Alfa Bank

Annual Report 2018

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752
Offices

27 359
Employees

538 000
Corporate clients

16 100 000
Private clients

$1 321 m
net profit*

$7 198 m
equity*

$30 572 m
loan portfolio*

$47 199 m
assets*

* According to the consolidated financial statements (IFRS) of ABH Financial Limited Group (hereinafter)

Alfa-Bank's Awards

02.2018
Alfa-Bank won Best Experience Marketing Award

Alfa-Bank won The Best Sponsor's Integration nomination for implementation of its image activities, brand zone and system of non-cash settlements at the festival Alfa Future People 2017 Best Experience Marketing Awards (Bema). The nomination covered projects related to special activation of brands during a third-party event; the success criteria were quantity and quality of contact with the target audience, innovation of mechanics for integration into the main program / event concept and growth of sales.

The Best Experience Marketing Awards are professional awards in the industry of event-based marketing and integrated communications. The awards are given for the best projects according to the Expert Council. The Awards are focused on developing event-based marketing, creating a forum for experience sharing and consolidating the community of professionals.

02.2018
Alfa-Bank won the main nomination and was named the "Bank of the Year"

The "Bank of the Year" is an annual professional award established by the information portal Banki.ru in 2017.

The award is aimed at determining the best organizations of the Russian financial market based on the calendar year results, providing customers with reliable and unbiased information for choosing a reliable partner among companies, and giving businesses guidelines for further development.

05.2018
Alfa Private was awarded Customer Experience World AWARDS

In 1Q 2018, Alfa Private won the Customer Experience World AWARDS in the category 'employee engagement best practices' for its PROservice project.

The PROservice project, a forum designed to promote sharing good practices, was launched in 2017. Through PROservice, each employee of Alfa Private is able to put forward his/her idea of service improvement and the best ideas are brought to life.

The Customer Experience World AWARDS honor the best customer experience and since 2004 have celebrated and recognised the most interesting and successful projects and initiatives in the customer service sector. The award jury — made up of recognized experts in the industry — evaluates candidates against the following criteria: positive business impact, operating efficiency, innovation and creativity, customer focus, engagement, and leadership.

In addition to Alfa Private, the nominees in the Employee Engagement Best Practices category were Elementaree, Samsung, Territory Fitness, Tele2, and Schnider Electric. Winners in different categories also include Sberbank of Russia, Rosbank, Azbuka Vkusa, Aeroflot, Yota, etc.

07.2018
According to Frank RG's survey, AlfaTravel was recognized as the Best Travel Card

Alfa-Bank won Frank Banking Reward Award 2018. According to Frank RG's Bank Reward-Programs in Russia 2018 survey, AlfaTravel was recognized as the best travel card.

The travel card — AlfaTravel Visa — allows users to receive up to 11% in the form of miles that can be used on travel.alfabank.ru and a number of other additional free services. It is the most lucrative offer on the travel market.

Frank RG Banking Reward Award 2018 is the first annual award in Russia based on a holistic, reliable and structured database within bank reward programs, bank client surveys, interviews with leading experts on development and implementation of bank reward programs, as well as the actual dynamics of transactional activities under the existing reward programs of leading Russian banks.

The survey had several goals: identifying the main trends of reward program market development, objectively assessing program benefits, identifying the most appealing reward programs of leading banks, developing a tool for configuring and fine-tuning reward programs subject to the bank's strategy and the target customer segment chosen. During the survey, the actual dynamics of transactional activities of 60 existing reward programs launched by 16 leading Russian banks were processed and analyzed.

07.2018
RAEX Rating Agency (Expert RA) confirmed Alfa-Bank's credit rating ruAA. The rating outlook is stable.

The Bank's rating is based on its strong market positions and liquidity cushion with an adequate rating of its capital adequacy and asset quality, as well as a high rating of its corporate governance quality. That the federal authorities are likely to provide financial and administrative support to the Bank due to the Bank's systemically important credit institution status has a strong positive impact on Alfa-Bank's rating level.

08.2018
Private Alfa is a TOP1 private bank according to Forbes' ranking

According to Forbes's annual ranking, Alfa-Bank is a TOP1 private bank amongst banks rendering private banking services and TOP2 in the overall ranking. Sberbank is TOP1. It should be noted that the Bank moved up one position compared to its 2017 ranking.

This ranking is based on a survey of financiers and banks' performance indicators.

11.2018
Alfa-Bank won the award in the nomination 'New Technologies in Banks: IT Project of the Year'

During «TAdviser Summit: Government. Business. IT» the award ceremony was held for the winners of the TAdviser IT Prize 2018. Sinimeks and Alfa-Bank received the 'New Technologies in Banks: IT Project of the Year' award for creating the Alfa Travel forum for the Bank's loyalty program partners, allowing them to use open APIs.

12.2018
Alfa-Bank won ComNews Awards

Alfa-Bank's Instant Bank Card Issue Through Application project, which allows its clients to minimize the time they spend with debit card issues, won the Financial Sector category of ComNews Awards. Digital economy.

ComNews Awards. Digital Economy recognizes companies that have implemented the most significant digital transformation projects in leading economic sectors and areas of public administration and education.

12.2018
Alfa-Bank is the Best Russian Bank of the Decade

Alfa-Bank won the milestone 10th SPEAR'S Russia Wealth Management Awards in two categories: Russia's Best Bank for Corporate Clients and the Best Russian Bank of the Decade. The awards ceremony was held on December 17th in the building of the Et Cetera Theater.

SPEAR'S Russia Wealth Management Awards is an Annual Award for the best representatives in the private banking industry, wealth management and related industries. The award sponsors in Russia are PBWM.ru portal and SPEAR'S Russia Magazine; PwC is an independent consultant. The Award was established by and is awarded in a manner similar to the British SPEAR'S Wealth Management Awards, annually held by SPEAR'S UK in London.

The Board of Directors Report

on Alfa-Bank's results in its priority business areas

MIKHAIL FRIDMAN
Member of the Board of Directors

PETR AVEN,
Chairman of the Board of Directors

VLADIMIR VERKHOSHINSKIY
First Deputy Chairman of the Executive Board, Member of the Executive Board, CEO, Member of the Board of Directors

We hereby present the Alfa-Bank Annual Report 2018. The Bank maintained its position as the biggest private bank in Russia and demonstrated high results in every primary area of business. In accordance with IFRS financial statements of ABHF, the Bank's net profit grew by 1,5 times to a substantial amount of $ 1,321 million, and its total equity, interest and commission income, loan portfolio, and retail and corporate clientele grew. Alfa-Bank was ranked highly by leading Russian and international rating agencies and won important professional awards.

Results achieved by business blocks evidence high client confidence in Alfa-Bank. Retail Bank boosted retail deposits to 1.07 trillion rubles and ranked third amongst financial institutions in Russia by that parameter. The retail loan portfolio grew to 454 billion rubles. Premium clients were also active, which increased Alfa Private Business 150% over the past 18 months. Professional awards are proof of the Bank's successful collaboration with affluent clients. Other products of Retail Bank also won awards over the course of the year, which is not surprising considering that the Bank constantly improves and updates its product range.

In terms of collaboration with corporate clients and individual entrepreneurs, Alfa-Bank energetically engaged with every client segment in 2018. We established ourselves in a new area by providing services to business novices and promising startups. The Bank seeks to accommodate the needs of its corporate clients, which is why we have offered new products and services to businessmen and have expanded functions of the online and mobile business banks. Alfa-Bank won the 2018 SPEAR'S Russia Wealth Management Awards in the category of best corporate bank.

As for the big business segment, the Bank mostly expanded its portfolio in primary economic sectors. The number of active small and medium business clients reached 200,000 and 53,000, respectively. Operating profit increased and the loan portfolio demonstrated significant growth.

There is another reason why 2018 was significant for Alfa Bank: this year, we determined our development strategy for the near future. Two years ago we approved our strategy aimed at doubling our business, and 2018's results have demonstrated that we can achieve this objective. Our strategy for 2019-2021 aims to bring the interaction between the Bank and its clients to a whole new level. We have formulated three main components of our new strategy: active development of the mobile banking system based on the mobile first principle, digitalization of our offices, and transition to the paperless universal banking concept. Our general task is to improve the technological effectiveness of the Bank's products and processes, and also maximize client service mobility.

Strategy 2019–2021 is built on concentrated growth. We will rely on high technologies and develop the best financial products and up-to-date services. More importantly, we guarantee only the highest quality service to our clients, the level of quality that Alfa-Bank, the first private bank in the country, has always prided itself on providing.

Board of Directors and Executive Board

OSKAR HARTMANN
Member of the Board of Directors

ALEXEY MAREY
Member of the Board of Directors

OLEG SYSUYEV
First Deputy Chairman of the Board of Directors, President

ARTEM LEONTYEV
Member of the Board of Directors

ANDREW BAXTER
Member of the Board of Directors

ANDREY KOSOGOV
Member of the Board of Directors

MIKHAIL FRIDMAN
Member of the Board of Directors

PETR AVEN
Chairman of the Board of Directors

VLADIMIR VERKHOSHINSKIY
First Deputy Chairman of the Executive Board, Member of the Executive Board, CEO, Member of the Board of Directors

IVAN PYATKOV
Member of the Executive Board, Digital Business Director

MICHAEL TUCH
Deputy Chairman of the Executive Board, Member of the Executive Board, Retail Business Director

VLADIMIR VOEYKOV
Member of the Executive Board, Medium Business Director

ANDREW CHULACK
Deputy Chairman of the Executive Board, Member of the Executive Board, Head of Corporate Investment Banking

DENIS OSIN
Member of the Executive Board, Micro & Small Business Director

ANDREY SOKOLOV
Chairman of the Executive Board

SERGEY POLYAKOV
Information Technology Director

ALEXEY TCHOUKHLOV
Member of the Executive Board, Deputy Chairman of the Executive Board, Chief Financial Officer

MIKHAIL GRISHIN
Member of the Executive Board, Deputy Chairman of the Executive Board, Legal Affairs and Distressed Asset Management Director

SERGEY SHEVCHENKO
Member of the Executive Board Director of Network Management and Development

Russian Economy and Banking Sector Overview

Russian Economy and Banking Sector Overview

PETR AVEN
Chairman of the
Board of Directors

Global economy in 2018: trade war took the spotlight

The key topic of the 2018 global economic agenda was obviously the trade war tensions between the US and China. The fears of their escalation intensified after the Head of China's Communist Party received a mandate for open-ended presidency in February 2018; with the introduction of sanctions on steel and aluminum imports in March 2018 and duties on imports of some 800 Chinese goods in July, the scenario of growing trade tensions became a key concern for global investors. According to Fitch estimates, the trade war could affect $ 2tn worth of global trade flows, or almost 10 % of global trade. Under the estimates of World Economic Forum experts, the effect of a full-scale trade war could be as high as 0.7pp of global economic growth. Taking such figures into account, it is not surprising that the US Federal Reserve (Fed) eased its monetary policy rhetoric at the end of 2018 and started guiding the market towards a pause in the rate hike cycle at the beginning of 2019.

Trade war fears immediately provoked a risk-off scenario, which since mid-2018 caused the dollar to strengthen, negatively affecting EM bond markets. Turkey and Argentina were victims of capital outflows, their currencies depreciating 50 % and 30 %, respectively (Figure 1). Almost all EM countries were forced to raise their interest rates by the end of 2018: not surprisingly, the strongest rate hike were seen in Argentina (from almost 30 % to 60 % through 2018) and in Turkey (from 8 % to 24 % over the same period) (Figure 2). As of YE2018, the global economy grew only 3.7 % vs 3.9 % initially expected by the IMF.

A particular concern that emerged from the trade war escalation was related to China's economic performance. Economic growth in the world's second-largest economy decelerated to 6.6 % y /y in 2018, the slowest pace since 1990. On the back of the trade war escalation, Chinese producers faced weak demand both on the local market and abroad. Local consumption growth in China remains high, but it decelerated by 1.2pp to 9.0 % y /y in 2018. Despite significant state efforts to boost local demand, car sales in January 2019 fell 15.8 % y /y — and market compression is already in its seventh consecutive month. As for exports, despite growth of 10.8 % y /y for the full year, the rate for 4Q18 came in at just 4 % y /y.

The situation in developed economies is also a cause for concern. In the US, one area of disquiet is the friction between the president and Congress. From 22 December 2018, the US government went into shutdown due to a standoff over budget allocations for 2019, and a state-of-emergency was introduced by the US president from the middle of February 2019 — both of these factors undoubtedly influenced the decision of the Fed to cut its US GDP forecast from 2.3 % to 2.1 % for 2019. Besides, the accumulation of a number of economic problems continue to threaten the stability of the US economic outlook. US economic growth largely relies on the wealth effect associated with the financial market recovery: the S&P index, adjusted to its 10-year return, remains overheated (Figure 3). Moreover, the same concerns are applicable to US household consumption patterns, which are driven by a growing ratio of net asset value to disposable income; this indicator remains close to its historical high, which again reflects the substantial role of the wealth effect behind the US growth story (Figure 4).

The situation in Europe is also fragile: at the beginning of 2018, the IMF forecast French economic growth at 1.9 % for 2018 and German growth at 2.3 %; however, the actual GDP growth rate in both countries did not exceed 1.5 %. The situation around Brexit also adds pessimism to market sentiment. During last year, investors had been in no doubt that the UK would find a way to reach a new agreement with the EU; however, as of March 2019, the intensity of the political struggle in the UK implies that the risk of exiting from the EU with no deal cannot be ruled out.

Overall, the remaining global concern is the scale of the debt burden. The total debt of G20 countries has practically doubled in nominal terms over the past 10 years (it grew from

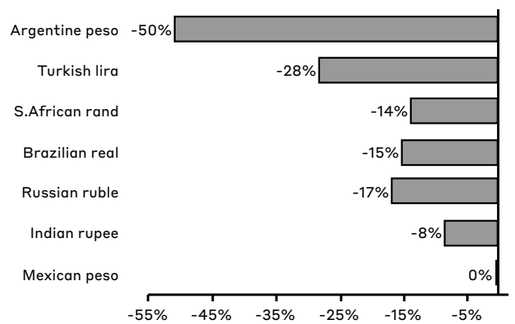

Fig. 1: EM exchange rate, % y/y change in 2018
Sources: Bloomberg, Alfa Bank

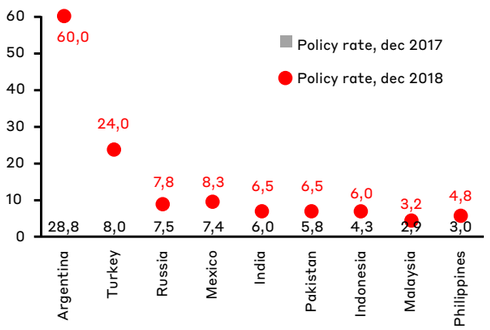

Fig. 2: EM policy rates, %
Sources: Bloomberg, Alfa Bank

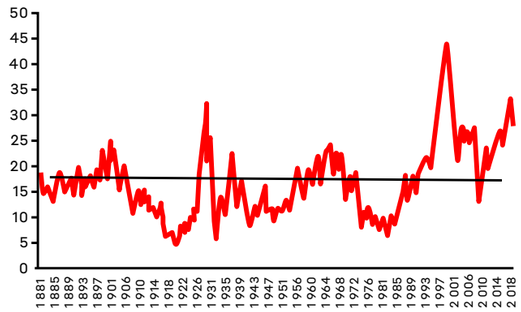

Fig. 3: Cyclically-adjusted S&P P/E ratio
Sources: Yale, Alfa Bank

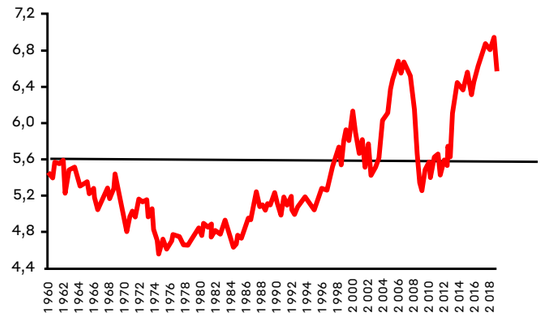

Fig. 4: Households' net assets value versus disposable incomes
Sources: FRED, Alfa Bank

$ 74tn in 2006 to $ 135tn in 2016) and reached 236% of GDP, which is a high over the last 20–30 years (Figure 5). The state of China's debt load, where corporate debt has reached 160% of GDP, or around $ 20tn (Figure 6) is of particular concern.

There is also a level of disappointment surrounding expectations of technological breakthroughs that could accelerate global growth and form a new growth model. For the first time in 16 years, Apple recently guided for a decline in its revenue forecast for 1Q19. The FANG+ index, which includes technological giants such as Netflix, Apple and Alphabet was flat through 2018, having demonstrated record growth of 58% y/y in 2017. An analysis of press publications suggests declining interest on the topic of AI and new technologies: at the beginning of 2018, the number of Financial Times publications devoted to artificial intelligence constituted up to 30 articles per month, in June 2018 that figure grew to 50, however by December 2018 the number of articles had dropped to just 10. Such a trend reflects the market's tiredness of this theme — there is a growing understanding that the economic benefits of new technologies will be visible only in the longer term and that in the nearest future companies will have to rely on traditional ways to control costs and generate business growth.

Overall, the remaining global concern is the scale of the debt burden. The total debt of G20 countries has practically doubled in nominal terms over the past 10 years

Russia 2018: VAT increase, pension reform and turmoil on financial markets

Last year can be viewed as quite successful for Russia. The economy grew 2.3%, a figure which exceeded both initial expectations and the growth rate of 2017 (+1.6% y/y). A number of factors played in favor of this growth. The first one was the favorable salary growth pattern. As of YE2018, real salaries grew 6.8% y/y, including growth of 10.2% in 1Q18. The trend in salaries followed the pattern observed during the previous electoral cycle of 2012 (Figure 7).

The second important factor behind last year's growth were the large investment projects. The construction of Kerch Bridge was completed in May 2018. Projects associated with preparations for the World Cup, which took place in 11 Russian cities during the summer of 2018, provided support to construction and investment activity in 1H18. As a result, investments in fixed assets grew by 4.3% y/y in 2018 vs. 4.8% y/y in 2017; however, the structure shows that

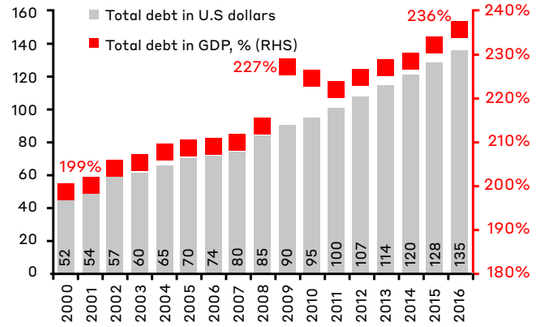

Fig. 5: Total debt G20: tn $, %GDP
Sources: IMF, Alfa Bank

Fig. 6: China's corporate debt , % GDP and tn $
Sources: Bloomberg, Trading Economy, Alfa Bank

almost half of the investment growth in fixed assets in 2018 was related to projects in Moscow, about 10% was attributable to Crimea and 4% to investments in the Far East. So, although the contribution of three key investment regions declined from 66% of cumulative investment growth in 2017 to 60% in 2018, the concentration of the investment growth remains significant (Figure 8).

The third factor behind the growth was the strong performance of net exports. Due to a favorable situation in the agricultural sector, Russia was able to build up export volumes: cumulative nominal growth of non-oil exports reached 14% y/y as of YE2018. However, an important contributor to the net export growth was a decline in imports — although import volumes grew 5% y/y in nominal terms in 2018, in the second half of the year, it has been cut by 2% y/y. As a result, growth of net exports accounted for around one-third of GDP growth in 2018.

Despite solid economic growth, the outlook is still pressured by several factors. First of all, monetary conditions remain tight. The average Urals oil price remained high at $ 70/bbl in 2018 and, as a result, Russia's current account surplus reached 7% of GDP (Figure 9), the highest level since 2006, while the ruble lost 17% as of YE2018. However, the ruble depreciation could have been steeper had the CBR not stopped currency purchases from the open market under budget rule in August 2018 — it transferred around $ 30bn to the MinFin directly from its reserves, reducing the forex market demand side by the same amount. Private capital outflows in 2018 reached $ 68 bn, more than double the figure for 2017. The presence of non-residents, which in March 2018 reached 35% of the OFZ market, the highest level in five years, declined to 25% of the market as of end-2018.

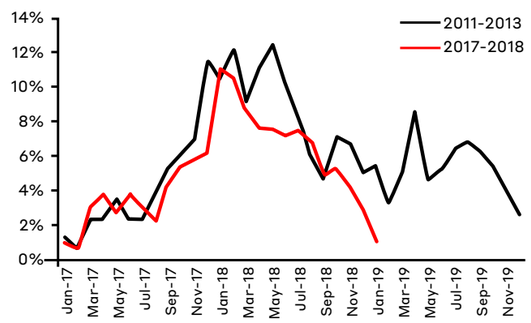

Fig. 7. Real salary growth: 2011-2013 vs 2017-2018, % y/y
Sources: Rosstat, Alfa Bank

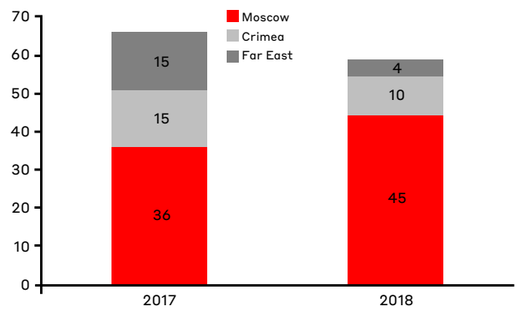

Fig. 8. Contribution of Moscow, Crimea and Far East to Russia's investment growth, %
Sources: Rosstat, Alfa Bank

The second factor which negatively influenced market sentiment was the Russian government`s decision to increase VAT from 18% to 20% from the start of 2019. Despite favorable oil prices and the fact that state savings on the CBR's accounts reached RUB8.5tn, as of end-2018, financing for the new May Decrees declared by President Putin in 2018 implied some increase in budget expenditures. To preserve a low level of budget dependency on oil prices — the breakeven oil price reached $50/bbl as of end-2018 (Figure 10) — a decision was taken to finance additional expenditure via a tax increase. However, the tax burden for the non-oil economy grew both in 2017 and in 2018 due to tax collection efforts and average growth in the tax burden of the non-oil sector reached around 8% annually in real terms. Also, the decision to increase VAT brought inflationary risks — according to the latest estimates, the VAT hike added around 0.6–0.7pp to inflation as of end 2018-early 2019, and the increase in VAT was behind the acceleration in inflation from 2.5% as of YE2017 to 4.3% as of end-2018. This forced the CBR to tighten its monetary policy. After the CBR cut its policy rate to 7.25% during the summer of 2018, it initiated two rate hikes and by YE2018 the key rate stood at 7.75%, essentially, returning to the level of end-2017.

