

A

Alfa·Bank

1991



2011



20

Years of Leadership

ANNUAL REPORT 2011

Over the past 20 years, Alfa-Bank has witnessed the active growth of Russia's economy, the world financial crisis, and the following economic rehabilitation. However, despite the external issues, Alfa-Bank has continued to work smoothly, maintaining its reputation as the leading private bank in Russia.

A handwritten signature in black ink, appearing to be 'M. Fridman', written in a cursive style.

**Mikhail Fridman**

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

## ALFA-BANK 2011

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countries	5
branches and offices	465
employees	17 174
corporate clients	55 800
retail clients	6,3 mln
profit, USD million*	641
equity, USD million*	3 434
loan portfolio, USD million*	23 172
total assets, USD million*	31 365

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

## ALFA-BANK'S AWARDS IN 2011

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### 12.2011

National Event Industry Award for a grandiose Moscow Alfa-Bank Show 4D. The bank was recognized for holding the best advertising event of the year, winning all categories.

### 12.2011

In October-November, Markwebb Rank & Report ranked Alfa-Bank in the top three Most Popular Websites in 2011 in the Russian Federation for its retail bank website. Alfa-Bank rose 5 points from its performance in 2010.

### 12.2011

Standard & Poor's upgraded Alfa-Bank's long-term credit rating from «BB-» to «BB» and revised its outlook from «Stable» to «Positive». The short-term rating was confirmed at «B», bringing up the Bank's national scale rating from «ruAA-» to «ruAA».

### 12.2011

Marketing Creativity Award by the Association of Russian Banks.

### 11.2011

Annual Banking Award "Commercial Bank of the Year" in the Big Money category by Russian business weekly Itogi.

### 11.2011

Best Banking Outlets 2011 in Most Attentive Bank category, where the winner was "A-Club" in Bolshaya Yakimanka, Moscow.

### 11.2011

At the Fifth Anniversary Forum RETAIL FINANCE AWARDS 2011, organized by Retail Finance magazine, Alfa-Bank was awarded the Creativity Award of the Year for Alfa-Bank Show 4D as the largest video mapping projection attempted in history.

### 10.2011

Romir Research Holding ranked Alfa-Bank among the three largest Russian banks for brand awareness and trust, with the Bank occupying a strong leadership position with other private Russian banks.

### 10.2011

Company of the Year 2011 in the Customer Preference category by Rodionov's Publishing House magazine Kompaniya.

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## **10.2011**

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Internet Bank «Alfa-Click» was again named Best Internet Bank in Russia in 2011 by the international magazine Global Finance. The Bank first received this award in 2008.

## **07.2011**

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Fitch Ratings has upgraded Alfa-Bank's long-term issuer credit rating to "BB+" from "BB" and assigned a stable outlook.

## **06.2011**

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Winner of the "Stock Market Elite" award for best analysis of the year 2010 by the National Association of Securities Market Participants (NAUFOR). This is the fifth consecutive time that this award has been won by Alfa-Bank.

## **04.2011**

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Alfa-Bank was named one of three leaders in seven categories at the Dealer of the Year annual national competition organized by the Moscow International Currency Association (MICA). This competition is to determine the best experts in the interbank business — interbank lending, exchange market and forward contracts.

## **03.2011**

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Best Internet Bank. The winner was chosen from among a number of other contestants by professionals from leading IT companies. On behalf of the Bank, the award was received by Sergei Mednov, Member of the Executive Board and Head of IT at Alfa-Bank.

## **02.2011**

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Alfa-Bank came out on top in Internet Banking Systems rating by the magazine Finance, defeating other leading banks in the Russian retail market. The Bank's Alfa-Click is considered best by most criteria when compared with similar systems from other banks.

## **02.2011**

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North-West Banking Association named Alfa-Bank's website [www.alfabank.ru](http://www.alfabank.ru) best among more than 80 other members of the Association.

## **01.2011**

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Alfa-Bank came out on top in a general survey "Customer Experience Index 2010. Retail Banking after the Financial Crisis", which was carried out by Senteo in cooperation with PricewaterhouseCoopers at the end of 2010. This is the fourth consecutive time that the bank has been at the top of this survey.

