(45)	53	(359)	1 554	2 148	14	2 162
Total comprehensive income for the year	-	99	(15)	55	88	227	(11)	216
Realised revaluation reserve	-	-	(5)	-	5	-	-	-
Share capital contribution	320	-	-	-	-	320	-	320
Balance as at 31 December 2009	1 265	54	33	(304)	1 647	2 695	3	2 698

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

ABH Financial Limited Consolidated Statement of Cash Flows

<i>In millions of US Dollars</i>	2009	2008
Cash flows from operating activities		
Interest received	2 448	2 837
Interest paid, other than on debt securities issued, syndicated and other debt and on subordinated debt	(1 222)	(1 071)
Expense directly attributable to the lending operations	(42)	(36)
Fees and commissions received	354	420
Fees and commissions paid	(87)	(81)
Net income received from trading securities	240	(169)
Net income received from trading in foreign currencies	228	(507)
Net income received from interest rate derivatives	48	(6)
Other operating income received	95	45
Staff costs paid	(360)	(453)
Other operating expenses paid	(289)	(329)
Income tax paid	(25)	(117)
Cash flows from operating activities before changes in operating assets and liabilities	1 388	533
Changes in operating assets and liabilities		
Net (increase)/decrease in mandatory cash balances with central banks	(71)	193
Net (increase)/decrease in trading securities and repurchase		
receivables	(586)	141
Net increase in due from other banks	(510)	(96)
Net decrease/(increase) in loans and advances to customers	3 628	(4 307)
Net decrease in other assets and other financial assets	102	45
Net (decrease)/increase in due to other banks	(5 980)	5 306
Net increase in customer accounts	1 432	1 076
Net decrease in other liabilities and other financial liabilities	(127)	(106)
Net cash (used in)/from operating activities	(724)	2 785
Cash flows from investing activities		
Acquisition of investments available for sale	(1 161)	(421)
Proceeds from disposal of investments available for sale	337	13
Acquisition of investments at fair value through profit or loss	(10)	(6)
Disposal of investments at fair value through profit or loss	8	14

Proceeds from disposal of investment property	-	53
Acquisition of premises, equipment and intangible assets	(65)	(68)
Proceeds from disposal of premises, equipment and intangible assets	18	10
Proceeds from disposal of subsidiaries, net of cash disposed of	(60)	-
Acquisition of subsidiaries, net of cash acquired	-	(104)
Dividend income received	1	3
Net cash used in investing activities	(932)	(506)
Cash flows from financing activities		
Share capital contribution	320	250
Proceeds from syndicated and other debt	-	578
Repayment of syndicated and other debt	(749)	(885)
Interest paid on syndicated and other loans	(22)	(61)
Proceeds from debt securities issued	538	815
Repayment of debt securities issued	(1 384)	(1 321)
Interest paid on debt securities in issue	(155)	(234)
Proceeds from subordinated debt	1 308	-
Repayment of subordinated debt	(18)	(35)
Interest paid on subordinated debt	(72)	(46)
Net cash used in financing activities	(234)	(939)
Net (decrease)/increase in cash and cash equivalents	(1 890)	1 340
Cash and cash equivalents at the beginning of the year	3 860	2 634
Effect of exchange rate changes on cash and cash equivalents	(4)	(114)
Cash and cash equivalents as at the end of the year	1 966	3 860

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

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General license No. 1326
issued by the RF Central Bank on January 29, 1998

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