Finally, last year's main economic event was the decision to implement pension reform, namely to increase the retirement age from 55/60 to 60/65 for women/men. The decision to increase the retirement age was inevitable,

The second factor which negatively influenced market sentiment was the Russian government`s decision to increase VAT from 18% to 20% from the start of 2019.

considering that that the state pension fund deficit increased from 1.1% of GDP in 2006–09 to 2.0–3.5% of GDP in 2010–13 and the ratio of the population 65+ vs. the country's labor force reached 28%, vs. the world average of 19%. In 2018, pensioners totaled 36 mln people, or 25% of the Russian population vs 29 mln or 20% population in 2000. As a result, although the annual state pension fund expenditure currently amounts to around 8% of GDP, in line with the global average, the pension replacement ratio (the ratio of retirement income to pre-retirement income) in Russia is only 34% vs. the global average of 54%. However, a cross-country analysis suggests that the average period of time between the announcement of reforms and their implementation is five years, while in Russia's case, the initial proposal to increase the retirement age emerged only in 2016, i.e. just two years ago — this could explain the negative effect of pension reform to local sentiment.

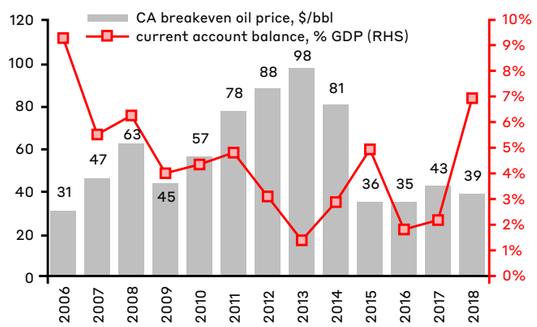

Fig. 9. CA breakeven oil price, $/bbl. and current account balance, % GDP
Sources: Minfin, Rosstat, Alfa Bank

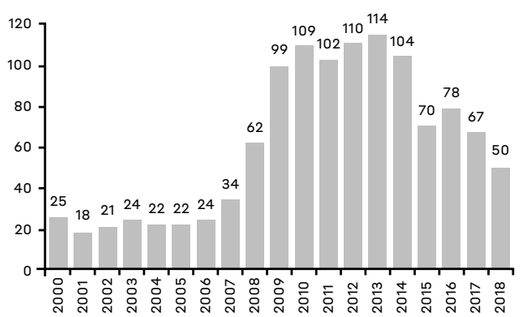

Fig. 10. Federal budget breakeven oil price, $/bbl
Sources: Minfin, Alfa Bank

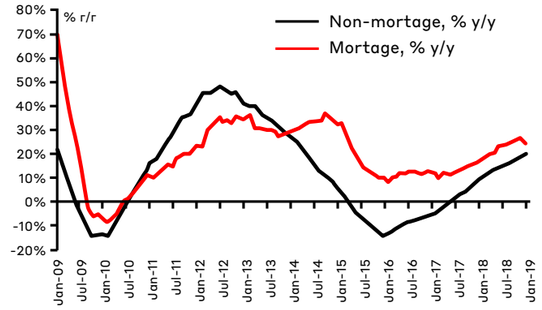

Fig. 11: Mortgage and non-mortgage growth,% y/y
Sources: CBR, Alfa Bank

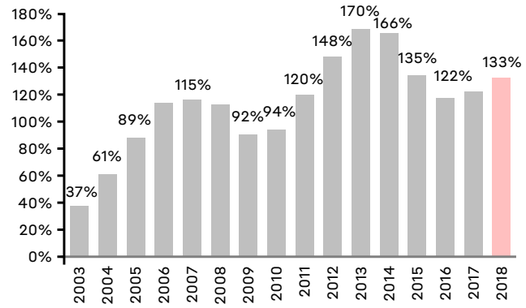

Fig. 12: Non mortgage loans per capita, % monthly salary
Sources: CBR, Alfa Bank

Banking sector: strong lending recovery of 2018

Retail lending growth reached 22.4% y/y in 2018, including an acceleration in lending growth from 13% y/y to 19% y/y and the stabilization of its growth rate at 22% y/y from September 2018 (Figure 11). The growth in non-mortgage loans accelerated throughout last year from 12% y/y to 21% as of end-2018 despite the CBR efforts to curb its growth: from September 2018, the CBR implemented risk ratios for non-mortgage loans, however this macroprudential tool gave a rather weak result. That said, with the ratio of non-mortgage loans per capita to monthly salaries of 133% as of end-2018 versus 122% in 2017, the market remains below 170% seen at the peak in 2013 (Figure 12). Mortgage growth accelerated from 17% at the beginning of 2018 to 25–26% y/y by the year-end.

Corporate loan growth has shown signs of recovery since mid-2017 and growth accelerated in 2H18, recording a rate of 10.5% y/y in 2018 after 0.2% y/y growth in 2017. Despite stronger headline figure, the two trends behind it were a deleveraging in the forex-denominated segment and an increase in ruble-denominated loans. The share of forex-denominated loans dropped to 18% of total corporate loans as of end-2018, the lowest level since 2013, reflecting around $15bn of redemptions to local banks in 2018 alone. The growth in the ruble-denominated corporate loan book, by contrast, accelerated to 13–14% y/y in 2018 from an average of 5% y/y in 2017 (see Figure 13). Deleveraging from foreign debt was another reason behind the faster recovery in ruble-denominated lending: in 2018, Russian companies redeemed another $14bn net on their foreign debt obligations. As a result, the share of forex-denominated obligations of Russian companies declined from 30% of GDP in 2017 to 22% of GDP in 2018; the entire level of corporate debt (debt to local banks and foreign issuers) was however 53% of GDP in 2018, a level last seen in 2013 (see Figure 14).

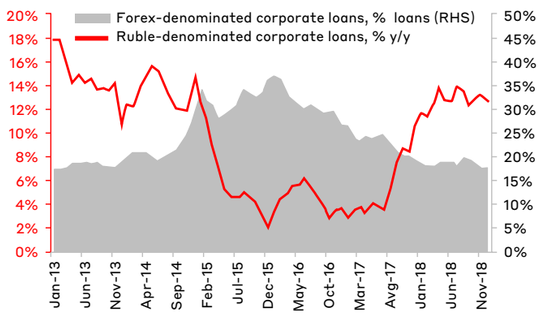

Fig. 13: Ruble-denominated corporate loans, % y/y and the share of forex-denominated corporate loans to total corporate loans
Sources: CBR, Alfa Bank

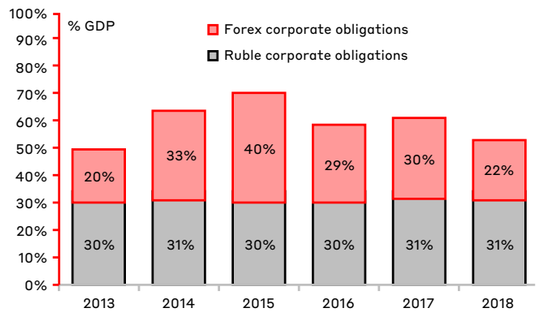

Fig. 14: Ruble and forex-denominated corporate obligations (local loans and foreign debt), % GDP
Sources: CBR, Rosstat, Alfa Bank

Despite retail deposit growth reaching 9.5% y/y in 2018 vs. 7.4% y/y in 2017, we believe that the strength of funding was not as good as it appears. Growth in the ruble-denominated segment decelerated from 10–13% y/y seen in 2017 to 8.3% y/y as of year-end 2018, the lowest level since 2015. This growth seems to rely on the capitalization of interest on existing deposits, which represented around 65% or RUB1.1tn of the RUB1.7tn in ruble-denominated retail deposit growth posted in 2018. An additional concern over the strength of the market was the declining maturity of retail deposit funding. The share of current accounts in total retail funding increased to 24%, the highest level since 2010, reflecting that sanctions fears pushed households to shorten the maturity of their savings.

In 2018, the CBR revoked 77 banking licenses, leaving Russia with 440 banks. Despite efforts to clean the sector, the share of unprofitable banks remained as high as 21%, implying that the number of financial institutions will decline further. The decline in the number of banks is coming hand-in-hand with consolidation of the sector and state-owned banks are benefiting the most. State banks increased their share to 65% of retail deposits and to 64% of retail loans in 2018. Their presence

In 2018, the CBR revoked 77 banking licenses, leaving Russia with 440 banks. Despite efforts to clean the sector, the share of unprofitable banks remained as high as 21%, implying that the number of financial institutions will decline further.

in corporate loans increased to 74% in 2018 vs. 71% in 2017. The only area where their share did not perform well was the corporate deposit segment, where they controlled 62% on the market in 2018 vs. 63% in 2017. Despite the CBR not announcing any important bankruptcy cases in 2018, it is still burdened with banks that have been under restructuring since 2017 — and there are no obvious option to sell these assets.

Message from Chief Executive Officer

Message from Chief Executive Officer

VLADIMIR VERKHOSHINSKIY
First Deputy Chairman of the Executive Board, Member of the Executive Board, CEO, Member of the Board of Directors

Key financial results of Alfa-Bank grew in 2018. We maintained our leadership among the country's private banks in terms of total assets and equity and credit and deposit portfolios. Our business showed an upward trend in every priority area. The financial market trusts the Bank, a fact proven by an influx of funds and an increasing number of corporate and retail clients.

Annual Financial Results

According to consolidated IFRS financial statements of ABH Financial Limited, Alfa Banking Group's net profit increased by over 1,5 times to $1,321 million in 2018. Our net interest income grew by 15.6% to $2,011 million and our net commission income increased by 15.6% to $978 million. Net commission income amounted to 31.2% of pre-provision operating profits as of late 2018. The Bank compensated operating costs with net commission income at a record amount of 79.1%. Total assets of the Alfa Banking Group also grew year-on-year to $47,190 million.

The Bank increased it's loan portfolio in corporate and retail segments, and also improved its quality: the share of non-performing loans (90+ days) dropped from 2.3% in late 2017 to 1.4%.

An increasing number of clients trust Alfa-Bank with their money. Deposits grew 8.6% year-on-year to $32.1 billion. Our share on the retail demand deposits market hit a record high level, which testifies to the high confidence of customers in the Banking Group as one of the most reliable financial institutions in Russia.

Rating agencies highly ranked the Banking Group's creditworthiness. Our international credit ratings are the best amongst Russian private banks and improved during the last year. For instance, S&P Global Ratings assigned a BB+ long-term credit rating to Alfa-Bank. Moody's Investors Service assigned a Ba1 long-term foreign-currency deposit rating and a Baa3 long-term counterparty risk rating. Fitch Ratings confirmed Alfa-Bank's BB+ long-term issuer default rating. The Analytical Credit Rating Agency (ACRA) and the Expert RA Rating Agency confirmed Alfa-Bank's credit rating as AA (RU) and ruAA, respectively, with a stable outlook.

Business Blocks' Annual Results

Every key area of our activity strengthened in 2018. The Bank increased its share on the retail demand deposits market to a record 10% and took the third position amongst Russian banks in terms of the retail deposit portfolio.

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Consolidated statements of ABH Financial Limited speak volumes: the retail deposit portfolio went up by 9% (31% in the ruble equivalent) to $16.4 billion. The raised funds portfolio grew by 32% (to 1.07 trillion rubles). The investment products portfolio grew by 23% year-on-year, largely owing to the doubled demand of premium clients for investment products. The loan portfolio has also grown significantly—by 38% in the dollar equivalent (66% in the ruble equivalent) to $6.1 billion.

We highlighted the most popular retail products, such as cash loans and credit cards. We also actively developed mortgage lending: Alfa-Bank took a position in Russia's Top 10 issuers of mortgage loans within 18 months. Our products won special awards last year: for example, clients loved AlfaTravel Visa, a joint project of Alfa-Bank and Visa, and the professional community recognized AlfaTravel Visa as the most profitable travel card (Frank Banking Reward Award 2018).

Alfa-Bank was one of the first to connect to the Unified Biometric System in 2018. The system enables remote client identification, allowing clients to use our services without having to visit a bank office. We can instantly issue cards to our clients and then deliver them in a digital format. Most of our products can be acquired in just a few clicks, meaning there is no need to visit or call the Bank.

The private banking segment has shown substantial growth. In 2018, Forbes recognized Alfa-Bank as the best private bank for affluent clients in its 2018 rating. We want to create the best private banking service for Russian-speaking clients. A number of unique products were presented last year. One of them is an application that enables remote implementation of a large number of banking operations. Secondly, we have implemented the country's first automatic depositary that identifies our clients on the basis of palm vein recognition. Finally, our clients can enjoy a virtual meeting room in order to contact financial consultants from a distance. Alfa-Bank was the first on the market to offer affluent clients a convenient service of encashment and cash delivery without personal presence.

Alfa-Bank has been successfully collaborating with big businesses for a long time. It won the 2018 SPEAR'S Russia Wealth Management Awards in the category of best corporate bank.

Alfa-Bank has been successfully collaborating with big businesses for a long time. It won the 2018 SPEAR'S Russia Wealth Management Awards in the category of best corporate bank. While continuing cooperation with existent clients, we seek to occupy new niches and develop promising areas. For example, we have started to interact with multinational corporations (MNC).

We stay true to our industry priorities in the big business sector. For instance, the Bank has increased the number of investment loans issued to the agro-industrial sector. This is a rapidly developing sector, and it is thus wise to strengthen our position in the area. Today, Alfa-Bank is one of the five leaders in granting preferential loans to agrarian enterprises under Russia's state programs. We are also committed to other sectors such as the mining industry and oil refining.

We emphasize the implementation of new technologies also in the big business segment. In 2018 Alfa-Bank joined R3 Consortium -- an international financial and technological association of entities using and developing blockchain technologies. The consortium comprises global companies, such as Bank of America, Credit Suisse, Goldman Sachs, J.P. Morgan, Barclays, and Deutsche Bank. Alfa-Bank is the first Russian member of the system. Our membership in the consortium allows us to actively implement blockchain technologies and offer advanced solutions to our clients.

As for investment business, we have maintained our position in our historically strong areas, such as trade finance and syndicated loans. The Bank closed about 1,300 trade finance deals in more than 50 countries in 2018. It won the Best Trade Finance Providers 2018 award as the best Russian provider of world trade finance services.

Alfa-Bank retained its leadership on the forex market among Russian banks. Last year, it once again topped the reputed professional rating Euromoney FX Survey 2017 in terms of forex turnover on the CEEMEA market (Central and Eastern Europe, the Middle East, and Africa). We surpassed serious rivals, such as JP Morgan, UBS, Goldman Sachs, HSBC, Citi, and Deutsche Bank. The Bank ranked 27th in the global rating. As before, we were the only Russian bank in the Euromoney global TOP-30 rating.

2018 was also successful for medium corporate business: we saw a record increase in clients, and our growth rates were twice as high as those of market majors. As of January 1, 2019, the number of active clients reached 53,000 in that segment. Operating profit increased by 1.6 times, our loan portfolio grew by 1.5 times, and our number of borrowers practically tripled. As a result, we created a separate business unit focused on cooperation with such companies.

We enlarged our product range with medium business' essentials—for instance, rapid credit options. The Bank quickly responded to the modification of Federal Law 214-FZ by offering special account services to developers. In some regions, we are the only bank that provides full services to developers consistent with federal laws. We also continue to develop services for companies engaged in foreign economic activity. The Bank has been a leader in this segment for years.

Another priority is digital service channels for corporate clients. We expanded the functions of our Internet business bank last year. For instance, we added the "credit products" section, which provides full information about our credit products regardless of their type.

As before, the Bank continued to rapidly draw clients in the small business segment. Its clientele grew by 200,000 companies and individual entrepreneurs, and the loan portfolio doubled. Emphasis was put on micro-businesses and business novices: we developed special products with a high degree of process automation and technological effectiveness. We also prepared new popular products for companies of the higher segment, such as electronic banking guarantees for participants in public procurement.

In 2018, Alfa-Bank expanded its range of services by facilitating successful business development. These include the online calculator in the Internet bank. The calculator enables companies and individual entrepreneurs to calculate the amount of taxes and turnovers consistent with Federal Law 115-FZ on the Suppression of Money Laundering and Sponsorship of Terrorism. We also implemented a free online assistant in 2018 to prepare all documents required for registering a business with the tax service, a process that takes up to 15 minutes.

There were other important events in the small business segment. First of all, the Bank markedly improved its standing as a major player in the Internet acquiring market, where our share neared 20–25%. Secondly, we reinstated trade acquiring services. Finally, Alfa-Bank became the first Russian bank offering two loyalty programs to businessmen: the first was FIFA 2018, which helped us draw 10,000 new clients from small and medium sized business, and then Alfa-Loyalty, for current business clients.

Bank Team

The Bank saw some changes in its personnel in 2018: the heads of several key departments were replaced, and additional top positions were established and filled with highly skilled specialists. The overall number of employees did not change much, yet the central office was optimized. It is our task not to reduce the staff but to help our employees become more effective. Our approach will give more time for serving domestic and foreign clients. The active robotization and digitalization of routine operations serve the same purpose. The Bank is closely monitoring service quality. We plan to have our clients evaluate each manager via a mobile application after they visit a bank office. These evaluations will be taken into account in the motivation system.

Alfa-Bank has a prominent and strong corporate culture. We were pleasantly surprised by our organizational health index, which was prepared by leading international consultants. Alfa-Bank ranked as one of the world's Top 10 banks in terms of corporate culture quality. Alfa DNA is the thirst for primacy and freedom, intellect, entrepreneurial spirit, and high loyalty of our team: 2,500 out of 25,000 employees have been working with the Bank for over a decade, and many have been with us for 15, 20, or even 25 years.

FIFA World Cup 2018™

The FIFA World Cup was the major sporting event of 2018. Alfa-Bank was named the official sponsor of the FIFA World Cup 2018 and the FIFA Confederations Cup 2017. We organized a prominent promotion campaign, as a result of which many companies and individuals became our new clients. Meanwhile, existing clients gladly took part in loyalty programs, earned special prizes, and gained bonuses. One of the world's best footballers, Lionel Messi, was the face of our promotion campaign.

We issued over 100,000 FIFA 2018 cards, bracelets carrying the Cup's symbols, and rings for contactless payments. About 120,000 participants, including 10,000 new clients, were registered with the FIFA 2018 loyalty program. Special events were organized for Corporate Investment Bank clients: a tournament for their children and a clients' match, which took place on the day of the FIFA World Cup 2018 final.

The status of the FIFA World Cup 2018's sponsor increased recognition of the Alfa-Bank brand on the Russian and global markets. Our financial results were also good: existing client activity increased and we were able to attract new clients.

Strategic Plans for 2019–2021

Summing up 2018, we can state that Alfa-Bank has demonstrated perfect financial results. The path towards constant development must be preserved in order to stay successful in the future. Therefore, according to the strategy the primary objective for the next three years is to achieve a new technological level. Then we will be able to offer the best service to our clients, acquire an indisputable competitive edge over our rivals, and lay the foundation for raising profitability and market share in every primary segment.

The Russian banking market is one of the most technically advanced in the world. We must stay attuned to technology and client experience in order to be prepared for continuous change. Our strategy has a clear focus: it has only three main areas, but the Bank plans to become the country's best in each of them within the three upcoming years.

Smart phones will be the centerpiece of interactions with retail and corporate clients. We want our mobile application to be the best in Russia. Our mobile bank will offer the broadest range of products and services—some of which are currently available at offices only—in a convenient format. The Bank's mobile application already allows clients to receive a loan within three minutes, link their card to any account, and instantly receive a new one.

By making the mobile bank the most convenient way of interaction between the Bank and its clients, we will ensure that our application is in high demand. We have over 5 million active retail clients, and 65% of them use the mobile application. This is the highest percentage amongst Russian universal banks. Yet we are interested in more than merely using remote channels: we will also use them to increase sales. We seek to sell more of various products, including credit ones, using distant channels. This is our biggest priority for the period until 2021.

This does not mean that Alfa-Bank's focus will be limited to the mobile bank. We will also be developing other communication channels with our clients, but will stick to the mobile first principle (mobile bank clients will be served in the first turn). What I mean is that we will prioritize the mobile bank while still maintaining client service at the high market level in other areas.

A second area of our strategy is the brand-new approach to bank office operations. Alfa-Bank is the first bank in Russia to build a network of next-generation offices, where clients will not need paper documents but will instead receive the entire range of banking and investment products using their smart phone. As we achieve a new level of process digitalization, we will accelerate client service and shift our routine operations to online channels. Our offices already provide some services using push notifications and SMS messages. Soon, a new format of our work will be approved and begin a trial run. We will perfect this format by the end of 2021 and a substantial part of our offices will operate in a new way.

The third strategic initiative is to implement the concept of Russia's first paperless universal bank. There will be no paper flow in offices and the back office unless this is required by law or clients. We will further last year's undertaking and boost the implementation of biometric technologies and electronic digital signatures. The shift to paperless technology will bring client experience to a whole new level and raise the effectiveness of our operations.

Financial Goals for the Coming Years

Key financial goals for the coming years include a growth of the loan portfolio, commission income, and full compensation of operating costs with risk-free revenue. Our business will grow alongside operational efficiency. There are plans to drastically reduce CIR (cost-income ratio) while maintaining high profitability. As a result, the Bank will steadily raise its capital. Retail, micro, small and medium business will drive our growth. Several years ago, the Bank set the goal of doubling its share of the market in these segments, and it achieved a lot. We expect to reach our objectives within three years.

Our strategy also includes expanding our clientele. The preservation of the current growth rates will enable us to gain 70% of our earnings from regular business (retail, small and medium business) by 2021. The indicator currently stands at about 50%.

In retail lending, we aim to increase our portfolio manifold. As a result, our share in the retail lending market will double. Lending of micro & small business is expected to increase approximately four times, compared to current indicators.

Corporate Investment Business will remain a source of substantial and stable income for the entire Bank. It will grow along with the market and maintain its profitability at the current level.

Another development area is the mutually advantageous partnership with the leaders of various sectors, including Alfa Group. In 2018, Alfa-Group took part in establishing the Corviglia Capital Fund, which facilitates interaction with foreign partners and startups. The Fund searches for startups that suit our objectives on the Russian and foreign markets and chooses the best projects. Once that is done, we assess the possibility of synergy, especially in the field of technological solutions.

By the middle of 2019, Alfa-Bank will integrate the Sentinel Collection Agency, a subsidiary of the Bank. We intend to rapidly increase our loan portfolio, so quality control acquires special significance. This is why the collection agency will be integrated into the unified collection cycle.

Look into the Future

Alfa-Bank is the biggest private bank of the country, with over 30 years of exciting history that both our existing clients and those who have not used the Bank's services are familiar with. We are actively developing new technologies, devising new work models, and modernizing our products and services to meet the expectations of those who choose Alfa-Bank as their financial partner. The annual growth in the number of clients shows that our development vector has been chosen correctly.

We were pleasantly surprised by our organizational health index, which was prepared by leading international consultants. Alfa-Bank ranked as one of the world's Top 10 banks in terms of corporate culture quality.

The banking world is changing, but our priorities are unwavering. Our clients are the center of all our innovations and improvements. These are people and companies who have trusted Alfa-Bank with managing their financial well-being for years and who are just at the beginning of our journey together. These are the biggest companies of Russia and young startups that are taking their first steps in business. These are big capitalists and families who are able to move into their first home thanks to Alfa-Bank's services. Every client is important to us, and it is our main objective to create instruments that will make communication with the Bank even simpler and more convenient.

Retail Business

Retail Business

MICHAEL TUCH
Member of the Executive Board, Deputy Chairman of the Executive Board, Retail Business Director

The Retail Bank saw active growth in every key area of its activity in 2018. Impressive results were demonstrated in attracting deposits and lending.

Last year was unique in terms of Alfa-Bank's attraction of retail deposits. The Bank saw a record increase in retail deposits and ranked third amongst Russian banks by that parameter. According to consolidated IFRS report of ABH Financial Limited, over 12 months of 2018, the Bank boosted its retail deposit portfolio by 9% in the dollar equivalent (or 31% in the ruble equivalent) to $16.4 billion, and increased its share on the market from 3.11% to 3.75%. Alfa-Bank's share on the market of demand accounts grew to 10%. Saving accounts and deposits in rubles and foreign currencies are very popular with the Bank's clients. The share of demand accounts is high, considering the high level of service, quality support, and a broad range of services and transactions that clients can receive and perform online via the Internet or mobile bank. The Bank encourages clients with high transaction activity by charging up to 7% to current accounts and offering 3% cashback.

As a result, Alfa-Bank competes with market majors for new and current clients through quality service and charges.

The investment product portfolio has also demonstrated a significant year-on-year growth of 40%. The demand of premium clients for investment products nearly doubled, while the number of private investors enlarged by more than 30% over the year. The total value of the investment product portfolio exceeded 289 billion rubles. The Bank plans to keep high rates of attraction of private investors in the future.

Retail Lending

Lending efforts have also been active. Last year, Alfa-Bank showed a significant increase in the volume of key credit products. Alfa-Bank's retail loan portfolio increased by 38% in the dollar equivalent or by 66% in the ruble equivalent to $6.1 billion. The Bank enlarged its share of the retail loans market to 2.82% over the year. There is high demand for new loans and refinancing of loans issued by Alfa-Bank and other financial institutions.

The Bank has been surpassing its rivals by growing its loan portfolio. Growth was generated by core credit products, such as cash loans (67%) and credit cards (55%). The «100 days without interest» credit card is in high demand. Mortgage loans have also been on the rise, including as part of the refinancing program.

Last year was unique in terms of Alfa-Bank's attraction of retail deposits. The Bank saw a record increase in retail deposits and ranked third amongst Russian banks by that parameter.

Retail clients' interest in refinancing their current obligations was a trend in 2018. Each year, borrowers increase their financial awareness and learn how to cut their spending on serving loans. Refinancing is a chance to combine any loans of other banks into one, settle debt with one comfortable payment, reduce the amount of monthly payments, and get additional funds.

Alfa-Bank always offers competitive credit products that meet clients' needs by actively developing refinancing amongst other areas. The Bank's program achieves two objectives: refinancing of earlier credits on better terms and acquiring additional funds for current needs.

In 2018, Alfa-Bank increased its scope of refinancing other banks' credits by seven times. About 80 billion rubles were issued as loans over this period. Refinancing services were most actively used by residents of St. Petersburg and Moscow.

Although Alfa-Bank has only been offering mortgage loans to its clients since the middle of 2017, the sector is soaring, and the Bank has secured a position amongst the Top-10 issuers of mortgage loans. Its share in the mortgage loan market reached 1.4% in 2018. Last year, the Bank created a number of convenient digital services for mortgage clients, including a personal account where the entire process of mortgage loan approval, including assessment of real estate and insurance, is carried out online. The Bank receives up to 40% of applications online. The convenient and high-tech process of application and submission of documents by Alfa-Bank's partners that does not involve Bank employees, i.e. automated identification of questionnaires and main documents of mortgage borrowers, reduced application processing costs and ruled out mistakes. The period between the application's submission and inclusion in the mortgage conveyer has been reduced to 15 minutes. In 2019, the Bank is set to consolidate its status of a key and high-tech actor on the mortgage market.

Last year, the Bank concentrated on meeting the demand of current clients — including employees — for mortgage loans, and on attracting new clients through refinancing.

AlfaTravel holders get up to 5% in miles to their bonus account. Bonus terms depend on the card's category.

This task was successfully accomplished. Now the Bank will expand geographic accessibility of mortgage loans. In 2018, Alfa-Bank offered the product in five cities. Its presence will spread to at least 15 cities in 2019. Partners, such as real estate developers and agents, will play an important role in promoting mortgage loans. It is our task to make mortgage loans affordable to clients, irrespective of whether it is a new loan or refinancing of an old one.

Winners of the Higher Mortgage League were announced in six nominations at the 5th Russian Mortgage Congress on February 6, 2019. Alfa-Bank won the «Breakthrough of the Year» category with the highest year-on-year growth in the monthly issuance of mortgage loans in 2018. The Bank also won the «Mortgage Loan of the Year» category in the 2018 «Bank of the Year» Award of the news agency Banki.ru.

By offering improved products that meet clients' needs and because of a favorable market situation Alfa-Bank was able to achieve impressive results in lending. The lending process has been facilitated a lot. The Bank intends to keep expanding its mortgage loan portfolio in every area while pursuing a conservative risk policy.

Travel Card and Other Interesting Products

Another interesting product, the AlfaTravel card, a joint product of Alfa-Bank and Visa, was offered to clients in 2018. The travel card rapidly became popular and won the 2018 Frank Banking Reward Award. According to the Frank RG survey of 2018 bank reward programs in Russia, AlfaTravel was the most profitable card for travelers.

AlfaTravel holders get up to 5% in miles to their bonus account. Bonus terms depend on the card's category. Miles can be exchanged for rail and air tickets, hotel accommodation, and a whole range of tourist services. There are no time limits on using miles and bank partners facilitate booking tickets from any airline, including low cost and charter flights.

Shopping is not the only way to save on travelling. The card loyalty program provides up to 11% in miles for transactions made on the website travel.alfabank.ru, and a range of free services, such as cash withdrawal abroad, access to accounts in various currencies, insurance of the card holder and his/her family, Internet in roaming, luggage packing, and Priority Pass membership. Program participants can also enjoy discount taxi and car rental rates worldwide.

In terms of last year's events, we cannot help but mention the 2018 FIFA World Cup. Alfa-Bank was the first local sponsor and official bank of the 2018 FIFA World Cup. One of the world's best footballers, Lionel Messi, became the face of the Bank's advertising campaign for the event. Over 100,000 FIFA 2018 cards were issued during the campaign and many cardholders took part in the bonus program and received tickets to FIFA World Cup matches. Bonuses also included FIFA souvenirs and plush copies of the mascot, Zabivaka the Wolf. «Football cards» remained active and provided additional benefits to their holders after the Cup was over. The Bank also made contact-less payment bracelets and rings carrying Cup symbols, enabling their users to pay for any stadium services using shop terminals.

Another important event of this year was the creation of a renovated range of debit cards. All debit cards have free card service and cash withdrawal worldwide. Interest is accrued to the balance if the card is used monthly or if there is a certain monthly balance on all current accounts of the client.

Technologies and Remote Service

Retail Bank has been technologically developing in two areas, such as client service and Bank processes. Alfa-Bank made a number of innovations in 2018. For instance, it connected to the Unified Biometric System, implemented the instant card issuance, and developed chat bots and other technologies raising its effectiveness. In addition, the Bank connected to the Fast Payment System of the Central Bank, which is profitable to clients and simplifies money transfers. We view the Fast Payment System from the angle of client lifetime value rather than as a separate product.

The Fast Payment System cuts the period of transfers between client accounts in various banks, and makes instant loan payments possible. As a result, the client's interaction with the Bank is convenient, profitable, and accommodates the client's needs.

The active development of online channels was a priority in 2018. More than 58% of clients use remote channels on a monthly basis and perform their current operations in the mobile bank. Alfa-Bank is pursuing a strategy of technological leadership and consistently digitalizing routine processes to make clients' daily life more convenient. We have simplified retail processes a lot; clients can receive most products — for instance, a card or a cash loan — in just two clicks and use them without visiting a bank office or calling our client support center. The activity increased online card sales by 250%. This simplified range of debit cards increased demand for these products. We will continue to optimize our products and processes to make them maximally simple and convenient to use.

Our mobile application, Alfa-Mobile, was considerably modernized, and the list of available operations broadened last year. Now it can be used to order a pre-approved credit card or a loan. In the case of a loan, money is instantly credited to one's account. The mobile application ensures that cards are issued instantly. After applying for the card, it takes only a minute to pay for goods or services. The modernized application saw an increase in users. The Bank also actively developed rapid delivery of cards and website sales. Now clients can get a card in any city with an Alfa-Bank branch within just two days.

In 2018, Alfa-Bank started collecting biometric data of Russian citizens for their registration with the Unified Biometric System. The service is provided by 99 Bank offices across Russia. The procedure is free and takes only a few minutes.

The Unified Biometric System is a major element of the remote identification mechanism and will enable Russian citizens to receive financial services without visiting a bank office. A client who provides biometric data just one time can use the services of any convenient bank at any time and from any part of the world, regardless of bank offices' working hours. Only one procedure is required.

Registration with the Unified Biometric System is voluntary. A Russian citizen seeking registration must open an account and register on the Internet portal of public services. Remote service will require Internet access and a web camera on the client's smart phone, tablet computer, or personal computer. Alfa-Bank presented an example of receiving the entire range of remote services via the Unified Biometric System at the Finopolis Forum.

Alfa-Bank is actively developing online channels to provide the most innovative service to its clients, including one based on biometric technologies. The development of the Unified Biometric System has boosted active use of remote services. Omnichannel service is an important aspect of Alfa-Bank's strategy. We give the client a choice of the most advanced and convenient formats of communication with the bank while maintaining uniform standards and service quality in offline and remote digital formats.

On the whole, Alfa-Bank adjusted and widened its approach to products and processes last year. Cross-function teams were set up in every business segment to build integral processes in every area of client interaction. The goal is to create the best omnichannel bank for clients who appreciate convenience and service. For instance, the «cash credit» team comprises experts in every relevant area, from an IT specialist and a risk manager to a marketer, who combine their efforts and work as a single whole. This format is quite new to our market but yields perfect results.

Alfa Private

Alfa Private business has practically doubled over the past 18 months. Apart from classic banking instruments, the fastest development was demonstrated by the investment portfolio and lending. Profitability of the private banking business has been growing over 40% year-on-year in the ruble equivalent. The development of Alfa Private invariably relies on client needs and, first and foremost, solves tasks that clients set for the Bank. Client needs are the best way to develop business, since clients must be sure of the Bank's ability to accomplish any mission.

The Alfa Private investment portfolio increased by 250% over the past 18 months. In foreign banks, equities amount to a small part of the portfolio, while the bulk of clients' money is invested. We are advancing towards a similar model and are constantly working to improve our offers to investors. Clients in this segment are well aware of the activity of Western banks, and often say that Alfa Private's investment expertise is better than that of Western investment companies. Clients increasingly opt to invest, for example, to diversify their portfolio and lower country and bank risks. Portfolios comprising bonds or shares of global issuers can achieve this purpose. Clients also want to be more active in the decision-making process, so we view the advisory model of interacting with our clients as one of the most promising. We launched this format in 2018 and expect to foster it in 2019.

Lending has been rapidly developing in this sector. We see a stable demand for various financing instruments and are ready to work with clients on individual cases.

Apart from financial services, private banking clients have a high demand for non-financial consulting services. It is logical for a client to approach a trusted banker in regard to family wealth management: structuring of assets and family capital, real estate management in Russia and abroad, purchase of deluxe assets, such as yachts, planes or pieces of art, education plans for children, etc. We are constantly broadening the range of our partners and are developing our own competences to be able to solve tasks set by our clients in any area.

The Bank has chosen the right approach to interacting with clients in this segment, proven by its top position in the 2018 Forbes ranking of financial institutions rendering private banking services. We are grateful to our clients for their trust and for choosing Alfa-Bank as a reliable financial partner, as well as to our colleagues for commending our efforts. Our task is to create the best private banking service for Russian-speaking clients in Russia and far beyond. The active development of private banking products and services, many of which are unique for Russia, continued last year.

For instance, Alfa Private was the first in Russia to release a special mobile application for affluent clients. Now Alfa Private clients can control their finances via the mobile application for Apple iPhone. The Alfa Private application gives clients instant access to comprehensive, real-time information about their accounts, deposits, insurance products, and funds managed by companies of Alfa Group and the aggregate financial result. Clients do not have to visit an office to convert money at a special rate, receive and activate a card, assign a pin code, and immediately start using it. We have developed remote authentication for most banking operations via the application and made this service accessible for both clients and their proxies. The application has a very simple «seamless» navigation and spares the user the need to browse one page after another since all information is available on one screen.

According to the Bank's studies, most affluent clients prefer to delegate interaction with the bank to their proxies, but they need a convenient financial radar to monitor dynamics of their capital, investments, and funds under trust management. We provide this opportunity to our clients via the Alfa Private mobile application. Clients using the Alfa Private mobile application can see the consolidated result, i.e. all assets divided into categories of investment, insurance, and bank products. The application provides a convenient opportunity to calculate the cost of assets in the main currencies of the portfolio and to filter products by currency, which helps Alfa Private clients make more precise strategic decisions.

Soon, functions of the Alfa Private mobile application will broaden to include banking, investment, lifestyle, and other personal offers.

Last year, Alfa Bank built a unique automated depository with biometric access for premium clients. This is the first depository in Russia based on palm vein recognition.

The biometric vein scan is a contact-less procedure performed in infrared light, which passes through the palm tissue and is absorbed by hemoglobin. The vein pattern is strictly individual and does not change much during its lifetime. This type of biometric identification is one of the most reliable and, once combined with other individual access control means, rules out unauthorized access to safe deposit boxes by third parties. This is a safe, private, and convenient way for clients to access their documents and valuables.

A client does not need a bank employee to access their deposit box: access is provided by the individual client card and a palm vein recognition system.

A virtual meeting room is another innovative project for Alfa Private clients, who can meet with financial or investment consultants and hear their recommendations from home. All they need to do is to put on a VR headset and connect to the service. The Alfa Private virtual meeting room presents 3D avatars of consultants, in addition to assets and client liabilities. This is an interactive format for working with real numbers that are visualized in charts and for performing many other operations. The pilot project was implemented last year and the concept tested by a target group of clients. The service will soon become widely available.

As a high-tech bank, Alfa-Bank always offers innovative digital solutions. We know that our clients travel often or permanently live abroad and value their time. A visit to a bank office may not be convenient, and a chat with a consultant does not create the effect of personal presence, trust-based atmosphere, and immersion into the context. Yet the virtual assistant does.

Alfa Private business has practically doubled over the past 18 months.

Last year, Alfa-Bank became the first bank in the market to offer individual encashment and cash transportation services to Alfa-Bank clients without personal presence. Encashment is very popular with affluent clients. In the past, clients had to be present during the delivery of valuables to or from a bank office. Now all a client has to do is to sign an additional agreement for encashment service or the delivery of valuables and to remotely order the delivery of money for a particular time. The bank can bring the money to any address.

Outlook and Plans for 2019

Alfa-Bank has everything it needs to become the most convenient bank for retail clients: a success-oriented team, brand-loyal clients, and a focus on technological leadership. Next year, Alfa-Bank plans to increase its share of retail service in its business. Further development of retail lending, which will increase the bank's share in the market with such key products as credit cards, cash loans, and mortgage loans, is a priority of 2019. Alfa-Bank's share in the market of deposits will also grow.

The omnichannel service is a major competitive edge of the Bank, which plans to attract new clients in 2019 through offices and online channels. The segments chosen by Alfa-Bank are highly competitive, not just with private actors but also with state-run banks, which have a lower funding cost and a broad network. Nonetheless, Alfa-Bank has been demonstrating years of growth in most priority segments. Its competitive advantages are invariable: high quality of products and services, transparency, simplicity, attention to clients, rapid formalization of bank-client relations, and convenient service. These factors are vital to our clients and allow us to increase our clientele year after year.

Corporate Investment Banking

Corporate Investment Banking

ANDREW CHULACK
Deputy Chairman of the Executive Board, Member of the Executive Board, Head of Corporate Investment Banking

The Corporate Investment Banking unit achieved a lot in 2018. According to consolidated IFRS financial statements of ABH Financial Limited, the CIB block posted financial results of $ 776 million or over a half of the Bank's total financial results. Its share on the market of corporate lending grew from 4.2% to 4.6% over the year, while the loan portfolio reached $ 24,499 million, showing a 1.4% increase since the beginning of the year (excluding FX revaluation effect — 14.4%). The loan portfolio's quality also improved, and the share of non-performing loans (90 days+) dropped to 1.3%, which was one of the lowest indicators on the Russian market. Alfa-Bank also bolstered the raising of corporate funds. Its share on the market of corporate funds procurement increased from 3.73% to 4.11% over the year, while the amount of corporate funds increased by 8.3% to $ 15,658 million. The share of demand deposits remained stable at about 40%.

The trend of a lowering credit margin persisted on the market of big business services in 2018, and rivalry with state-run banks intensified.

Under these circumstances, Alfa-Bank focused on developing relations with current reliable clients and searching for points of growth and new promising areas of business development.

One of those areas was interaction with multinational corporations (MNC), i.e. local offices of international companies. A separate business segment has been created as a result. Another important area for the Bank is stronger industrial/sectorial expertise and a focus on the telecom, media, and technology segments. This priority will be maintained next year.

Merging the resources of our corporate and investment banks was another important achievement of 2018, one that enhanced the synergic effect of their interaction. A middle office was established last year to raise client service effectiveness in Corporate Investment Banking. Client managers, who used to service Corporate Bank clients only, started accommodating the needs of Corporate Investment Banking clients last year.

Large Business Lending

Alfa-Bank once again enlarged its loan portfolio in 2018. Strong positions in capital, flexibility, speed, and sectorial expertise enable Alfa-Bank to successfully compete with state-run banks for the largest borrowers, i.e. major players of economic sectors. The Bank has industry priorities of its own, such as the mining industry, oil refining, FMCG companies, and industries linked with import substitution, with a particular emphasis on the agro-industrial complex.

Last year, the Bank substantially increased its volume of investment loans issued to the agro-industrial sector. The portfolio grew by over 20% in the first half of 2018 to 66 billion rubles, which evidenced competitive lending terms and trust of agricultural producers in Alfa-Bank, a key financial partner of the sector. We were able to achieve these results thanks to Alfa-Bank's expertise in the agro-industrial sector. Dynamics were mostly derived from investment projects carried out in crop farming and fisheries. Today, the Bank is one of the Top 5 institutions providing preferential loans to the sector under state programs.

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Most of the sector's significant deals deserve a special mention.

In 2018, the Bank opened a 2-billion-ruble credit line for the Steppe Agro-Holding of AFK Sistema Group. This money will fund construction of a dairy farm in the Rostov region. The targeted financing will continue on preferential terms under a resolution of the Russian government. The funding will be available for ten years. The new farm of the Steppe Agro-Holding will house 7,000 heads of cattle, including 3,000 forage-fed cows to produce raw milk by European standards. It will be the biggest farm in the Rostov region. Construction will begin in 2019 and more than 150 jobs will be created in the region.

Alfa-Bank has taken part in another project involving the Steppe Agro-Holding. It provides long-term financing for building a high-tech dairy farm in the Pavlovsky district of the Krasnodar Territory with a 850-million-ruble credit line available for ten years. Thanks to Alfa-Bank's participation in the state program of supporting the agro-industrial sector, the loan was issued at a discounted annual rate of no more than 5%.

The Bank sees substantial potential for the dairy industry's development, readily supporting investment projects that aim to build

The biggest private bank in the country has been supporting promising projects in the field of import substitution for years.

high-tech production facilities and effectively use the existent state support mechanisms to fund agricultural producers at attractive rates on a long-term basis. The Steppe Agro-Holding is a long-standing partner of Alfa-Bank who has been cooperating with us in a number of business areas, including dairy cattle farming, crop farming, and agro-trading. The Bank positively evaluates creditworthiness of the borrower and dairy market prospects.

In 2018, Alfa-Bank opened a 300-million-ruble credit line for LLC Rassvet. The funds will pay for the second stage of a 50-hectare berry garden in the Sergachsky district of the Nizhny Novgorod region. Rassvet develops commercial production of berries on the basis of European farming and storing technologies. The berry garden has a unique size, output, and diversity in the Nizhny Novgorod region and Russia as a whole. The company won the Nizhny Novgorod regional government's award for «Agricultural Investment Project of the Year 2017.»

The decision to finance LLC Rassvet was made on the basis of a comprehensive evaluation. The company enjoyed active support from the authorities, which included the project in the program of preferential lending of agricultural enterprises. The first stage of the investment project has been implemented with financial support from Alfa-Bank.

The biggest private bank in the country has been supporting promising projects in the field of import substitution for years. Financing decisions are made by analyzing the borrower's business model, the readiness of owners to invest their funds, the team's experience and other factors. For instance, in 2017–2018, Alfa-Bank assigned 4.2 billion rubles for building the first, second, and third stages of a champignon farm in the Kursk region. Thanks to Alfa-Bank's support, the Gribnaya Raduga company produces 17,000 tonns of mushrooms per year. This is the biggest champignon farm in Russia as of this moment.

Alfa-Bank has been cooperating with PRODO Group and supporting its investment projects for about ten years. PRODO Group is a major agro-industrial holding operating in poultry and pig farming and meat processing. Group enterprises are situated in the Central, Siberian, and Urals federal districts. The Bank has helped a key enterprise of PRODO Group to achieve a new development level: massive modernization increased the output of PRODO Kaluzhskaya Poultry Farm by 31.3% to 63,000 tonnes of poultry per year. Last year, the Group received 1.2 billion rubles from the Bank as part of the credit line totaling 7.35 billion rubles to fund renovation, modernization, and enlargement of the Omsky Bekon pig farm in the Omsk region. We are glad to make an input in production modernization, creation of jobs, and improving the quality of regional products. The credit lines were approved by the Russian Agriculture Ministry within the framework of the federal program of preferential lending of agricultural producers. The funding period is eight years. The project will strengthen the enterprise's position on the market: outdated equipment will be replaced and output will grow.

Russia's first crab boat of project 03070 Rus was launched in 2018 with Alfa-Bank's support. The high-tech ship was developed by the Pella Design Bureau in collaboration with its client, the Far Eastern company LLC Antey. The Bank's loan amounted up to 70% of total investment. We are glad we have supported the construction of the first domestic crab boat of the latest generation. Alfa-Bank has financed construction of fishing vessels by domestic shipyards before. We see a big potential of the industry and are ready to finance similar investment projects.

Projects were implemented in other segments as well in 2018.

Alfa-Bank has a long-standing partnership with the Pipe Metallurgical Company, a major global manufacturer of pipes for the oil and gas industry. Last year the Bank provided substantial financing to PJSC Seversky Pipe Plant, an affiliate of PJSC Pipe Metallurgical Company (TMK). The company has achieved prominent operational results owing to the management system designed by its shareholder and the stable situation on the pipe market. We appreciate our partnership with the Pipe Metallurgical Company, and are glad that such a reliable borrower as TMK continues to choose us on the competitive market of corporate lending.

Alfa-Bank has also provided a 30-billion-ruble loan to NefteKhimServis, which is building the Yaya Oil Refinery in the Kemerovo region. Financing was provided within the 55-billion-ruble limit in effect until 2026. The company will spend the money on building the second stage of the Yaya Oil Refinery and refinance loan payments of NefteKhimServis. The first stage of the oil refinery is ready in the north of the Kemerovo region. The refinery has an annual capacity of 3.3 million tonnes of crude. The second stage will be launched in 2020 to make petroleum products consistent with the Customs Union's requirements (Euro 5). Compliance of the Yaya Oil Refinery's products with Euro 5 requirements will make the refinery a significant actor on the oil refining market of the Siberian and Far Eastern federal districts, which is a huge achievement for the independent private company under the current conditions on the Russian market. Alfa-Bank is the chief financial partner of the investment project. It realizes the importance of financial support and reliable partnership for the implementation of significant projects of the company.

Russia's first crab boat of project 03070 Rus was launched in 2018 with Alfa-Bank's support.

Alfa-Bank is a key financial partner of ULK Group. Over recent years, the Bank has been supporting major investment projects and acquisition of assets by ULK Group. The partnership has enabled ULK Group to develop Russia's largest logging and lumbering enterprise. ULK Group is implementing four primary investment projects with Alfa-Bank's support.

In 2016, Alfa-Bank provided a 1.5-billion-ruble project for the construction of a pellet factory in the Arkhangelsk region. In 2017, Alfa-Bank funded the acquisition and modernization of the Pestovo Timber Complex in the Novgorod region, the acquisition of logging machinery, and the replenishment of operating assets. Later on, Alfa-Bank refinanced ULK Group's loans issued by Sberbank for the construction of lines producing standard- and fine-diameter lumber. Finally, in February 2018, Alfa-Bank provided ULK Group with 10 billion rubles for buying production assets of LLC LPK Sever and LLC Pomorskaya Lumber Company.

Alfa-Bank sees a potential in developing the wood processing sector and highly evaluates the investment appeal of ULK Group. We are glad that Alfa-Bank has contributed to the creation of Russia's largest waste-free lumber enterprise and intends to develop its partnership with ULK Group.

Also, Alfa-Bank provided $ 300 million in financing to Evraz Group. The money repaid Evraz Group's current debts, extended the loan portfolio, and reduced interest. The Bank has a long-term relationship with Evraz Group. While interacting with reliable borrowers, we are ready not just to issue large loans, comparable with the capacities of the biggest state-run banks, but also to rapidly make decisions and agree on mutually advantageous terms of financing.

Alfa-Bank and PJSC State Transport Leasing Company (GTLK) signed a credit agreement to open a 19.2-billion-ruble non-revolving credit line. The agreement expires in late 2025. The money financed the company's current operations, including the replenishment of operating assets. GTLK is one of Alfa-Bank's oldest clients. Our cooperation started many years

ago. Setting a new credit limit for the period until 2025 demonstrates mutual trust between our partners and Alfa-Bank's keen interest in financing the leasing sector. Hopefully, Alfa-Bank's support will help GTLK to retain its leadership on the market of leasing services and attain dynamic growth of the corporate portfolio.

Alfa-Bank opened 1.6-billion-ruble credit lines to Bosco Di Ciliegi Group, whose primary shareholder is Mikhail Kusnirovich, for a period of about nine years. The money will finance the construction of a modern textile factory in the Kaluga region. Investment will total 2.3 billion rubles, including 0.7 billion rubles to be invested by Bosco Di Ciliegi Group. We are glad to be a financial partner of this interesting and ambitious project. The unique experience of Bosco di Ciliegi in the fashion industry and the good financial standing of the company create every condition for its successful implementation.

Alfa-Bank provided a three-year 21-billion-ruble loan to PJSC MegaFon (LSE: MFON), a leading Russian mobile operator. The money will fund redemption of issued and placed ordinary shares and GDR of MegaFon Investments (Cyprus) Limited, which is 100% subsidiary of PJSC MegaFon. Alfa-Bank has a positive outlook for the telecommunication sector and new-economy companies, among them MegaFon, and hopes to continue its partnership with the borrower.

As for investment business traditionally Alfa-Bank works in several areas, and Alfa-Bank is one of the leaders in each these arias and achieves significant results.

Alfa-Bank provided two loans totaling $ 375 million to JSC Atomic Energy Industrial Complex, a subsidiary of the Rosatom state corporation, for corporate purposes. The first loan was issued for 5 years and amounted to $ 225 million, and the second loan of $ 150 million was issued for 4 years. The partnership between the Bank and the state corporation was established in 1997. Alfa-Bank has been a core bank of the atomic energy industry for the past five years.

Investment Business

As for investment business traditionally Alfa-Bank works in several areas, and Alfa-Bank is one of the leaders in each these arias and achieves significant results.

Trade Finance

Alfa-Bank occupies a leading position on the global trade finance market. The substantial amount of capital allows Alfa-Bank to work with major customers, satisfying their needs for financing, technology, and competitive cost of services. In 2018, Alfa-Bank closed about 1,300 trade finance deals in more than 50 countries. The Bank has mature partnerships with leading international partners, such as Commerzbank AG, ING Bank, HSBC Bank, Credit Suisse, UBS, Citibank, JP Morgan, The Export-Import Bank of Korea, Bank of New York Mellon, SMBC, ICBC, Societe Generale, Natixis, CA-CIB, RBI, Unicredit, and many other global financial institutions.

The Bank's leading position has been reaffirmed by a survey carried out by the reputable journal Global Finance. Alfa-Bank was recognized as the best Russian provider of world trade finance services and became a laureate of the Best Trade Finance Providers Award 2019.

Year after year, our trade finance products become more convenient for clients: we develop remote channels, optimize internal processes, and build effective infrastructure for interacting with foreign banks. The well-deserved award evidences the Bank's effective and professional response to every current global market challenge.

Corporate clients of Alfa-Bank who interact with foreign suppliers are now able to issue uncovered letters of credit in the Internet bank Alfa-Business Online. Every stage of the issuance — the submission of an application, coordination, and signing — is performed online. This significantly cuts the time of issuing an uncovered letter of credit and enables the client to monitor the status of the processes at every stage. Soon enough, the Bank will expand functions of the service: clients will receive similar opportunities for ruble-denominated letters of credit and international guarantees.

Also in 2018, Alfa-Bank launched a program for subsidizing export loans in collaboration with the Russian Export Center, and actively supported clients importing Belarusian hardware with subsidies provided under the Belarus export support program.

Innovations. Development of Blockchain Technologies

Last year, Alfa-Bank joined R3, a consortium of the biggest world banks, national financial regulators, trade associations, and financial institutions aimed at developing solutions based on blockchain technologies. Barclays, BBVA, Commonwealth Bank of Australia, Credit Suisse, Goldman Sachs, J. P. Morgan, Royal Bank of Scotland, State Street and UBS were the first member banks of the consortium. Now, the consortium has over 200 members. R3 develops solutions based on the Corda platform, which Alfa-Bank has successfully used to separate utility payments in collaboration with LLC Kvartplata24.

Membership in R3 gives access to a broad community of financial institutions and the market of developers and integrators of blockchain solutions based on the Corda platform. Alfa-Bank has tested the Voltron digital L / C platform and the MarcoPolo trade finance platform. The projects are being implemented together with the R3 consortium.

In 2018, Alfa-Bank, S7 Group, and Gazpromneft-Aero developed a service for instantly paying for jet fuel during aircraft fueling using blockchain technologies. The solution makes advance payments unnecessary on the aviation market. The service is based on Aviation Fuel Smart Contracts (AFSC) that rely on the Hyperledger Fabric blockchain platform. An airline uses the AFSC system to inform the supplier about fuelingthe relevant flight, and to coordinate the amount and price of fuel.

For now, the entire aviation market operates on the basis of advanced payments. The case of Alfa-Bank, S7 Group, and Gazpromneft-Aero shows how to build financial relations in a new and much more effective way. Smart contracts will spare airlines the need to make advance payments, free their financial resources, and improve their operating assets. The 24/7 instant payment service is also applicable to other areas using advance payments or bank guarantees, such as tourist agents selling tickets, logistic companies, and port forwarders.

The project has become an important stage in developing solutions based on blockchain technology in Alfa-Bank's eco-system. We see great potential in smart contract technology. It enables us to effectively accomplish missions, which are extremely complicated for traditional banks, and provide the most profitable and fastest service to our clients.

Settlement Business. Direct Exchange of Financial Messages based on CyberFT Platform

Alfa-Bank and Evraz Group have established a direct exchange of financial messages based on the CyberFT platform. The technology sends messages to the Bank directly from the client's ERP system. The channel's capacity is not limited to ruble and foreign currency payments. Alfa-Bank has integrated every function of the Client-Bank system into Evraz Group's customary environment, including operations with forex control documents (supporting documents sent to the Bank, forex transaction certificates), statements, and other operations. The integration with Alfa-Bank gives Evraz direct access from the ERP system to the main set of banking operations, which reduces operational costs and enhances security, convenience, and speed of settlements.

Many corporations, which interact with several clearing banks, are trying to reduce costs of personnel, administering, and support of various Client-Bank systems. The optimal solution is direct integration between clients' ERP systems and banks. Support provided by the CyberFT international financial messaging system ISO 20022 allows clients to universally interact with partner banks wherever the technology is available.

Alfa-Bank is quite experienced in developing and implementing API solutions. By fostering our technological edge, we seek to create new integration services and systems that accommodate the needs of our clients.

The National Settlement Depository's integration channel Transit 2.0 was implemented in 2018, and Alfa-Bank became the first bank on the market to demonstrate its readiness to use the new channel. The Dixy company has been connected to it. The project has also been fulfilled with Leroy Merlin. It was the first time self-encashment has been done by hypermarkets.

Factoring

Alfa-Bank is stably listed amongst the Top 3 leaders of Russia's factoring market in terms of its portfolio and occupies second place in terms of factoring revenue. Due to its highly diversified portfolio, the Bank interacts with clients in every business segment, from micro to corporate, and has one of the broadest product ranges available on the market. Last year, Alfa-Bank saw numerous victories and changes. The launch of new international factoring products, including export and import products, made Alfa-Bank a leader of international factoring. It implemented an import factoring deal, unique for the market, to finance credit indebtedness of a foreign company's client and simultaneously convert money into a foreign currency. The Bank will keep strengthening its positions in this area and broadening the its service's geographic reach.

Furthermore, the product digitalizes interaction with clients. 99% of all supporting documents are submitted within the framework of electronic document flow. Solutions are being actively upgraded for automated modules used by small and medium business clients in order to reduce the period of closing the deal to three days. Instruments for connecting big sectorial clients to platform solutions are currently being improved.

Payroll products

The payroll product team of the Corporate Investment Banking unit also did well in 2018. The most significant deals were done with such clients as Svyaznoi, Obyedinyonnye Konditery, John Deere, Petrovax Pharm, Ramenskoye Airport, Mosselprom (Cherkizovo Group), UTG, among others.

Investment Business

As for investment banking, Alfa-Bank traditionally operates in several areas, and has become a successful market leader in each of them.

Syndicated loans

Alfa-Bank was active on the syndicated loan market in 2018 and won the 2018 Loans Cbonds Awards for «Best Investment Bank on CIS Syndication Market.»

Alfa-Bank organized a major deal with the Aktyubinsk Copper Company, who received syndicated loans of $ 250 million, and as a result earned the 2018 Loans Cbonds Awards in the category of «Best Deal on CIS Syndication Market.»

The Bank also closed a $ 30-million pivotal deal with Amsterdam Trade Bank N. V. It was the first syndicated loan provided to a Western borrower by a pool of Russian banks. The deal was made possible thanks to Alfa-Bank's public offering experience and relations with syndicate partners.

Over the past few years, Alfa-Bank has organized a series of major public offerings for Belarusian banks of the first echelon, such as Belarusbank, Belagroprombank, the Belarus Development Bank, and others, and has created proper expertise on the Belarusian market of borrowings. In 2018, the Bank organized several syndicates for Belarusian banks: an equivalent of 21 million euros for Moscow-Minsk Bank, 151 million euros for Belarusbank, and an equivalent of 35 million euros for Alfa-Bank (Belarus). In all of these deals, Alfa-Bank acted as the leading organizer, book runner, and documentation and payment agent.

Loan Capital Markets

Alfa-Bank has been a leader of the Russian loan capital market for years. In 2018, it organized 12 placements of Russian ruble bonds for corporate clients totaling about 90 billion rubles.

Alfa-Bank has long been successfully organizing placement of clients' bonds. In 2018, it co-organized the issuance of 001R-01 listed bonds of PJSC Nizhnekamskneftekhim (MOEX: NKNC), the largest petrochemical complex in Russia. The 15-billion ruble issue had an annual coupon rate of 9.60–9.80%. The coupon rate was fixed at 9.75% after the offerings.

Additionally, the Bank co-organized the 10-billion-ruble issue of PBO-05-R listed obligations of PJSC Uralkali (MOEX: URKA), a leading world potash producer. That this was successfully carried out on a volatile market shows that investors appreciate the creditworthiness and reliability of Uralkali. We hope to continue our joint work on the public loan capital market.

Forex Market Operations, Derivatives

Alfa-Bank has been a leader of the Russian forex market for years. Last year, it again topped the reputed professional rating Euromoney FX Survey 2017 in terms of forex market turnover in CEEMEA (Central and Eastern Europe, the Middle East, and Africa), and surpassed world giants such as JP Morgan, UBS, Goldman Sachs, HSBC, Citi, and Deutsche Bank. The bank's share increased to 12.6% of total turnover of the macro-region's forex market actors. Alfa-Bank occupied the 27th position in the global rating, being the only representative of Russia in the Euromoney Top-30 global rating. Alfa-Bank's forex desk has been recognized as the best in Russia by the Moscow International Currency Association (MMBA Best FX Desk).

In 2018, Alfa-Bank, S7 Group, and Gazpromneft-Aero developed a service for instantly paying for jet fuel during aircraft fueling using blockchain technologies.

The results show that Alfa-Bank remains the biggest inter-bank market maker and a technological leader in the field of conversion operations. Ninety-eight percent of deals closed with Alfa-Bank's participation use an electronic format. Corporate clients perform their operations «in one click» in real time, and with the best available exchange rate. We offer our clients both regular conversion transactions and complex products, such as forex risk hedging using derivatives. All of this is included in the Investment Banking offer.

Another focal point of Investment Banking is derivatives and other complex products. The Bank used to cooperate with international companies in selling such products in the past and thereby reduced its margin, but last year our team started to handle those products independently without seeking external support.

Alfa-Direct

The Alfa-Direct mobile terminal, which provides clients with broad opportunities in buying stock, is one of the most advanced solutions available on the Russian market in this area. Financial results of the unit and the professional awards won by the Alfa-Direct mobile application show the leading position of the Investment Bank in this segment. The application is built on state-of-the-art technologies and its interface was designed to accomplish objectives rapidly and efficiently. A broker account can be opened remotely within several minutes. After a client is registered with the

exchange, any instruments provided by the Moscow or St. Petersburg Exchanges can be used to close deals via cell phone or computer. Client interest in this online service has been growing year after year since it can be used by both experienced traders and amateur investors.

The investment business becomes more high-tech year after year. Last year, Alfa-Bank acquired a high-capacity transaction core based on Mail.ru's Tarantool database management system. Alfa-Bank and Mail.ru's joint project drastically accelerated the closure of investment deals and provided an excess capacity for developing business for the next five years. The new online platform supplies Alfa-Bank's clients with consolidated investment deal data from main record systems in various display variants. As a result, investment business cuts the cost of preparing mandatory reports consistent with changing requirements of regulators. The new transaction core processes up to 5,000 deals per second and creates current reports in various analytical profiles. The implementation of the Tarantool-based transaction core is a key step towards technological transformation of the Bank's investment business. We have built the foundation for every future application, which will bolster Alfa-Bank's technological leadership in investment banking. The architecture provides relevant flexibility, speed, and low cost of IT updates.

Interaction with Other Blocks

The Corporate Investment Banking unit has long been developing successful cooperation with the Retail Bank in the field of payroll projects. The joint work continued last year, and interaction between Investment Banking and Alfa Private was enhanced. Nowadays, Alfa Private clients are actively using its services, including structured products and M&A deal management. Our partnership with Alfa Private colleagues will continue in 2019.

Alfa-Bank occupied the 27th position in the global rating, being the only representative of Russia in the Euromoney Top-30 global rating.

FIFA World Cup 2018™

As you know, Alfa-Bank was an official sponsor of FIFA World Cup 2018™ and FIFA Confederations Cup 2017. Special events, such as a tournament for children of Corporate Investment Banking clients, and a match with Corporate Investment Banking clients on the day of the FIFA World Cup final, were prepared for big business. Such events markedly increase clients' loyalty and boost the Bank's image on the market. Being the official bank of FIFA World Cup 2018™ increased Alfa-Bank brand's recognizability, helped conclude new deals and develop partnerships, and yielded significant financial results.

Outlook and Plans for 2019

We are not expecting a serious change in the market situation in 2019: the margin of credit products will continue to reduce, competition with state-run banks will grow, and the activity of regulators will intensify. Alfa-Bank is prepared for this scenario; it continues to develop credit business and discover new, profitable niches. The Bank maintains long-standing relations with serious clients and these relations will continue to be developed. We will also focus on interacting with companies that are not yet actively doing business with Alfa-Bank. The Bank has a substantial competitive edge by a number of parameters, well known to our active and potential clients, and we are sure that we have the prerequisites for developing our business and growing alongside the market next year. Alfa-Bank remains the biggest private bank in the country; it is convenient, fast, high-tech, and loyal to its clients

Micro & Small Business

Micro & Small Business

DENIS OSIN
Member of the Executive Board, Micro & Small Business Director

In 2018, the Micro & Small Business block made much headway in increasing clientele and intensifying its activity. The Bank retained high rates in attracting small business clients, increased its database with 200,000 companies and individual entrepreneurs, and boosted its active customer base by 24%, just like in 2017. Demand deposits grew by 29% to over 157 billion rubles during 2018. Additionally, the loan portfolio practically doubled in the same year.

There was no significant change on the market in 2018. The Bank continued to compete with state-run banks, which have a vast clientele, and with «digital» market actors in the small-business segment. Considering the stricter regulation of small businesses, high requirements for the quality of borrowers remained in place. The Bank, which closely monitors legislative amendments, implemented an effective scoring model in the second half of 2018 to assess due diligence and compliance with regulators' requirements at the initial stage of interaction with every client.

Client Attraction and Interaction with Micro Business

In 2018, the Block's activity over the previous five years was analyzed and its development strategy was adjusted. Growth rates will stay high in 2019, but it will be no less important to increase the «purse» of every client, its turnover in the Bank, and the revenue it generates. The presence of strong competitors in the market is a powerful incentive to be more active in developing new products and services and implementing the latest technologies, which makes competition useful for our clients and the bank itself.

Another special feature of our new strategy is attention to new businesses. In the past, the Bank has mostly worked with existent companies, but we now have interesting offers for startups. Any startup might eventually move to a higher segment, so Alfa-Bank is ready to foster its success from the beginning. Special offers for micro business make us competitive with digital banks in attracting such clientele.

Micro businesses need special products. Seeking to adjust the pattern of interaction with small businesses and to retain profitability, the Block divided its client portfolio into four segments: micro business (with yearly revenue from zero to 5 million rubles), and companies with yearly revenue from 5 million to 20 million rubles, 20 million to 90 million rubles, and 90 million to 350 million rubles. The attraction and service of micro businesses must not entail significant costs, which means these processes must be remote. The technologies we have been developing for a number of years reduced the cost of attracting such clients and made their servicing profitable.

We should not forget that fully remote service is possible for this segment only, considering that the presence of real, «living» managers is a strong competitive advantage of Alfa-Bank over «digital» competitors. Whenever a client choses a bank online, the Bank cannot influence its preferences, while personal attraction gives us a choice of companies we want to be our clients. Modern technologies reduce the cost of managers' involvement in the client attraction process.

In the past, the Bank has mostly worked with existent companies, but we now have interesting offers for startups.

Small Business Lending

Sale of credit products to small business clients grew a lot in 2018. Alfa-Bank doubled the amount of loans given to small and medium business to over 90 billion rubles. According to the rating agency Expert RA, the Bank climbed from the seventh to the fourth position amongst major creditors of the small and medium business segment over the past year. Alfa-Bank was the absolute leader amongst major Russian banks participating in the rating by the growth of lending of small and medium business clients (+101%).

The small business lending result was achieved thanks to the «credit factory,» a technological process in which companies and entrepreneurs are credited online, on the basis of innovative scoring models. The models enable the Bank to rapidly increase the volume of issued loans while thoroughly controlling risks. It is no less important that the existent range of the Block's credit products relies on the needs of various categories of clients and specifics of their business.

Lending was also boosted in the regions, including ones where the Bank does not have offices. A simplified financial analysis of borrowers reduced the deal closure period, since a visit by a financial analyst became unnecessary. Now analysts make decisions on the basis of available information and documents.

Last year, Alfa-Bank was one of the first to start receiving applications for business loans at the preferential annual rate of 6.5%. Small and medium companies with the annual revenue of up to 2 billion rubles and average personnel of up to 250 persons qualify for the preferential loan. Funding is provided for

projects in priority areas, such as agriculture, processing industries, construction, transport, communication, tourism, healthcare, waste treatment, public catering, and consumer services. The preferential rate (6.5%) is envisaged by the program of federal budget subsidies for lending of small and medium business. Alfa-Bank is accredited as the program's designated bank.

Extensive preparations were made in 2018 to launch secured lending. We will start offering the product to our clients in 2019. Secured lending will enable the Bank to increase the volume and period of lending and the average client check without assuming additional risks, and the loan portfolio will grow as a result.

Another convenient way of lending small businesses is based on official reports, which became available last year. The Bank assesses financial stability of the potential borrower and approves a loan on the basis of official company reports, without analyzing the entire amount of the client's business. The option was previously available only in the Medium Corporate Business segment. Now it also applies to the upper segment of Small & Micro Business.

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Last year, individual entrepreneurs were allowed to give consent to processing of their personal data and credit history online using the Internet bank. This is an important decision enabling individual entrepreneurs to receive a final decision on the loan's status without visiting a bank office. Our next objective is to digitalize the process of signing the credit agreement and lending money to the account. These functions will appear in the Internet bank in 2019.

Active interaction with the Medium Corporate Business block in the lending area last year made it possible to apply the flow lending method developed by the Small & Micro Business block to Medium Corporate Business clients. The method significantly reduces costs of issuing credits that fit this model — for instance, electronic bank guarantees, online lending, and express overdrafts. Such products are very popular with small and medium corporate business clients and we can accommodate their needs in a fast and cheap manner while increasing sales of credit products.

The issuance of pre-approved small loans and express overdraft products, is expected to be liberalized in 2019. The Bank foresees a modification of the Central Bank's regulations in the middle of the year to enable financial institutions to credit small and medium business clients by a simplified method in the case of loans smaller than 10 million rubles. These adjustments are part of the state program stimulating the development of small businesses, which will be able to fund their current needs and business expansion quickly and easily.

Updated norms will enhance Alfa-Bank's standing in the market of small business lending, considering that the simplified procedure still sets some requirements, such as additional reserves for the pool of such credits, which is not a problem for the country's first private bank but might be such for «digital» banks. Besides, certain medium and big companies have asked Alfa-Bank to finance their partners in small business. The easier procedure of «fast loans» will meet the needs of such companies. Another advantage of these innovations is the lower cost of attracting clients, which reduces the use of bank resources.

New Products and Services for Our Clients

Last year, the Block expanded its product range with interesting offers that caught the attention of our clients. The reason for the popularity of the new products is simple: we prioritized client needs and feedback in their development.

For instance, small and medium businesses are getting keen on participation in public procurement under Federal Laws No. 44-FZ and 223-FZ. A guarantee from a reliable bank is a necessary requirement for participation in tenders held by government clients. In 2018, Alfa-Bank offered participants in public procurement held under Federal Laws No. 44-FZ and 223-FZ the ability to receive electronic bank guarantees. Companies and individual entrepreneurs can receive the guarantee online by filing their applications on the Bank's website. There is no need to visit a bank office or to open a transaction account. The online bank guarantee ranges from 0.5 million rubles to 30 million rubles; it is provided without a pledge and a surety.

Alfa-Bank gives guarantees to all government agencies and state-run companies. For the convenience of public procurement participants, the Bank gives its guarantee by the buyer's form, which substantially accelerates the bidding process. The guarantee is signed with an enhanced qualified electronic signature of the bank. This is an original document that is accepted in all tenders and auctions organized by government agencies and state-run companies. The Bank sends a paper copy of the guarantee to the client by registered mail.

Hence, Alfa-Bank has created a convenient, affordable and flexible financial instrument for small and medium companies that facilitates their participation in tenders, fulfillment of government orders, and generation of stable profit.

Another useful online service for small business has been launched in the risk section of the Internet bank. This is a calculator enabling companies and individual entrepreneurs to calculate the amount of due taxes and turnover in other operations that are required

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by law in the online mode. The service is free. It helps clients avoid questions from the bank and supervisory agencies.

The Law «On Combating Legalization (Laundering) of Proceeds from Crime and Financing of Terrorism» (115-FZ) and documents of the Central Bank describe signs of suspicious operations. Yet bona fide companies often make transactions that look risky in the eyes of law because they have no information about what a violation is and how to operate their account correctly. Now corporate clients will have a chance to study legislative requirements in detail in the Internet bank and apply them to their operations in order to avoid violations. The calculator gives a simple and graphic idea of the risk posed by operations.

The service is the first stage of Alfa-Bank's client information campaign. Soon new functions will be added to the Internet bank for corporate clients to explain and facilitate the implementation of legislative norms and to support a comfortable business environment for clients.

In 2018, Alfa-Bank launched an online service for business beginners. The online assistant helps entrepreneurs prepare a package

In 2018, Alfa-Bank launched an online service for business beginners. The online assistant helps entrepreneurs prepare a package of documents with 15 minutes for registering a business with the Federal Tax Service.

of documents with 15 minutes for registering a business with the Federal Tax Service. These are the most popular small business forms: an individual entrepreneur and a limited liability company (with one founder).

The service is very simple and user-friendly: all a client needs to do is present a Russian passport (scanned copies of the passport's first page and the residence registration page). The system will automatically prepare a package of documents for the Federal Tax Service, remind the client of his/her unique taxpayer reference number, and help choose the relevant taxation system.

There is a broader range of services for individual entrepreneurs. The service will suggest the address of the tax office, where the documents should be submitted, will analyze client data, and will book the opening of a transaction account in the bank.

The entrepreneur will be provided with a package of online documents ready to be submitted to the Federal Tax Service, a receipt for paying the state duty, and details of the account reserved in Alfa-Bank. After the tax authorities register an individual entrepreneur or a limited liability company with one founder, the service will send the completed package of documents to the Alfa-Bank back office in order to open the account.

Also in this last year, the Bank's corporate clients received access to a virtual Visa card for international settlements, a debit card connected to the corporate client's transaction account. It can be used for worldwide settlements and paying for orders from foreign websites. The card is issued and activated online in the Alfa Business Mobile application (based on iOS and Android). Instant issuance and 24/7 worldwide accessibility are particularly important during foreign trips. Whenever cash or a classic card is lost, a client can immediately get a virtual card to pay one's expenses. The virtual card can be used by means of a smart phone to withdraw money from an ATM via the contactless interface (NFC reader). The card is virtual, which means it cannot be lost. Whenever a smart phone with a NFC module is stolen, thieves are unable to bypass the modern identification means.

The product appeared to be very popular. The issuance of such cards has been growing month after month and the scope of transactions is increasing. As of now, the average size of a transaction made by our corporate clients using the virtual card is much larger than the average size of a regular card transaction.

Trade and Internet Acquiring

In 2018, Alfa-Bank enhanced its position as a leader of Internet acquiring and resumed the trade acquiring service suspended seven years ago.

The Bank decided to resume the trade acquiring service due to its activity in the small business segment and high client demand for such service. The first results of trade acquiring sales flow confirmed that our decision was the right one.

Emphasis was put on designing an end product for clients corresponding to or even surpassing market requirements. The Bank's processes were streamlined from the moment of filing an application to the moment of connecting the client's terminal, which halved the time spent on connecting the service.

Now over 90% of clients can start accepting cards no later than ten business days after they file the request with the Bank.

A practically universal environment has been created for clients: they can apply to connect to the service through every convenient channel (Alfa office, Internet bank, or Bank website) and receive the service at the workplace without visiting the Bank.

The high-quality trade acquiring service with competitive tariffs drew numerous clients to the Bank. The attraction of new clients has been increasing at double-digit rates (26% per month on the average) since the full-scale trade acquiring service kicked off in August 2018.

Importantly, trade acquiring promotes attraction of new clients to the settlement-and-cash segment and full-scale service in Alfa-Bank. Over half of trade acquiring clients are new to the Bank.

In terms of 2019 objectives, there are plans to retain high rates of clientele growth, improve quality and connection speed, reduce service cost, and broaden the range of integration and technical solutions offered to trade acquiring clients. For instance, the bank will be working on QR-code solutions, payments made from mobile applications, additional services for trade acquiring, and trade acquiring services in various payment systems.

Optimization and automation of internal processes, simplified client access, extended list of partners providing fiscalization services, and online advertising bore fruit, and the number of applications and connected clients more than doubled within six months.

As for Internet acquiring, the Bank has been a market leader because of the volume and range of services provided in this area. The Bank accounts for 20%–25% of the volume of transactions, and its growth exceeded the market's average in 2018 mostly thanks to interaction with big partners, whom the Bank treats to unique technological solutions, from special fiscalization opportunities to marketplace payment schemes. The total annual Internet acquiring turnover exceeded 335 billion rubles.

In 2018, the Bank started to actively promote e-commerce products for small and medium companies. Optimization and automation of internal processes, simplified client access, extended list of partners providing fiscalization services, and online advertising bore fruit, and the number of applications and connected clients more than doubled within six months. A client is connected to the Internet acquiring service within several hours.

The Bank carries on the active development of e-commerce services for clients in all segments, from big corporations to individual entrepreneurs:

- new payment methods, primarily the Fast Payment System, an undertaking of the Russian Central Bank fully supported by the Bank;
- broader interaction with marketplaces and payment aggregators;
- not a mere Internet acquiring solution, but a full range of services for developing online business (services for construction and launching of a website, promotion management, analytical services).

In 2019, we plan to increase the growth of our clientele, actively develop partner programs, improve the quality of service with new options, and implement technological solutions optimizing transaction costs.

Loyalty Programs for Small Business Clients

The Bank values its clients. It was the first in the Russian market to offer a loyalty program for small and medium business: the 2018 FIFA loyalty program.

The program launched by Alfa-Bank in April 2017 drew nearly 10,000 active clients in the small and medium business segment. As the official bank of the 2018 FIFA World Cup Russia™, Alfa-Bank received the exclusive right to offer bank services to millions of fans during the 2018 FIFA World Cup and the 2017 FIFA Confederations Cup. Any client could join the program by pushing a button in the Internet or mobile bank, score points for regular transactions, and exchange those points for tickets to FIFA World Cup™ matches, sport attributes, or FIFA souvenirs.

About 120,000 participants joined the FIFA 2018 corporate loyalty program, including almost 10,000 new clients attracted by the loyalty program itself. The program boosted transactions of existing clients and helped attract new clientele.

The program's success encouraged us to develop this area. A new program, Alfa Loyalty, was launched for small and medium businesses with annual revenue of up to 3.5 billion rubles in 2018. The Alfa Loyalty terms were based on an analysis of typical transactions of small and medium companies and offered prizes that would please any company.

Participants were invited to score bonuses for standard account transactions and either exchange them for gadgets, such as smart phones, tablet computers, or notebook computers, or use the bonuses to pay for the Bank's service. The goal of the Alfa Loyalty program is to give additional advantages to loyal clients and encourage a more active use of their accounts in the Bank.

Another one of last year's interesting projects was the Entrepreneur's Parlor, launched on Entrepreneur's Day. This is an Internet resource featuring recommendations and businessmen sharing their experience. Any businessman in Moscow or the Moscow region was able to make a video with their advice and send it to the Alfa-Bank Client Club. A panel of experts evaluated the recommendations and the most useful videos were published on the project website. The authors of the ten best videos were awarded with a professional business presentation video and souvenirs from the 2018 FIFA World Cup ™. The authors of the two best videos received tickets to the Brazil-Serbia match of the 2018 FIFA World Cup and access to the field.

The Entrepreneur's Parlor project is one more initiative of Alfa-Bank aimed at assisting small business, in which businessmen act as experts.

For years, small businesses have happily been joining the Alfa-Bank Client Club. The Club's services enable clients — individual entrepreneurs and legal entities — to cut business startup and development costs by more than 300,000 rubles. This is a result of the broadening network of the Client Club's partners and the appearance of new services, which the Bank's clients receive for free or with a substantial discount of 10 % to 50 %, in 2018. The Alfa-Bank Client Club offers about 80 services, including 15 exclusive ones, to its clients.

To our knowledge, services provided by the Client Club are most actively used by small companies with annual revenue of up to 90 million rubles, for which competition and effective business management are especially topical. It is our task to create a comfortable environment for the growth and successful operation of such companies amid fierce market competition. The more successful our clients' business, the better financial results for the bank. Hence, effective projects are important for both small businesses and Alfa-Bank.

Outlook and Plans for 2019

Rapid growth of the small business market is not expected in 2019, considering that many businessmen tend to choose «self-employed status» over a legal entity. This means that the competition between financial institutions for rendering banking services to small companies will increase. There is no doubt that the Bank will stay focused on reducing client service costs and increasing revenue generated by each client. In the past, we have mostly concluded settlement-and-cash service agreements with our clients and aimed at risk-free revenue, but now we want to be a universal bank offering both settlement and credit products, such as a business credit card with an interest rate of 1% per month or 12% per year. This is a unique offer in the market. We will continue to master the lending process in 2019: the credit approval period will be reduced, and credit limits for reliable clients will be expanded.

Indeed, we will also change the range of business services. For instance, Alfa-Bank prepared a unique offer for micro business — 1% service package — last year. In 2019, we will continue to develop similar offers and implement solutions that have successfully passed trials. Attention to micro business will be a trend of 2019. The main problem of startups is that they are short-lived and experience problems from the beginning. It is our goal to help businesses cope with the initial complicated stage of their development. This is one of the tasks of the renovated Client Club. Exchange of practices, convenient services, and quality products will help startups grow and move from one client segment to another, from a micro business to a small business and, perhaps, a medium business.

We value our clients and understand that the Bank should not just provide them with quality financial services but also help develop their business. This is true for beginners and businessmen who have stayed together with Alfa-Bank for quite some time. Year after year, we design new products and services for our clients, listen to their opinions, and tirelessly improve our work to be both a first-choice bank and a reliable partner to business ventures.

The Bank accounts for 20 %–25 % of the volume of transactions, and its growth exceeded the market's average in 2018 mostly thanks to interaction with big partners, whom the Bank treats to unique technological solutions, from special fiscalization opportunities to marketplace payment schemes.

Medium Corporate Business

Medium Corporate Business

VLADIMIR VOYEIKOV,
Member of the Executive Board, Medium Business Director

Medium Corporate Business became a separate block in 2018 owing to record clientele growth and the need to discriminate between mass and medium business objectives. As of January 1, 2019, the Bank had 53,000 active medium corporate business clients or 46% more than the year before. The Bank is two times ahead of other market leaders in terms of its clientele growth. Nearly a quarter of Russian medium corporate businesses have an account with Alfa-Bank, a serious achievement.

Apart from clientele growth, the block posted a 1,6 time year-on-year increase in operating revenue to 19 billion rubles in 2018. Another important indicator of efficient interaction with clients is mean transaction revenue, which exceeds the market's average by 13%. Clients value the Bank as a reliable and convenient partner and actively make transactions that generate a good commission revenue.

Medium Business Lending

Last year saw high achievements in transaction business and active lending of medium business clients, which tangibly increased the loan portfolio. The bank's risk portfolio, including all types of credit and guarantee products and letters of credit, grew 60% (by 68 billion rubles) to 180 billion rubles. Importantly, the portfolio was diversified, given a 2,8 time growth in the number of borrowers.

We achieved these results by significantly modifying products such as online lending in which credits are approved within one day on the basis of the client's scoring map. Alfa-Bank was the first in the market to offer this product, which rapidly won popularity. Fast approval of credits for medium businesses gives the Bank a competitive edge and enables clients to deal with current financial problems such as a cash gap. The credit product's portfolio grew from 400 million rubles to 4.4 billion rubles over the past year. The product's appearance in Alfa-Bank's product range underlines our wish to accommodate clients' needs and develop solutions for successful business.

The Bank not just actively attracts new borrowers, but also expands credit limits for current clients with a stable financial status. While choosing potential borrowers, Alfa-Bank relies on the classic scheme, highlights financial risks, and makes a profound analysis of the deal's structure. Last year, the Bank standardized the credit risk assessment approach and built a solid system for interacting with regional and other clients, which significantly expedited the credit approval process.

Fast decisions, standard practices, and individual solutions are three areas of medium business lending, and Alfa-Bank seeks to be ahead of its competitors in each of those.

Work in Regions

As for regional expansion, the Bank operates in 52 cities in 44 regions. Notably, regional business has been contributing to the block's results not just in million-plus cities but also in every city in which Alfa-Bank is present.

The Bank is two times ahead of other market leaders in terms of its clientele growth. Nearly a quarter of Russian medium corporate businesses have an account with Alfa-Bank, a serious achievement.

New Medium Business Products

One of the new products that has helped us bolster the business' potential is special accounts for enterprises engaged in public procurement under Federal Law No. 44-FZ "On the Contract System for State and Municipal Procurement of Goods, Work, and Services."

As of October 1, 2018, all participants in public procurements must open special accounts in designated banks for making security deposits. The Russian government designated Alfa-Bank as one of the banks opening special accounts under Federal Law No. 44-FZ. Alfa-Bank rapidly opens special accounts for its clients, who make security deposits as tender bidders. Alfa-Bank was one of the first in the market to present full-scale infrastructure for companies participating in public and municipal procurements.

Another popular product was offered to real estate developers: special accounts opened under Federal Law No. 214-FZ "On Participating in Shared-equity Construction of Multi-apartment Residences and Other Real Estate and Amending Certain Laws of the Russian Federation." Special accounts are meant to be an instrument of control over spending funds properly in construction projects and also meant to enhance protection of shareholders. Every real estate developer is compelled to open a special account in a designated bank. Financial institutions listed by the Russian government are allowed to provide service to real estate

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developers to monitor the purpose of payments and to control the project budget. Alfa-Bank has the competence and methodology to control the expenses of real estate developers. For instance, it has fully digitalized support to special accounts. A developer who makes a payment in the customary "client-bank" system attaches certifying documents, and payments that meet the criteria of Federal Law No. 214-FZ are executed by the next day. In many regions, the Bank has become the unquestionable leader or even the sole financial institution offering full support to real estate developers consistent with the federal law.

Transaction Business

Attracting clients requires state-of-the-art and convenient solutions and instant response to market and legislative alternations and needs of the segment. Alfa-Bank's high-tech nature ensures rapid development of products that businesses might need. Alfa-Bank has been a leader in transaction business in the Russian banking market for years.

Alfa-Bank offers companies not just simple services, such as account opening and operation, but also products related to foreign economic activity. In order to provide those services, the Bank must be able to offer expert consultations, actively interact with regulators, and instantly update products in case of legislative modifications. The Bank had been a leader of this segment for years and the number of Bank clients engaged in foreign economic activity nearly doubled to slightly more than 9,000 companies in 2018.

This is because Alfa-Bank offers comprehensive services and solutions to any issues regarding foreign economic activity, which include standard bank products, assistance to clients in their compliance with legislative requirements, search for due-diligence and reliable partners, and minimization of costs through high-level service.

Additionally, the Bank has one of the best conversion offers available in the market: it is convenient, because service is provided online and commission rates are low. Multiple conversion transactions enable the Bank to offer a fixed commission rate and exchange rates maintained at the interbank level or even lower. This is a colossal competitive advantage actively used by our clients.

Companies engaged in foreign economic activity were offered one more convenient service last year: "smart telephony," which automatically identifies a client and reroutes the call to the personal forex controller.

For complex and non-standard situations, the Bank has the center consulting on foreign economic affairs, where any company, not necessarily an Alfa-Bank client, can receive free consultation. Whenever an issue exceeds the limit of the Bank's competence, the Bank connects the applicant directly to its partners with relevant expertise.

The "smart paperwork" service warns about possible forex violations in the Internet bank. The client receives nine types of notifications regarding a changed status of the document, a deadline for the document submission, an expiry of agreements, a receipt of new declarations, etc.

In 2018, the Bank began actively promoting a more complex product, hedging of forex risks, which rapidly won popularity among our clients. In the past, such instruments were available only to clients of the upper segment, but today we see increased demand for the product in the medium segment. The possibility of closing such deals in the Internet bank will come next.

In 2019, we plan to offer every main type of bank product via a single platform so that our clients can enjoy "one-stop" service. This will simplify the interaction between current clients and the Bank and will make Alfa-Bank more attractive to new clients.

We regularly audit our products and business processes, which would have been impossible without feedback from our clients. According to last year's audit performed by McKinsey, we achieved 90% NPS, which, clearly, is an important indicator.

Remote Service

In 2018, the Bank actively developed remote service to corporate clients. Modifications were made to Internet and mobile bank services.

For instance, corporate clients received access to the "credit product" service, a new option in the Internet bank providing detailed information on every credit product online.

The same corporate client could choose over ten credit products for various purposes, such as one-time loans replenishing working assets, tender guarantees, credit lines, credit line tranches, framework agreements guaranteeing a particular deal, etc. In the past, clients had to refer to agreements, personal managers, and the Bank in order to monitor their credit product liabilities. Now the information is available online, and the time saved can be used on more important tasks. The service provides information about main terms and details of credit products, and payment schedules can be downloaded in pdf or xlsx formats.

Alfa-Bank offers companies not just simple services, such as account opening and operation, but also products related to foreign economic activity.

Clients used to wait for one or two days for their payment schedules, now the response is given within 10 to 15 seconds, which is the time needed to open a page with details in the Internet bank.

In December 2018, the Bank offered clients the possibility of opening an online deposit. This is another step to meet our clients halfway. Just like retail clients, businesses can deposit their money in one click, without involving the back office.

Outlook and Plans for 2019

To date, Alfa-Bank has a substantial number of medium business clients. In 2019, we will slightly shift our focus from increasing the number of new clients to broadening interaction with existing clients. Our task is to increase the share of the client's "purse" in the Bank, primarily in the field of transaction service: transaction and turnover activity and account balances. To keep companies attracted to the Bank, we will emphasize developing the volume of business created by companies that became our clients at some point over the past three years. We will implement the concept of a universal manager that not just attracts new clients, but also develops relations with existent clientele and promotes cross-sales.

There is significant business development potential in our market segment, and the Bank intends to use this potential to keep growing at higher than average market rates and markedly increase operating revenue. As a rule, medium businesses stay on the market for a long time and adjust to changes in the economy. These types of clients are particularly valuable to any bank, and Alfa-Bank knows and understands which products and services they are interested in, which services are most actively used, and which innovations are needed to facilitate and foster convenience of their business. We have been providing quality service to such companies for over 20 years, and pride ourselves on being a convenient, prompt, high-tech, and, most importantly, reliable financial assistant to medium businesses.

Princinal Factors of Risk in Bank Activity

The Bank places great emphasis on the best practices for risk management. The Bank's primary objective of risk management is an optimal balance of risk-return, including assuring and maintaining an acceptable level of risk up to the established risk appetite and limits. The Bank is continuing to improve its risk management as a key element of implementing the Bank's development strategy.

The Bank bases its risk management system on principles consistent with Russian Law, international standards and the best practices for risk management. The Bank has implemented the Internal Capital Adequacy Assessment Process (ICAAP) both on an entity level and on the Banking Group level. The Bank performs stress testing of its capital adequacy and takes into account significant risks when planning its capital adequacy. The Bank plans its capital adequacy on the basis of stress-testing of its capital adequacy in view of significant risk stress-testing. The Bank exploits its capacity to meet its objectives of increasing its profitability and expanding business while constantly monitoring risk levels to minimize and contain losses that could occur during the course of its activity.

The Bank's risk management relies on improving internal methodology and risk management processes as ways of maintaining and strengthening its position on the banking services market. The Bank develops and improves its risk and capital management approaches in view of its internal credit risk models while ensuring relevant infrastructure and IT systems' development.

In December 2018, the Bank submitted its application to the Bank of Russia in order to obtain a permit to use its internal rating-based models for measuring credit risk. Adopting this measurement approach will enable the Bank to measure its credit risk with greater precision based on its customers' specifics. The internal rating-based approach to credit risk assessment will enable the Bank to manage its business in view of the consumed capital and level of assumed risk.

The Bank's major risks are as follows: non-retail credit risk, counterparty credit risk, retail credit risk, market risk, operational risk, liquidity risk, interest rate risk in the banking book, and concentration risk as a part of its non-retail credit risk.

Information on the structure of all significant risks inherent in the Bank's activity is disclosed on a regular basis in compliance with the Bank of Russia's requirements available on the Bank's website at https://alfabank.ru/about/annual_report/riskinfo/

Risk management consists of risk assessment, establishment of risk limits, monitoring, control, reporting, and establishment of internal risk management processes and procedures. The Bank manages its risks by implementing three independent lines of defense in the absence of a conflict of interest.

General Principles of Organizing Risk and Capital Management in the Bank

- Principle of accountability and involvement of the supreme management bodies: a coherent and efficient organizational structure for risk management, responsibility for maintaining the capital adequacy required, awareness of the level of assumed risks and any facts of breach of the established risk management procedures and established limits.
- Principle of risk culture development: involvement and pro-active attitude of all employees to identification, assessment, control, and monitoring of risks, efficient communication with relevant subdivisions and high-quality interaction within the risk management system, each employee's understanding and awareness of their own responsibility for risk management within the scope of their competencies.
- Principle of continuous risk management process: risk management is an ongoing and continuous process, which includes risk identification and analysis. Decision making, decision compliance and compliance control are continuous processes and are implemented to maintain competitive advantages and ensure stable functioning from a strategic perspective and as an integral part of the Bank's development.
- Principle of independent risk assessment and risk control: risk management is based on introducing the 'three independent lines of defense' concept. The principles and other elements of this concept are set forth in detail in Section 4 hereof.
- Principle of risk limitation: the Bank establishes a system of limits and indicators limiting the assumed risk level.
- Principle of multi-risk treatment: ongoing improvement of risk management in view of changes in the environment, new lines of business, etc.
- Principle of transparency and full disclosure: as part of regular reporting, the executive officers, collegial bodies and investors are provided with unbiased information (timely and in full), including for reasonable decision making.
- Principle of efficient payroll system: identifying risk owners and considering the level of risk assumed by them and the risk realization horizon in determining remuneration.
- Prudence concept: executing transactions in view of the available capital amount, comprehensive analysis of risks resulting from transactions.

Risk Management: Organizational Structure

The Bank's system of collegial risk management bodies comprises the Board of Directors, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee, the Board of Directors' Risk Committee, the Executive Board of the Bank, the Asset and Liability Management Committee, the Credit Committees, including the Chief Credit Committee, the Non-Retail Credit Committee, and the Business Development Committee, the Corporate Investment Bank Default Committee, the Operational Risk Steering Committee, etc.

The Board of Directors' Risk Committee was established in November 2018. The Committee is responsible for preview, analysis, and preparation of proposals for the Board of Directors on the following key matters:

- Determining the risk and capital management strategy and its development;
- Determining the risk appetite;
- Aligning the development strategy and the risk management strategy, inter alia, accounting for new risks;
- Monitoring efficiency of the risk management system;

- Developing the risk culture and implementing the three lines of defense model;
- Applying bank risk management techniques and risk measurement models to calculate the capital adequacy ratio and other statutory ratios.

Fundamentals of the Bank's Risk and Capital Management Strategy

The Risk and Capital Management Strategy deals with the growth and implementation of the ICAAP. The Strategy aims to establish the fundamental principles of the Bank's system of management of significant risks and capital by implementing the ICAAP. This is imperative for efficient risk-centered management of the Bank, fulfilling the Bank's development plans (the development strategy) approved by the Board of Directors, and safeguarding and protecting the interests of the Bank's clients and shareholders.

As a part of the risk and capital management system, the Bank ensures the following procedures:

- Determines the approach to the ICAAP's elaboration and implementation and principles of significant risk and capital management;
- Determines its risk appetite;
- Determines its significant risks;
- Plans the structure of capital adequacy and risks;
- Aggregates capital requirements and implements relevant methods;
- Organizes the stress-testing process;
- Monitors ICAAP implementation as part of its regular reporting process;
- Verifies the efficiency of the ICAAP implementation.

Credit Risk

The Bank identifies credit risk as a principal risk and assumes thereof, i.e. the risk of failure of a borrower/counterparty to fully repay a debt when due. Credit risk is categorized into non-retail credit risk, retail credit risk, and counterparty credit risk.

The Bank's credit risk management processes provides for:

- Procedure for loan extension and decisions on their extension;
- Procedure of defining the default;
- Establishing limits;
- Requirements for collateral and assessment methodology;
- Measuring credit risk in view of the scope of all types of credit risk;
- Processes of credit risk monitoring and control;
- Stress testing processes;
- Validation processes;
- Reporting processes.

The Bank elaborates and introduces models for measuring non-retail and retail credit risk.

Non-retail Credit Risk

The credit risk assessment framework covers all transaction types with inherent credit risk, concentration risk, and residual risk.

Non-retail credit risk management is described in the Bank's Lending Policy.

Credit risk limits on corporate borrowers encompass:

- *Limits on concentration of credit risks to the Bank's capital* (limit on credit risk concentration per borrower/group of related borrowers, limits on credit risk concentration for shareholders and insiders, limit on the overall large credit exposure);
- *Limits on concentration of credit risks in the loan portfolio* (based on the borrowers' rating, on the securitization level subject to the rating, by economic sectors, etc.);
- *Lending limits for particular borrowers/ group of related borrowers* are established in reliance on assessment of loan quality of the borrower and form the basis of loan issuance to a single borrower and management of the main conditions of loan transactions such as maximum term and amount of such loan transaction, type and amount of collateral.
- *Administrative limits* restrict the powers of functional subdivisions and the Bank's authorized bodies / employees to make decisions on lending to borrowers.

The established limits are regularly monitored, controlled, and reviewed.

The Bank uses control mechanisms fostering risk management efficiency:

- Preparing regular reports on the condition of portfolios and regular submission of such reports to the relevant committee,
- Defining the main principles of the credit policy regulating the policy on the department's level,
- Regularly analyzing the need to revise policy principles,
- Elaborating the lending principles to ensure a disciplined and focused approach to decision making,
- Decision-making based on statistical data,
- Ongoing monitoring of the current lending process by the Risk Management Department and the Internal Audit Department to assess its efficiency and introduce changes, as appropriate.

The approach to corporate lending is based on the standard underwriting procedure (in view of the borrower's segment), which includes credit scoring of a potential borrower, checking the provided collateral quality and the compliance of the deal's structure with the Bank's policy and limits. The internal models for assessing the probability of default have been elaborated for the corporate portfolio's main segments.

The bank uses a broad range of techniques to mitigate credit risk by managing both loss factors, such as the probability of default, loss given default and exposure at default on the transaction level, and factors of systemic risk on the portfolio level. The ability of a borrower to service the debt is assessed on the transaction level. The Bank mitigates the risk by accepting various kinds of collateral, sureties of legal entities and individuals, and bank guarantees.

The Bank is constantly improving its IT systems to support the introduction of risk management practices consistent with Basel II (including support for calculation of internal ratings, and management of data quality, collaterals, and default recognition processes).

The procedures for managing the concentration risk arising due to the Bank's exposure to large risks, whose occurrence may lead to material damages able to jeopardize the Bank's solvency and ability to continue amidst growing concern, provide for the processes of identification and measurement of concentration risk and establishment of concentration limits. The limits on concentration of credit risks in the Bank's loan portfolio limit the concentration based on a borrower's rating, securitization level, economic sector, entity type, etc.

Counterparty Credit Risk

Counterparty credit risk management is consistent with the processes of managing the non-retail credit risk defined by the Lending Policy in view of its specifics. The risk is managed taking the related market, operational, and liquidity risk into account.

The process of managing the counterparty credit risk comprises a set of processes of and approaches to risk identification, assessment, monitoring, and control, as well as reporting.

Processes of managing the counterparty credit risk:

- Ensure that transactions with counterparties are exercised only subject to preliminary assessment of a counterparty's financial standing and the probability of occurrence of a counterparty credit risk both before completion of settlements and in the process of settling a transaction;
- Include the lending limits and trade limits on counterparties as part of a counterparty's credit risk limits;
- Determine the current and potential credit risk for derivatives in view of any available netting agreement (in connection with the available collateral) and without any available netting agreement (in connection with the available collateral);
- Measure the counterparty credit risk in view of the concentration risk by transaction types, with respect to groups of related counterparties, markets, taking into account the country risk, etc.;
- Regularly monitor the quality of counterparties and the level of counterparty credit risk.

Limits on the counterparty credit risk encompass:

High-level limits on the counterparty risk encompassing the portfolio concentration limits, which limit risks per counterparty (group of related counterparties), position in transactions with high risk counterparties, position in transactions with counterparties incorporated in the countries with a high level of risk.

Individual limits both on a specific counterparty and on a group of counterparties.

Retail Credit Risk

The retail credit risk is managed using risk assessment in deciding on credit products, loan portfolio management aimed to build a portfolio least subject to volatility and maintaining the target risk-return ratio.

The limit system is based on the Bank's Retail Lending Policy and Mass Business Lending Policy. The retail credit risk limit encompasses the limit on the maximum amount of credit transaction, the limit on net loan losses and other limits defined in the procedure established in the Bank. The limits are monitored and controlled on an ongoing basis.

The automated risk assessment employs statistical models (scoring) based on the analysis of the existent loan portfolio and features of borrowers. The scoring makes use of questionnaire-based information, history of client-Bank relations, and information from external sources (for instance, the Credit History Bureau and findings on a mass business entity's performance (to assess mass business credit risk)). The credit risk is assessed using the internal models elaborated in view of the internal ratings-based approach and scoring models of other types (such as fraud prediction borrower, etc.).

The following indicators are monitored: approval rates by customer product/segment; delinquency levels (both long-term and short-term), migration (past due balance roll rates into various delinquency buckets), number of contacts made and promises given to monitor collection efficiency; actual historical losses by products and vintage; special pilot programs, write-off indicators in each product portfolio; recoveries for each loan portfolio, stability of risk assessment procedures, results based on these assessments by product, and efficiency/efficacy of segmentation procedures. As part of this monitoring, the Bank focuses on the risk-adjusted margin in order to optimize the profitability of Mass Business and retail portfolios.

In order to increase the efficiency of retail loan repayments, statistical models are used that allow detection of loan transactions with a high level of exposure to deterioration of a borrower's payment behavior and use the optimal debt collection processes on a timely basis. The debt collection process is applied to Mass Business borrowers where there is information on deteriorating financial standing of such Mass Business entity obtained from any internal and/or external sources (borrowers / surety provider / turnovers on the borrower's settlement accounts maintained with the Bank) or where any delinquency occurs under the credit facility agreement.

Market Risk

The Bank assumes *market risks*, i.e. risk associated with the changing value of the Bank' positions caused by changes in the market indicators: value of issued securities, stock indexes, currency exchange rates, book prices on precious metals and commodities, and interest rates.

The market risk management processes provide for:

- Defining the trade portfolio structure;
- Carrying out preliminary analysis of availability of the respective market risk management system before executing any transactions with new types of financial instruments or entering new markets;
- Methodology for pricing trading portfolio instruments, determining the nature and types of executed transactions;
- Techniques to measure market risk and determine the capital requirements with respect to market risk;
- Methodology for pricing trading portfolio instruments;
- Establishing the limit system and the procedure of establishing limits;
- Controlling and monitoring compliance with limits;
- Stress testing market risk;
- Validating the model to measure market risk losses in a stress scenario;
- Market risk reporting.

The Bank manages market risks according to the principles set forth in the Bank's internal documents, including the Policy for Market Risk Management as approved by the Bank's Executive Board.

The exposure of the Bank's trading book to market risk is managed using limits on the risk metrics used in the Bank and the list of permissible instruments put together by the Asset and Liability Management Committee (ALMC).

Market risk is managed by establishing a system of limits on the risk metrics used in the Bank:

- Market risk limit in compliance with Bank of Russia Regulation 511-P;
- Limits on the open position in securities and derivatives;
- Limits on the open position in foreign currency;
- Limits based on the risk measure (VaR metrics);
- Other limits and restrictions (metrics for measuring losses in a stress scenario).

Stock (Quotation) Risk Management

The stock risk is the risk associated with losses incurred by an unfavorable change in quotations of securities (including those assigning management rights) in the trading portfolio and derivatives influenced by factors linked both to the issuer of securities and financial

derivatives (the special stock issuer risk), and to general fluctuations of market prices for financial instruments (the general stock risk).

In order to measure the risks to the Bank's financial instruments in the trading position of investment business, the Bank imposes limits on the open position, risk exposure according to Regulation 511-P, and VaR limits. The stock risk is on the list of risks taken into account in calculating the above metrics.

Forex Risk Management.

The forex risk is a probability of losses arising as a result of an unfavorable change in exchange rates of foreign currencies and/or precious metal prices in positions denominated in foreign currencies and/or precious metals.

In order to mitigate the forex risk in compliance with Bank of Russia Ordinance 178-I dated 28.12.2016 'On Establishing Values (Limits) of Open Currency Positions, Methodology for their Calculation and Specifics of Supervision over their Compliance by Credit Institutions', the Bank has set limits on the amount of open currency positions at the rate of 20% of the Bank's equity capital in each currency and the balancing position of 10% of the equity capital in RUB. The Treasury calculates and controls open currency positions, and the Risk Management Directorate carries out daily monitoring thereof in accordance with the Regulation on Control over the Bank's Open Currency Positions and Open Currency Position Reporting by Form 0409634.

The Asset and Liability Management Committee has established the following internal limits, which constrain the currency position of the Bank directly or indirectly:

Interest Rate Risk of the Bank Portfolio.

The interest rate risk of the bank portfolio is the risk of deterioration of the Bank's financial standing caused by decreasing equity, declining incomes, and the value of assets due to changes in market interest rates. The interest rate risk of the bank portfolio is categorized into the following groups: revaluation risk, risk of change in the form and slope of a yield curve, and baseline risk.

The processes of managing the interest rate risk of the bank portfolio provide for:

- Reviewing the list of assets and liabilities sensitive to changes in interest rates;
- Identifying types (sources) of the interest rate risk;
- Developing and introducing the metrics for quantifying the interest rate risk;
- Establishing limits (early warning indicators) and metrics of the interest rate risk;
- Calculating the values of limits (early warning indicators) and metrics of the interest rate risk;
- Controlling and monitoring limits (early warning indicators) on the interest rate risk;
- Stress testing the interest rate risk
- Validating (assessing the ability to assess a risk adequately) the interest rate risk metrics
- Elaborating internal documents on interest risk management;
- Reporting on the interest rate risk.

The system of limits is based on the internal approaches to assessment of change in the economic value of capital and sensitivity of interest margin to change in market rates. The specific type and value of limits and frequency of limits' revision is established by the Asset and Liability Management Committee.

Liquidity Risk

The liquidity risk is the risk of the Bank's inability to finance its operations, i. e. to ensure asset growth and meet its liabilities when they mature without incurring losses in an amount threatening the Bank's financial stability. The liquidity risk is managed by the Treasury and the Risk Management Department and controlled by the ALMC.

Liquidity risk management accounts for different forms of risk manifestation: liquidity risk, unexpected demand risk, market liquidity risk, funding risk, compliance risk, and concentration risk.

The Bank maintains a stable funding ratio comprising primarily the amounts payable on corporate and retail deposits, debt securities in issue, payments due to other banks, as well as adequate diversified portfolios of liquid assets in order to be able to respond swiftly and calmly to unexpected demand for liquidity.

The Bank's liquidity risk management processes provide for:

- Describing the processes of funding need determination;
- Process of analyzing the liquidity position for different time horizons;
- Process of establishing liquidity limits;
- Processes of liquidity management on a daily basis and liquidity management for a longer-term horizon;
- Method of analyzing the liquidity of its assets and stability of its liabilities;
- Processes of restoring the liquidity, inter alia, the process of decision making on mobilization (sale) of liquid assets, other possible (and the most readily available) methods of raising additional funds in the event of liquidity shortage;
- Controlling compliance with the liquidity limits, analyzing the liquidity position, inter alia, by currency types, reporting;
- Process of stress testing;
- Validating the model for liquidity management;
- Liquidity risk reporting.

When managing its liquidity, the Bank, on an ongoing basis:

- Analyzes the level of liquid assets for settling liabilities when due;
- Ensures access to various sources of funding;
- Adjusts its plans in case of funding problems;
- Controls compliance of its balance sheet liquidity ratios with the statutory requirements;
- Controls compliance of its limits (metrics) with the statutory and internal bank requirements;
- Maintains the adequate portfolio of short-term liquid assets mainly comprising liquid trade securities placed on the Lombard list of the Bank of Russia, bank deposits and other interbank instruments;
- Controls the amount of short-term interbank loans raised to manage its asset-liability mismatch;

The Bank manages its liquidity risk by:

- Monitoring its compliance with the Bank of Russia's liquidity requirements such as: the quick ratio (N2), the current liquidity ratio; the current liquidity ratio of a credit institution (N3), the long-term liquidity ratio; the short-term liquidity ratio (N26), the long-term liquidity ratio (N4), the net stable funding ratio (N28);
- Ensuring the adequate portfolio of current liquid assets mainly comprising liquid trade securities placed on the Lombard list of the Bank of Russia (HTM and HFS security portfolios), bank deposits and other interbank instruments;
- Monitoring the amount of short-term interbank loans raised to manage its asset-liability mismatch;
- Monitoring its daily liquidity position and regular liquidity stress-testing in various scenarios covering standard and crisis market conditions;

- Assessing the Bank's market position by means of Funding Cost metrics comparing the cost of fund-raising by the Bank with those of its main rival banks;

- Controlling the concentration of fund-raisings (from one depositor, from TOP-20 depositors, from the Bank of Russia, from large government-owned corporations, etc.).

Operational Risk

Operational risk is the risk of losses caused to the Bank as a result of the Bank's unreliable and flawed internal management procedures, unscrupulous conduct of employees, failures of information or other systems, or as a result of external events. Operational risk includes legal risk and regulatory risk, but excludes strategic risk and reputation risk.

Operational risk is managed using a set of procedures for identifying, assessing, monitoring, reporting, controlling and/or mitigating operational risk.

The following instruments are used to identify and assess operation risks:

- Analysis of new processes;

- Collection and analysis of operational risk events of the Bank;

- Collection and analysis of operational risk events of other credit institutions;

- Risk Control Self-Assessment (RCSA);

- Key risk indicators (KRI);

- Operational risk scenario analysis (stress-testing).

As part of the new process analysis, new potential operational risks to the Bank's processes, products or systems are identified and assessed at the stage of their development and implementation.

Owners of operational risks (to the extent that they fall within the functions of their divisions) are the heads of the Bank's subdivisions. The Operational Risk Division of the Risk Management Department analyzes and assesses performance of the operational risk management system in the Bank's subdivisions, organizes implementation of the Bank's operational risk management system as a whole, controls the operational risk management system, provides professional assistance to employees of the Bank's subdivisions at various stages of operational risk management (identification, assessment, mitigation, control, and monitoring), provides methodological support to subdivisions and operational risk management training to employees, provides comprehensive consultations on the analysis of risks to processes and the assessment of risks' materiality and probability and the available methods of control.

Key methods for mitigating operational risk controlled at the Bank level encompass:

- Elaborating the procedures for executing transactions, separations of powers and accountability for transactions that rule out the operational risk occurrence;

- Controlling compliance with the above procedures;

- Developing systems designed to automate banking technologies and information security systems.

The Bank has effective Bankers Blanket Bond (BBB)

Principles of Other Risk Management

Risk of Losing Business Reputation (Reputation Risk)

The risk of losing business reputation (reputation risk) is the risk of losses as a result of the Bank's negative image in the eyes of its shareholders, counterparties, oversight agencies, and other stakeholders, which may have a negative impact on the Bank's ability to maintain current and/or establish new business relations or ensure ongoing access to sources of funding.

The Bank has approved the Code of Corporate Ethics, which lays down the Bank's mission and corporate values. The Bank operates on the principle of timely and high quality performance of its obligations to its clients and partners and strict compliance with the laws and norms of business ethics. The Bank places great emphasis on organizing a full-fledged and reliable system of public disclosure in mass media and on the Bank's website.

Strategic Risk

Strategic risk is the risk of an unfavorable change in various internal and external factors, which may prevent the Bank from accomplishing its strategy.

The Bank controls its strategic risk by making managerial decisions based on analysis of the current situation in the banking sector and development prospects, levels of risk, actions of the Bank's competitors, client needs, and possibilities of HR, financial, and technical support for pending modifications. The Bank plans its product range, tariff policy, development of its branch network and asset-and-liability management, including interest rate management, budget, and qualitative and quantitative development parameters based on its assessments of the above parameters

The Bank has established its Strategic Development Department. The strategic planning process encompasses the elaboration of a three-year strategic plan subject to approval by the Board of Directors. The risk of losses caused by errors (flaws) as a result of making decisions defining the Bank's operation and development strategy is estimated as insignificant. The Board of Directors of the Bank has approved the Development Strategy for 2018–2021.

Stress-Testing

The Bank assesses its capital adequacy for significant types of risk under stress at least once a year based on the decisions defining the strategy for the internal processes of capital adequacy assessment. The purpose of stress-testing is to assess the potential impact of a stressful change of internal or external factors consistent with exceptional but probable events on the Bank's financial stability. As a result, the Bank tests its ability to maintain financial stability amid an economic crisis and under stress, i.e. materialization of significant risks that may harm its financial stability. This assessment is based on the assessment of the amount of capital required to cover all types of significant risks and the calculation of sufficiency of available capital.

The Bank develops an approach to stress-testing every significant type of risk, taking into account the specifics of the Bank's operational activity, the amount of capital needed to cover possible losses, etc. Capital adequacy is stress-tested by aggregating results of stress-tests of significant types of risks. The Bank uses the stress-testing results to develop measures that may be used in the event of a stressful scenario.

The Bank comes up with a unified macroeconomic scenario of exceptional but probable events that can harm or destroy its business reputation. Scenarios take the Bank's specifics and lines of business into account. A crisis scenario is based both on the historical behavior of macroeconomic variables and hypothetical scenarios. Key external macroeconomic factors of the stress scenario are Russia's GDP, the dollar/ruble exchange rate, the oil price, and the key rate. A number of additional external factors are also taken into account.

The Bank modifies, revises, and supplements the available risk management approaches, including approaches to stress-testing of capital adequacy, on an ongoing basis. Stress-testing scenarios and results have been approved by the Board of Directors of the Bank. According to the results of stress testing (with a scope until 01.01.2020) carried out at the end of 2018, the Bank is resilient to stress.

Information (Report)

on the Bank's Compliance with the Principles and Guidelines of the Corporate Governance Code Recommended for Use by the Bank of Russia

The Bank complies with the principles of corporate governance set forth in the Corporate Governance Code recommended for use by the Bank of Russia (Bank of Russia Letter No. 06-52/2463 of 10 April 2014 'On the Corporate Governance Code') in order to ensure effective management in view of the Bank's ownership structure and the scope of its activity.

For the purpose of maintaining and improving the corporate governance standards, in 2013 the Bank put in place the Corporate Governance Code approved by the Extraordinary Shareholders' Meeting (Minutes No 02-2013 dated 02.12.2013) and drafted it in compliance with current Russian Law, the Regulation of the Bank of Russia and the Corporate Governance Code recommended by the Bank of Russia.

Alfa-Bank's Corporate Governance Code is an internal regulatory instrument that defines the basic principles, rules and standards of corporate governance by which the Bank is guided in its activities, including those governing the following areas: protection of rights and lawful interests of the Bank's shareholders, organization of the activity of the Board of Directors, determination of the remuneration system for the members of the Board of Directors, executive bodies, and other key managers of the Bank, strategic management, coordination of risk management and organization of internal control, information disclosure, and a procedure for significant corporate actions.

In compliance with the Code, the Bank pledges to be guided by the following general principles of corporate governance in its activity:

- Compliance with laws, other regulations, the Bank's Charter and internal documents;
- Exercise and protection of rights of the Bank's shareholders;
- Equal (in compliance with the regulations) treatment of the Bank's shareholders;
- Accountability of the Board of Directors to the Bank's shareholders;
- Strategic management of the Bank's activity by the Board of Directors;
- Efficient control of the activity of the Bank's executive bodies by the Board of Directors;
- Enabling the executive bodies to operate reasonably, in good faith, and exclusively in the Bank's interests for the purpose of efficient management of the Bank's current activity and accountability of executive bodies to the Board of Directors and the Bank's shareholders;
- Ensuring the creation and efficient functioning of the Bank's risk management system and internal control;
- Ensuring timely disclosure of reliable and complete information about the Bank;
- Openness and transparency of significant corporate actions on the condition of the exercise and protection of rights of the Bank's shareholders.

Shareholders' Rights and Equality

The Bank ensures the rights of its shareholder and equal conditions for their exercise. The procedure of convening, preparing, and holding a General Shareholders' Meeting is regulated by the Regulation on the General Shareholders' Meeting approved by the General Meeting of the Bank's Shareholders. The restated Regulation was approved in 2018. The amendments made to the Regulation are primarily related to redistribution of some of the competencies of the Bank's management bodies, bringing provisions into compliance with the applicable Laws, and clarifying processes of convening and holding meetings.

The Shareholders enjoy an equal and fair opportunity to participate in the attribution of profits by means of dividends. The Bank can abstain from paying dividends in the case that such payment, although it does not formally breach the law, is economically unfounded and creates a false impression of the Bank's activity.

The protection of shareholder property rights and the free disposal of shares are ensured with the Bank's choice of registrar, which is highly reputed and possesses streamlined and reliable technologies that efficiently account for property titles and ensure that shareholders' rights are exercised. In 2018, the Bank's registrar was AO Independent Registrar Company. On 04 February 2019, the record of the winding up of AO Independent Registrar Company as a result of its reorganization through the merger with JSC Independent Registrar Company R.O.S.T. (JSC NRK-R.O.S.T.) was entered into the Unified State Register of Legal Entities. Since 05 February 2019, JSC NRK-R.O.S.T. is the successor of all the rights and obligations of AO Independent Registrar Company. JSC NRK-R.O.S.T. continues keeping registers of securities holders and rendering all services related to a registrar's activity to clients of AO Independent Registrar Company. JSC NRK-R.O.S.T. is a professional participant of the securities market and carries out its activities related to maintenance of registers on the basis of license 045-13976-000001 dated 03.12.2002 issued by the Bank of Russia and in compliance with Russian Law.

Bank's Board of Directors

The Board of Directors exercises strategic management of the Bank, supervises bank risk management and the preparation and performance of efficient internal control, oversees the activities of the Bank's executive bodies, and performs other key functions. The Board of Directors is accountable to the General Shareholders' Meeting.

The Regulation on the Board of Directors defines the rights and responsibilities of the Board of Directors' members, the procedure for preparing and holding Board of Directors' meetings, and requirements for the Board of Directors' members, including excellent professional and business reputation, skills and experience, enabling them to assess information about the Bank's activity and the market situation for the purpose of professional judgments in the banking area.

The revised Regulation on the Board of Directors was approved in 2018. The Regulation was brought into accord with the last amendments made to the Bank's Charter.

As of late 2018, the Board of Directors had 9 members, one of whom (Mr. Vladimir Verkhoshinskiy) was also a member of the Bank's Executive Board, three of whom (Mr. Mikhail Fridman, Mr. Petr Aven, and Mr. Andrei Kosogov) were the Bank's ultimate beneficiaries, and Mr. Oskar Hartmann was an independent member of the Board of Directors by the criteria prescribed by Bank of Russia Letter No. 06-52/2463 of 10 April 2014 'On the Corporate Governance Code'. In the opinion of the Board of Directors, this balance prevents a conflict of interest between the Bank, its shareholders and its clients.

The activity of the Board of Directors is supervised by the Chairman, who organizes its work, convenes and chairs meetings of the Board of Directors, sets the agenda and form of meetings of the Board of Directors, signs minutes of meetings of the Board of Directors, chairs the General Shareholders' meeting, signs a contract with the Chairman of the Executive Board on behalf of the Bank, and performs other functions prescribed by the Federal Law on Joint Stock Companies, the Bank's Charter, and the Regulation on the Board of Directors. In the absence of the Chairman of the Board of Directors, his functions are performed by the First Deputy Chairman of the Board of Directors, and in the absence of the latter the work is done by a member of the Board of Directors at the discretion of the Board of Directors.

For the purpose of previewing crucial issues of the Bank's activity, the Board of Directors formed two (2) thematic committees in 2014, namely the Audit Committee tasked with assisting in the Board of Directors' efficient control of the Bank's financial and economic activity, and the Staff and Remuneration Committee promoting engagement of competent personnel in Bank management and providing incentives for their successful performance.

The Board of Directors' Risk Committee was established in November 2018. The Board of Directors' Risk Committee is responsible for the preview, analysis and preparation of proposals for the Board of Directors concerning risk determination and capital management strategy, establishment of risk appetite, monitoring the efficiency of the risk management system, risk culture development and introduction of the three lines of defense model, application of bank risk management techniques and risk measurement models for calculating the capital adequacy ratio.

The Board of Directors establishes the main guidelines for the Bank's long-term activity, in particular, approves the Bank's strategy and considers the progress of its fulfillment. In October 2017, the Bank's Strategic Plan for 2018–2021 was approved (Minutes of the Meeting of the Board of Directors No. 15-2017 dated 31.10.2017). In September 2018, the Board of Directors approved the Key Performance Indicators Annex to the Strategic Plan.

The Board of Directors plays a key role in the prevention, identification, and settlement of internal conflicts between management bodies, shareholders, and employees of the Bank. The Board of Directors approved the Procedure for Preventing a Conflict of Interest in the Bank, which prevents the emergence of a conflict of interest in the process of the Bank's activity. The Board of Directors also approved the Code of Corporate Ethics of AO "Alfa-Bank" (Minutes of the Meeting of the Board of Directors No. 21-2015 dated 15.12.2015), whose purpose is to lay down standards of the Bank's activity and employee conduct aimed at maintaining ethical standards, service quality and customer convenience, higher profitability, financial stability and efficiency of the Bank, its subsidiaries and affiliates. The Code was posted on the Bank's website for the general public. Bank employees and management have been personally informed about the Code. The Code was communicated to the Bank's employees and members of its management bodies. As a part of introducing the Code's provisions, the Compliance Department is monitoring the compliance therewith in the Bank. In compliance with the Code, the Bank has also developed and approved the Regulation on Terms and Procedure for Interested-Party Transactions by Employees of OAO "Alfa-Bank" and/ or their Affiliates (Appendix 1 to Bank Order No 1206 dated 03.12.2010), Bank Order No 980 dated 24.08.2012 on the Participation of Employees of OAO "Alfa-Bank" in the Management of Any Legal Entities Unaffiliated to Alfa-Bank Bank Group, and the Anti-corruption and Anti-bribery Regulation (Appendix 1 to Bank Order No 1704 dated 30.12.2015).

The Board of Directors assesses the performance of the Board of Directors in general, its committees, and members of the Board of Directors. In 2018, the Board of Directors assessed the Bank's corporate governance as recommended by the Bank of Russia Letter No 11-T dated 7 February 2007 'On the List of Questions for the Assessment of Corporate Governance by Credit Institutions' in accordance with the approaches set forth by the Bank of Russia Letter No 119-T dated 13 September 2005 'On Contemporary Principles for Organizing Corporate Governance in Credit Institutions', and No. 14-T dated 6 February 2012 'On the Basel Committee on Banking Supervision Guidance 'Principles for Enhancing Corporate Governance' and Appendices 9, 10, 11 and 12 to Bank of Russia Ordinance No. 4336-U dated 3 April 2017, 'On Assessing Banks' Economic Situation' (the report on the assessment of corporate government was approved by the Board of Directors, Minutes No. 14-2018 dated 31.01.2018).

In 2018, the Board of Directors also generated its report on the assessment of the performance of the Bank's Board of Directors, which was considered by the Annual General Shareholders' Meeting of the Bank.

Remuneration of Members of Board of Directors, Executive Bodies, and Other Key Managers

The Bank's principles of short- and long-term remuneration are based on the Bank's profitability, and the amount of remuneration is sufficient for recruiting and retaining skilled personnel by the Bank.

In 2018, the Board of Directors approved the revised Human Resources Policy, a system of principles and norms aimed at forming human capital consistent with the Bank's strategy and mission and its Remuneration Policy, which regulates the conditions of and procedure for remuneration of the Bank employees. Prior to that, the above documents were considered by the Board of Directors' Staff and Remuneration Committee (Minutes of the meeting (voting in absentia) of the Board of Directors No. 11-2018 dated 22.08.2018).

The Board of Directors also approved the Regulation on Remuneration and Reimbursement of Expenses Related to Performance of Duties by Members of the Board of Directors of the Bank, which laid down the general principles, criteria and procedures for remunerating members of the Board of Directors and reimbursing expenses related to the performance of their duties.

Risk Management and Internal Control System

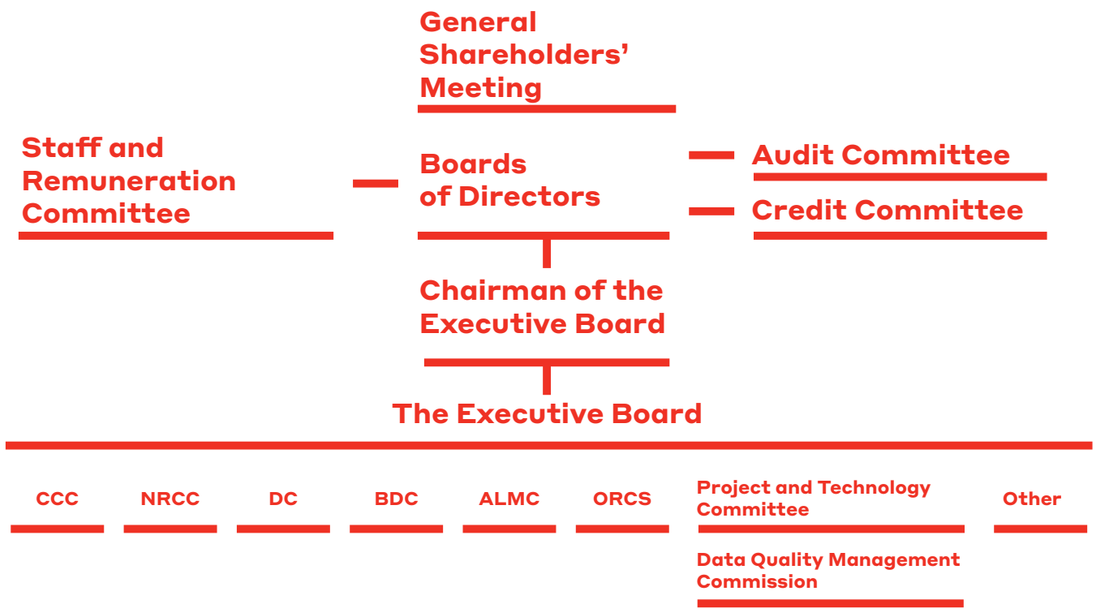
The Bank has developed an efficient system of risk management and internal control aimed at maintaining an acceptable level of risks and achieving the Bank's goals.

Risk Management: Organizational Structure

The Bank's system of collegial risk management bodies comprises the Board of Directors, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee, the Board of Directors' Risk Committee, the Executive Board, the Asset and Liability Management Committee (ALMC), the Credit Committees, including the Chief Credit Committee (CCC), the Non-Retail Credit Committee (NRCC), and the Business Development Committee (BDC), the Corporate Investment Bank Default Committee (DC), the Operational Risk Steering Committee (ORSC), etc. The Executive Board, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee, the Board of Directors' Risk Committee are accountable to the Board of Directors, while the Risk Management Committees are subordinated to the Executive Board.

Corporate Governance Structure:

The Board of Directors is tasked with organizing the risk and capital management system in general, controlling the implementation and efficiency of the Internal Capital Adequacy Assessment Process (ICAAP) by reviewing regular ICAAP reports, reports on capital planning, stress testing, and auditor's reports, defining its development strategy, approving the Bank's risk and capital management strategy, the Bank's risk appetite, procedures for managing the most significant risks, procedures for applying the banking risk management techniques and risk measurement models



and other documents within the scope of their powers, and controlling the appropriate use of rating systems by the bank.

The Board of Directors' Audit Committee is tasked with assessing the efficiency of current risk management and internal control procedures, controlling their management system reliability, and proposing ways to improve them to the Board of Directors.

The Board of Directors' Staff and Remuneration Committee is tasked with previewing, analyzing, and preparing proposals to the Board of Directors on regulating the recruitment and remuneration of employees essential to the Bank's risk management system and elaborating and improving the Bank's internal remuneration documents.

The Board of Directors' Risk Committee is tasked with previewing, analyzing, and preparing proposals to the Board of Directors on defining the risk and capital management strategy, establishing the risk appetite, controlling the efficiency of the risk management system, developing the risk culture and introducing the three lines of defense model, and applying the bank risk management techniques and risk measurement models to calculate the capital adequacy ratio.

The Executive Board is tasked with elaborating the risk management policy based on the Bank's risk and capital management strategy, approving the risk and capital management and stress testing procedures, monitoring and introducing the risk mitigation measures based on the optimal balance of the Bank's goals and returns on capital required by shareholders and the Bank's risk appetite, ensuring compliance with the ICAAP, maintaining a higher-than-minimal level of capital adequacy, and considering ICAAP reports.

The Chief Credit Committee (CCC) considers and amends principles of the credit policy before its approval by the Executive Board, is responsible for establishing limits and assuming non-retail credit risks within the scope of the competencies approved by the Executive Board, and controls consistency of the loan portfolio's quality with the approved policy.

The Non-Retail Credit Committee (NRCC) establishes limits for non-retail clients by separate types of transactions up to the limits established for SCC.

The Corporate Investment Bank's Default Committee (DC) was established in accordance with Bank of Russia Regulation No 483-P dated 06.08.2015 'On the Procedure for the IRB Calculation of Credit Risk' in order to consider the issues of default recognition according to the established process set forth by the internal document on Default Determination and Recovery of Non-Retail Borrowers.

The Business Development Committee (BDC) reviews amendments made to the Retail Lending Policy and Mass Business Lending Policy before submission to the Executive Board for approval, determines the management model and launch of new lines of Retail and Mass Business, makes decisions on assignment of rights of claim in respect to loans extended to retail borrowers.

The Asset and Liability Management Committee (ALMC) is tasked with managing market risks, interest rate risk in the banking book, and liquidity risks, optimizing the structure of the Bank's balance for the purpose of maximum profitability amid the limited risk, establishing aggregate limits on market risks, interest rate risk in the banking book, liquidity risks, and approving models and methods of their assessment.

The Operational Risk Steering Committee (ORMC) ensures management of operational risks, previews operational risk appetite, considers assumption of operational risks up to the limit established by the Executive Board, monitors the operational risk level, and approves measures, procedures, and techniques of identification, assessment, monitoring, control, prevention, and mitigation of operational risks.

The Data Quality Management Commission (DQMC) assesses the efficiency of the data quality management system, makes decisions on introducing new initiatives to improve data quality, approves documents regulating the data quality management processes, and considers monitoring of data quality indicators.

The Risk Management Department is subordinate to the Chief Risk Officer, is responsible for the operation of the risk management system, provides general risk management, and ensures the application of the unified principles and methods of identification, assessment, management, and relevant notification of the Bank's governance, analysis of efficiency of the key control processes and monitoring key control indicators. The Risk Management Department, which operates in compliance with the Regulation on the Risk Management Department, comprises the following subdivisions: the Integrated Risk Management Directorate (the Validation Division, the Integrated Risk Management Division, and the Risk Reporting and Control Department), the Corporate, Market, and Counter-Party Risks Directorate (the Division for Analysis of Industry and Regional Projects Risks, the Division for Analysis of Industry Projects and Moscow Region Projects, the Counterparties Division, the Methodology, Modeling and Risk Reporting Division, the Market Risk Management Division), the Retail and Small Business Risk Directorate, (the RB Portfolio Analysis Department, Lending Development and Support Department, the SMB Risk Management Department, the Department for Statistical Analysis, Predictive Modeling and Forecasting), and the Operational Risk Department.

The Chief Risk Officer bears responsibility for organizing and controlling the Bank's risk management process, the creation and development of the Bank's risk management system, the oversight of the Bank's current risk profile, and assessment of the sufficiency of risk management resources for performing risk management functions, taking into account the complexity, interconnection, and scope of the Bank's risks, risk appetite, and strategy.

The retail credit risk is managed by the **Retail and Small Business Directorate and the Business Development Committee (BDC)**. The non-retail credit risk is managed by the Corporate, Market and Counterparty Risks Directorate (the Methodology, Modeling, and Risk Reporting Division; the Industry and Regional Project Risk Analysis Division; the Industry and Moscow Region Project Risk Analysis Division; the Counterparties Division) and the non-retail credit committees (the CCC and the NRCC); the CCC has the upper hand in this field. Market risk is managed by the Corporate, Market and Counterparty Risks Directorate (the Market Risk Management Division), the Treasury, and the Asset and Liability Management

Committee (ALMC). The operational risk is managed by the Operational Risk Division and the Operational Risk Steering Committee (ORSC). Risk control (middle office) is also exercised by the Risk Management Department (via the Risk Reporting and Control Department). The Treasury, the Risk Management Department, and the ALMS manage and control liquidity and interest rate risks.

The Corporate Debt Collection Department (CDCD) is fully independent from the Risk Management Department; it prepares proposals on ways to deal with distressed debt, including collection strategies, elaborates possible solutions for collecting delinquent debt, and presents them for the CCC's consideration. The CDCD implements the approved strategy. The CDCD is supervised by the Deputy Chairman of the Executive Board and reports to the CCC. The CCC recognizes debts as distressed.

Retail delinquent debt is managed by the **Retail and Small Business Directorate**, who lays down the decision-making rules. The Client Collection Division of the Operational Block's Retail Service Department is tasked with measures towards resuming debt servicing, collecting delinquent loans, and identifying loans to be written off as bad debt. A third party, a collection agency, can be engaged in the collection process on the basis of an agency contract in specially designated cases. The criteria for retail borrowers' default are set by AO Alfa-Bank's methodology of recognizing a default and recovering retail borrowers.

According to the powers determined by the constituent and internal documents of the Bank, internal control is exercised by:

- Management bodies (the General Shareholders' Meeting, the Bank's Board of Directors, the Bank's Executive Board, and the Chairman of the Executive Board);
- Collegial bodies established in compliance with the resolutions of the Bank's Board of Directors and Executive Board;
- Heads (deputy heads) of operating divisions established in the Bank's organizational structure in compliance with the resolutions of the Bank's Executive Board and the order of the Chairman of the Executive Board (hereinafter referred to as the Bank management);
- The Bank's chief accountant (deputies);
- Heads (deputy heads) of operating divisions established in the Bank's organizational structure in compliance with the resolutions of the Bank's Executive Board and the Chairman of the Executive Board, head (deputy heads) and the chief accountant (deputies) of a branch;
- Heads (deputy heads) of operational and lending-and-cash-services offices of the Bank;
- Subdivisions and employees exercising internal control according to the powers defined by the Bank's internal documents, including:
  - The Internal Audit Service, a structural subdivision of the Bank operating in compliance with the Charter, the Regulation on the Internal Audit Service, and Chapter 4 of Bank of Russia Regulation No 242-P dated 16.12.2003 'On Organizing Internal Controls in Credit Institutions and Banking Groups';
  - The Internal Control Service, a structural subdivision of the Bank operating in compliance with the Charter, the Regulation on the Internal Audit Service, and Chapter 4.1 of Russia Regulation No 242-P dated 16.12.2003 'On Organizing Internal Controls in Credit Institutions and Banking Groups';
  - An employee (structural subdivision) designated to counteract money laundering and terrorism financing that operates in compliance with Clause 2 Article 7 of Federal Law No 115-FZ dated 7 August 2001 'On Counteraction of Legitimization (Laundering) of Proceeds of Crime and Financing of Terrorism';
  - A stock market professional controller — an employee designated to control compliance of the Bank's professional activity on the stock market with Russian stock market laws, normative acts of the federal executive authority in the area of the stock market, Russian Laws protecting rights and lawful interests of stock market investors, Russian advertising laws, and internal documents regulating professional activity on the stock market;
  - A structural subdivision controlling compliance with Federal Law No 224-FZ dated 27 July 2010, 'On Countering the Illegal Use of Insider Information and Market Manipulation and on Amending Certain Legislative Acts of the Russian Federation';
  - Other subdivisions and employees acting consistently within their office duties and powers established by the Bank's internal document

Internal audits are organized by the Bank for the purpose of systematic independent assessment of the reliability and efficiency of the risk management and internal control system and corporate management practices.

Internal audits are held by a separate structural subdivision, the Internal Audit Department, which is accountable to the Board of Directors.

The Internal Audit Department operates on the principles of independence, objectivity, competence, and professional approach to work, continuous activity and impartiality, and on the basis of Russian Law, normative acts of the Bank of Russia, and internal audit standards set by the International Standards for the Professional Practice of Internal Auditing and the Ethics Code of the Institute of Internal Auditors. The Head of the Internal Audit Department is appointed, dismissed, and transferred to another post by the Chairman of the Bank's Executive Board on the basis of resolutions adopted by the Board of Directors. The Board of Directors approves work plans and reviews reports of the Internal Audit Department.

Administratively, the Internal Audit Department is subordinated to the Chairman of the Bank's Executive Board, which means: allocation of necessary funds within the approved budget of the Internal Audit Department; receiving reports on the Internal Audit Department's activities; administration of the Internal Audit Department's processes.

The Internal Control Department is responsible for identifying, accounting, and monitoring regular (compliance) risk in the Bank; this is the risk of incurring losses by a credit institution from failure to comply with Russian Law, internal documents of a credit institution, and the imposition of sanctions and/or other measures by supervisory bodies. The Regulation on the Internal Control Department gives a detailed description of the Internal Control functions.

Disclosure of Bank's Information, Bank's Information Policy

The Bank discloses information about its activity in compliance with Russian Law on the basis of principles of reliability, regularity, efficiency, and a balance between the Bank's transparency and observation of its lawful interests.

For the purpose of transparency, timeliness, and completeness of the Bank's information disclosure, easy shareholder access to the Bank's documents, and designation of employees responsible for the disclosure of the Bank's information, the Bank has a package of documents regulating the information policy:

- The Regulation on the Interaction between Subdivisions in the Information Disclosure by AO "Alfa-Bank" as an Issuer of Securities;
- The list of insider information of AO "Alfa-Bank";
- The Regulation on the Interaction between Subdivisions in the Disclosure of Insider Information of AO "Alfa-Bank";
- The Regulation on Commercial and Banking Secrets, and the Bank's Proprietary Information;
- The list of information designated as commercial and banking secrets and the Bank's proprietary information consistent with relevant laws.

The Bank discloses information on the website https://alfabank.ru, and the webpage provided by a disseminator of stock market information,

http://www.e-disclosure.ru/portal/company.aspx?id=1389.

The Bank discloses information about risks of AO "Alfa-Bank" Group in compliance with Federal Law No 395-1 dated 02.12.1990 'On Banks and Banking', Bank of Russia Ordinance No 4481-U dated 07.08.2017 'On the Procedure and Time for Disclosing Information about Accepted Risks, Risk Assessment Procedures, Risk and Capital Management, and Financial Instruments of Bank Group Equity Capital by Parent Credit Institutions of Bank Groups' and AO "Alfa-Bank" Group's Regulation on the Consolidated Disclosure of Risk Information.

The Bank provides information and documents at the request of shareholders on equal and unhindered access principles.

Significant Corporate Actions

In compliance with the Corporate Governance Code, the Bank primarily views the following actions as significant corporate actions:

- Bank reorganization;
- Changes to (increase or decrease in) the Bank's share capital;
- Essential amendments to the Bank Charter;
- Major transactions;
- Listing and delisting of the Bank's shares.

Separation of power between the Bank's management bodies in decision-making on significant corporate actions is a key element of the corporate governance system aimed at protecting the lawful interests and rights of the Bank's shareholders and security of the Bank's assets.

The Bank's management bodies ensure its shareholders' participation in decision-making on significant corporate actions in accordance with Russian Law and the Bank Charter.

The Bank has created a system of interaction between its subdivisions in significant corporate actions. The Bank's subdivisions do their best to ensure compliance with the transaction procedure and duly present transactions for approval by relevant management bodies of the Bank.

Information on any significant corporate actions performed in the course of the Bank's operations is disclosed as prescribed by Russian law.

Control over compliance with procedures in making decisions on significant corporate actions is exercised by the Bank's Audit Committee.

The Bank's Internal Audit Service, when assessing the efficiency of the internal control system, may hold sample audits of compliance with the procedures for decision-making on significant corporate actions.

Partners

Alfa Capital

Alfa Capital Managing Investment Portfolios of Broad Range of Clients

Alfa Capital is a major Russian asset management company focused on individual trust management of funds of private and institutional investors (including strategic management of individual and mutual funds).

The company has over 1.1 million private investors. As of December 31, 2018, Alfa Capital has managed 343.9-billion-ruble assets, 88% of them contributed by private investors, which made Alfa Capital the leader amongst non-financial entities by that parameter. Alfa Capital is the first management company in Russia to sell its products online.

The Russian rating agency Expert RA assigned the highest management company rating A++ to Alfa Capital to attest to the exclusive level of its reliability and service quality.

In 2018, Alfa Capital topped the Forbes rating of best banks and management companies in the "best Russian wealth management company" category and won the Spear's award in the "best management company" category. Alfa Capital CEO Irina Krivosheyeva was ranked as one of the Top-2 management company CEOs in the Top-1000 of Russian managers. Also in 2018, Alfa Capital won the Stock Market Elite award in two nominations as "the best management company for private investors" and "the best wealth management company."

Alfa Capital Brief

- Alfa Capital has been the leader of Russia's asset management market for over two decades;
- More than 343.9-billion-ruble assets managed as of December 31, 2018;
- Alfa Capital is the first management company in Russia to sell its products online;
- The Russian rating agency Expert RA lists Alfa Capital amongst the Top-7 management companies by total funds under management; it ranks first in the market by private funds under trust management and second in the market by mutual funds under management;
- A team of highly skilled specialists with years of experience in Russian and foreign, including emerging, markets;
- Alfa Capital is rated as A++ (exceptionally high/the highest level of reliability and service quality) by the Russian rating agency Expert RA;
- Alfa Capital is one of the Top-7 managing companies, ranking second by 51.4-billion-ruble private and mutual funds under management as of December 31, 2018, and posts the highest growth of managed assets;
- Alfa Capital has 1.16 million private investors;
- Alfa Capital ranks first in individual trust management: 241.7 billion rubles managed as of December 31, 2018;
- Alfa Capital was named the "most effective management company" in the 2018 rating of management companies by the publishing house Kommersant;
- In 2018, Alfa Capital launched Russia's first currency mutual fund, "Technologies 100."

Awards Won in 2018

- No 1 in the Forbes rating of best banks and managing companies in the "best Russian wealth management company" category;
- Spear's award laureate in the categories of "best management company," "best investment consultant" (Andrei Babiyan), and "industry legend" (Andrei Kosogov);
- Alfa Capital CEO Irina Krivosheyeva was ranked as one of the Top-2 management company CEOs in the Top-1000 of Russian managers;
- Won the Stock Market Elite award in two nominations as "the best management company for private investors" and "the best wealth management company" (Andrei Babiyan, Alfa Capital Wealth Director).

AlfaStrakhovanie Group

AlfaStrakhovanie Group (The Group) is a major Russian insurance group with a universal service portfolio that includes comprehensive programs of business interests' protection and a broad range of retail insurance products. The Group comprises AO AlfaStrakhovanie, LLC AlfaStrakhovanie Life, LLC AlfaStrakhovanie OMS, and LLC Medicine AlfaStrakhovanie. The companies are listed as systemically significant insurers by the Russian Central Bank.

AlfaStrakhovanie is the second largest insurance group in Russia (including mandatory health insurance) and the top private insurance group of the country, according to the magazine Forbes. In 2018, the Group controlled 10.1% of the market and posted premium collection of over 346 billion rubles (159 billion rubles without mandatory health insurance).

The Group controls 9.8% of the mandatory health insurance market. AlfaStrakhovanie OMS ranks fourth amongst mandatory health insurers.

The Group has over 29 million retail clients (including mandatory health insurance) and 82,000 corporate clients. It has 270 branches and offices across the country.

Reliability and financial stability of AlfaStrakhovanie are certified by ratings of leading international and Russian rating agencies: BB by Fitch Ratings and ruAA+ by Expert RA.

The Group's equity exceeds 28 billion rubles. Its authorized capital stands at 7.5 billion rubles.

Products

AlfaStrakhovanie cooperates with enterprises and organizations of various scales and sectors and provides over 100 insurance programs, including life and accident insurance. Corporate clients are offered individual insurance plans based on the specifics of their activity. Retail clients of the Group are offered a broad range of motor insurance, property insurance, and travel insurance products.

AlfaStrakhovanie is an indisputable leader of online insurance; its market share nears 25%. Premiums collected by the company in that sector neared 20 billion rubles in 2018. The Group presented the first mobile application, AlfaStrakhovanie Mobile, on the market in 2015. It could be used to buy a policy, make an appointment with a doctor, settle a claim, and use telemedicine, telematics, and other unique services. More than 3.5 million people opened their accounts in the mobile application and on the company's website in 2018.

Awards and Prizes

AlfaStrakhovanie Group executives have been on the Top 1000 Russian Managers list prepared by the Russian Managers Association and the Publishing House Kommersant for over 13 years in a row.

In 2018, the company won the Bank of the Year Award of the Internet portal Banki.ru in the category "Best Insurance Company of the Year." AlfaStrakhovanie also topped the people's rating of the Insurance News Agency.

In 2018, the company again won the TripAdvisor Travelers' Choice Award in the "Best Travel Insurer" category and Global Brand Awards 2018 in the "Best Russian Insurance Brand" category.

Partners

The Group has long-standing business relations with major global reinsurance companies (Munich Re, Swiss Re, Hannover Re, Gen Re, Partner Re, SCOR, Lloyd's of London), thanks to which it rapidly and reliably reinsures practically any risk on Russian and foreign markets.

Clients

Since day one, AlfaStrakhovanie has been developing relations with clients on the principles of equal partnership and mutually advantageous cooperation. The main clients of the Group are leading Russian banks, big ship owners and transportation companies, energy, metallurgy, and machine building plants, offices of leading foreign companies, civil and state organizations and institutions, and individual partners. AlfaStrakhovanie Group protects over 29 million people (including mandatory health insurance) and 83,000 enterprises across the country.

AlfaStrakhovanie's biggest clients and partners are: Coca-Cola, Danone, Henkel Rus, Hyundai, Aeroflot, Metro Cash & Carry, Yokohama, X5 Retail Group, Rossiya Airline, Yamal Airlines, Avilon, Alfa-Bank, the Domodedovo Airport, Bashneft, Volgotanker, Eurosib, VTB24, Euroset, Reshetnev Information Satellite Systems, Komsomolskaya Pravda, Magnitogorsk Metallurgical Plant, Vnukovo International Airport, Metalloinvest, Norilsk Nickel, SIBUR, Sodexo Eurasia, Svyaznoi, Oktritie, the Energia Rocket and Space Corporation, Raiffeisenbank, Rosselkhozbank, RusHydro, the State Air Traffic Control Corporation, Space Communication, Uralsib, MRSK Holding, Enel OGK-5, Energostroy, Eon Russia, Unicredit, the Roscosmos state corporation, Aeromar, Pulkovo III, Royal Flight, Pobeda Airline, the Sukhoi Holding, the Progress Rocket and Space Center, Nordwind Airline, Saratov Airlines, Ural Airlines, Beletiks.ru, Utair, OZON.Travel, Agent.ru, Anywayanyday, OneTwoTrip, Tutu.ru, VisaToHome, Svyaznoi Travel, and others.

Social Activity and Support for Social Projects

AlfaStrakhovanie Group is a member of the following associations:

- All-Russian Insurance Association (ARIA);
- Russian Association of Motor Insurers (RAMI);

- Russian Association of Aviation and Space Insurers (RAASI);
- National Union of Liability Insurers (NULI);
- National Association of Agricultural Insurers (NAAI);
- Russian Managers Association (RMA);
- Russian Union of Travel Industry (RUTI);
- Russian Association of Ecological Insurers (RAEI);
- Russian Grain Union (RGU);
- Association of International Motor Transport (AIMT);
- Chamber of Commerce and Industry of the Russian Federation (CCI of Russia);
- Chamber of Commerce and Industry of Moscow (CCI of Moscow);
- Union of Marine Insurers (UMI).

AlfaStrakhovanie has been sponsoring the Galafest family festival for three years. The organizer is the Galchonok charity, which assists children with central nervous system disorders. The festival's mission is to help the social adaptation of special-needs children.

The company also has a long-standing cooperation with the Life Line Fund, saving children with severe medical conditions and annually supporting the Fund's initiatives, including fund-raisers "Somebody's Life is No Small Thing," "Celebration of Life," and "Red Nose—Kind Heart", and Charity Marathon 5275.

Financial Statements

Extracts from the Auditor`s Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of ABH Financial Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Group.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Natalia Mileshkina.

25 February 2019
Moscow, Russian Federation

N.A. Mileshkina, certified auditor
(certificate number 01-000197)
AO PricewaterhouseCoopers Audit

ABH Financial Limited Consolidated Statement of Profit or Loss and Other Comprehensive Income

In millions of US Dollars	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	4 333	5 114
Mandatory cash balances with central banks		336	327
Trading securities	8	-	1 201
Repurchase receivables relating to trading securities	8	-	191
Financial assets at fair value through profit or loss	8	863	-
Repurchase receivables relating to financial assets at fair value through profit or loss	8	8	-
Due from other banks	9	4 193	4 075
Loans and advances to customers	10	29 684	27 742
Investments	11	5 822	4 374
Repurchase receivables relating to investments	11	78	115
Other financial assets	12	980	649
Other assets	13	422	399
Premises and equipment	14	480	541
TOTAL ASSETS		**47 199**	**44 728**
LIABILITIES			
Due to other banks	15	1 872	2 050
Customer accounts	16	32 106	29 552
Debt securities issued	17	3 259	3 624
Loan from the SDIA	18	367	388
Subordinated debt	19	1 195	1 357
Other financial liabilities	21	648	858
Other liabilities	22	339	509
Deferred tax liability	30	215	8
TOTAL LIABILITIES		**40 001**	**38 346**
EQUITY			
Share capital	23	1 265	1 265
Perpetual loan participation notes	24	943	695
Fair value reserve for investments available for sale		-	10
Fair value reserve for investments at fair value through other comprehensive income		5	-
Revaluation reserve for premises		49	55
Cumulative translation reserve		(1 764)	(1 167)
Retained earnings		6 656	5 457
Net assets attributable to the Company's owners		**7 154**	**6 315**
Non-controlling interests		**44**	**67**
TOTAL EQUITY		**7 198**	**6 382**
TOTAL LIABILITIES AND EQUITY		**47 199**	**44 728**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 25 February 2019 and any further changes require approval of this body.

ABH Financial Limited Consolidated Statement of Financial Position

In millions of US Dollars	Note	2018	2017
Interest income calculated using the effective interest method	25	3 415	3 225
Other similar income	25	56	-
Interest expense	25	(1 460)	(1 486)
Expenses directly attributable to deposit insurance		(91)	(62)
Net margin		**1 920**	**1 677**
Net credit loss allowance charge	10	(261)	(10)
Net margin after credit loss allowance		**1 659**	**1 667**
Fee and commission income	26	1 458	1 225
Fee and commission expense	26	(480)	(379)
Gains less losses arising from trading securities		(3)	(19)
Gains less losses arising from interest based derivatives		(4)	(3)
Gains less losses arising from foreign currencies	27	251	(205)
Gains less losses arising from investments		(11)	(9)
Gains less losses arising from acquisition of own debts		1	(1)
Gains less lossess from investment properties		17	28
Loss on disposal of subsidiaries		(20)	(1)
Other provisions	11,12,13,34	(3)	(38)
Other operating income	28	5	49
Operating expenses	29	(1 236)	(1 203)
Profit before tax		**1 634**	**1 111**
Income tax expense	30	(313)	(313)
Profit for the year		**1 321**	**798**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Investments available for sale:			
- Fair value gains less losses	11	-	(4)
- Reclassification adjustments for losses included in profit or loss	11	-	9
Debt investments at fair value through other comprehensive income:			
- Fair value gains less losses during the period	11	(14)	-
- Reclassification adjustments for losses included in profit or loss	11	6	-
Effect of translation of the financial statements of foreign operations		(1 497)	329
Net change in hedge of net investment in foreign operations	38	1 106	(269)
Income tax on items that may be reclassified to profit or loss	30	(219)	53
Items that will not be reclassified to profit or loss:			
Revaluation of premises	14	(7)	(14)
Income tax on items that will not be reclassified to profit or loss	30	1	(4)
Other comprehensive (loss)/income for the year		**(624)**	**100**
Total comprehensive income for the year		**697**	**898**
Profit attributable to:			
The Company's owners		1 325	796
Non-controlling interests		(4)	2
Profit for the year		**1 321**	**798**
Total comprehensive income attributable to:			
The Company's owners		701	896
Non-controlling interests		(4)	2
Total comprehensive income for the year		**697**	**898**

ABH Financial Limited Consolidated Statement of Changes in Equity

In millions of US Dollars	Attributable to the Company's owners								Non-control-ling interests	Total equity
	Share capital (Note 23)	Perpetual loan participation notes (Note 24)	Fair value reserve for investments AFS	Fair value reserve for investments at FVOCI	Revalua-tion reserve for premises	Cumula-tive transla-tion reserve	Retained earnings	Total		
Balance as at 1 January 2017	**1 265**	**701**	**6**	**-**	**69**	**(1 275)**	**4 948**	**5 714**	**20**	**5 734**
Profit	-	-	-	-	-	-	796	796	2	798
Other comprehensive income	-	-	4	-	(11)	107	-	100	-	100
Total comprehensive income	-	-	4	-	(11)	107	796	896	2	898
Realised revaluation reserve	-	-	-	-	(3)	-	3	-	-	-
Discretionary interest payments and redemptions of perpetual loan participation notes (Note 24)	-	(6)	-	-	-	-	(43)	(49)	-	(49)
Distribution to shareholders (Note 23)	-	-	-	-	-	-	(250)	(250)	-	(250)
Changes of non-controlling interests	-	-	-	-	-	1	3	4	45	49
Balance as at 31 December 2017	**1 265**	**695**	**10**	**-**	**55**	**(1 167)**	**5 457**	**6 315**	**67**	**6 382**
Impact of adopting IFRS 9 at 1 January 2018 (Note 5)	-	-	(10)	11	-	-	(92)	(91)	-	(91)
Restated balance as at 1 January 2018	**1 265**	**695**	**-**	**11**	**55**	**(1 167)**	**5 365**	**6 224**	**67**	**6 291**
Profit	-	-	-	-	-	-	1 325	1 325	(4)	1 321
Other comprehensive income	-	-	-	(6)	(6)	(612)	-	(624)	-	(624)
Total comprehensive income	-	-	-	(6)	(6)	(612)	1 325	701	(4)	697
Contribution from noteholders (Note 24)	-	499	-	-	-	-	-	499	-	499
Discretionary interest payments and redemptions of perpetual loan participation notes (Note 24)	-	(251)	-	-	-	-	(43)	(294)	-	(294)
Disposal of subsidiary	-	-	-	-	-	15	-	15	5	20
Changes of non-controlling interests	-	-	-	-	-	-	9	9	(24)	(15)
Balance as at 31 December 2018	**1 265**	**943**	**-**	**5**	**49**	**(1 764)**	**6 656**	**7 154**	**44**	**7 198**

ABH Financial Limited Consolidated Statement of Cash Flows

In millions of US Dollars	Note	2018	2017
Cash flows from operating activities			
Interest received		3 479	3 211
Interest paid, other than on debt securities issued, loan from the SDIA and subordinated debt		(1 066)	(1 040)
Expense directly attributable to deposit insurance paid		(91)	(62)
Fees and commissions received		1 458	1 220
Fees and commissions paid		(475)	(378)
Net loss from financial assets at FVTPL		(20)	-
Net income received from trading securities		-	106
Net income received from trading in foreign currencies		180	(195)
Net income received from interest based derivatives		(11)	14
Other operating income received		19	45
Staff costs paid		(707)	(680)
Other operating expenses paid		(406)	(328)
Income tax paid		(355)	(213)
Cash flows from operating activities before changes in operating assets and liabilities		**2 005**	**1 700**
Changes in operating assets and liabilities			
Net change in mandatory cash balances with central banks		(66)	(49)
Net change in financial assets at FVTPL and repurchase receivables		636	-
Net change in trading securities and repurchase receivables		-	397
Net change in due from other banks		(621)	(1 012)
Net change in loans and advances to customers		(6 198)	(4 487)
Net change in other financial assets and other assets		(51)	358
Net change in due to other banks		-	(1 470)
Net change in customer accounts		6 361	6 753
Net change in other financial liabilities and other liabilities		(80)	(498)
Net cash from operating activities		**1 986**	**1 692**
Cash flows from investing activities			
Acquisition of investments at FVOCI		(11 615)	-
Proceeds from disposal and redemption of investments at FVOCI		9 797	-
Acquisition of investments AFS		-	(1 435)
Proceeds from disposal and redemption of investments AFS		-	1 573
Acquisition of investments at FVTPL		(6)	(8)
Disposal of investments at FVTPL		-	8
Acquisition of investments at AC		(658)	-
Proceeds from redemption of investments at AC		629	-
Acquisition of investments HTM		-	(1 200)
Proceeds from redemption of investments HTM		-	658
Acquisition of premises, equipment and intangible assets		(191)	(116)
Proceeds from disposal of premises and equipment		1	2
Net cash used in investing activities		**(2 043)**	**(518)**

In millions of US Dollars	Note	2018	2017
Cash flows from financing activities			
Disposal of non-controlling intrest in subsidiaries		-	17
Proceeds from debt securities issued		1 310	1 769
Repayment of debt securities issued		(1 315)	(1 841)
Interest paid on debt securities issued		(244)	(284)
Repayment of loan from the SDIA		(3)	-
Interest paid on loan from the SDIA		(4)	(5)
Repayment of subordinated debt		(59)	(201)
Interest paid on subordinated debt		(103)	(104)
Proceeds from perpetual loan participation notes		499	-
Repayment of perpetual loan participation notes		(235)	-
Interest paid on perpetual loan participation notes		(74)	(59)
Net cash used in financing activities		**(228)**	**(708)**
Net (decrease)/increase in cash and cash equivalents		**(285)**	**466**
Cash and cash equivalents at the beginning of the year	7	5 114	4 344
Effect of exchange rate changes on cash and cash equivalents		(496)	304
Cash and cash equivalents as at the end of the year	**7**	**4 333**	**5 114**

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