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**Mikhail Fridman**

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

**Rushan Khvesyuk**

Member of the Board of Directors, Chief Executive Officer of Alfa Banking Group

**Petr Smida**

Chairman of the Board of Directors



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## THE BOARD OF DIRECTORS REPORT ON ALFA-BANK'S RESULTS IN ITS PRIORITY BUSINESS AREAS

We present Alfa-Bank's 2011 Annual Report. This was a jubilee year, with Alfa-Bank celebrating its twentieth anniversary and one of the most successful years in our history. Over the past two decades, Alfa-Bank has witnessed the active growth of Russia's economy, the world financial crisis, and the following economic rehabilitation. However, despite the external issues, Alfa-Bank has continued to work smoothly, maintaining its reputation as the leading private bank in Russia. This has been true for these past twenty years, and it was true yet again last year. The record consolidated net profit and Retail Bank income, the considerable growth in our client base – both individuals and corporate clients – and our growth in market share in the majority of our businesses were all the result of complex strategic planning executed by the Alfa-Bank Board and the dedicated work of all the Alfa-Bank employees.

Furthermore, 2011 was marked by an important event, the approval of Alfa-Bank's Development Strategy for the next three years. This document compiles the basic guidelines for Alfa-Bank's work and the goals set for its branches for the next several years. The strategy outlines our plans to make the financial world simpler and more convenient for our clients. In planning its development, Alfa-Bank has designed new solutions to make its services easier and more transparent, with new technological features to economize clients' time and better suit their needs. This approach has already yielded positive results, as more and more companies and individuals join our client base, and our established clients benefit from the new services and products offered by Alfa-Bank.

A high level of trust in Alfa-Bank has been demonstrated not only by its clients, but also by its investors. In 2011, Alfa-Bank executed a public offering of its own 10-year Eurobonds, unique among Russian private banks, which saw great interest from investors. Reliability, stability and consistent development have been the key features of Alfa-Bank, as is well known in the Russian and international financial markets, and that reputation drove the success of the public offering.

Alfa-Bank's general situation has benefited from its stable financial position and low level of overdue loans, which declined further in 2011. At year-end 2011, overdue loans fell to 2.6% of Alfa-Bank's gross loan portfolio, allowing Alfa-Bank to actively broaden its credit portfolio and extend profitable propositions to a larger number of clients. The growth in our client base was also driven by our cutting-edge technology for conveniently servicing companies of any size, by the special offers we extended over the year across our client base, and by the high integration and coordination of services not only in Moscow but across the regions of Russia.





The Retail Bank produced particularly excellent results, not only surpassing 6 mln clients, but also yet again increasing Alfa-Bank's market share of retail demand deposits. Among last year's other achievements is the considerable growth of the credit portfolio in priority segments: cash credits, customer credits and credit cards. Following and often anticipating market trends, Alfa-Bank works actively in high-margin segments, devising unique offers and developing innovative products. Our clients strongly appreciate the round-the-clock access and options available online or by telephone, available thanks to the active development of Alfa-Bank's remote services.

In addition to creating new products and services, improving our technological platforms and increasing our client base, Alfa-Bank continues to be devoted to its social obligations. Alfa-Bank is a financial organization that pays great attention to helping the less fortunate, developing cultural initiatives and social projects. Alfa-Bank's charitable activities includes cooperation with Lifeline, a charitable fund assisting gravely ill children; World Wildlife Fund initiatives; programs for the development of talented youth; and numerous volunteer projects initiated by Alfa-Bank's own employees. Alfa-Bank has also taken part in organizing Russian and foreign stars' tours across the Russian Federation to assist local theatres, museums and educational institutions.

Alfa-Bank also celebrated its twentieth anniversary with its clients in 2011. Festivities were organized all over the country, with the jubilee also celebrated by many of Alfa-Bank's operational offices. However, we did not allow the joyous celebrations to distract us from our hard work in maintaining and reinvigorating our reputation as the first private bank in Russia. Alfa-Bank's best jubilee gift was the high performance results for this festive year, investors' trust derived from the positive financials, and, of course, the growing number of clients who have chosen Alfa-Bank as their permanent financial partner and consultant. We are certain that the next decade will be a new stage for Alfa-Bank's development as the leading Russian private bank, leading to new heights and even better financial progress.

**Mikhail Fridman**

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

**Rushan Khvesyuk**

Member of the Board of Directors, Chief  
Executive Officer of Alfa Banking Group

**Petr Smida**

Chairman of the  
Board of Directors



## Alfa-Bank Entities

Angarsk  
 Arkhangelsk  
 Barnaul  
 Belgorod  
 Buzuluk  
 Vladivostok  
 Vologda  
 Volgograd  
 Voronezh  
 Glazov  
 Ekaterinburg  
 Zheleznogorsk

Izhevsk  
 Irkutsk  
 Kazan  
 Kaliningrad  
 Kamensk-Uralsky  
 Kemerovo  
 Krasnodar  
 Krasnoyarsk  
 Kurgan  
 Lipetsk  
 Magnitogorsk  
 Megion

Murmansk  
 Naberejnye Chelny  
 Nakhodka  
 Nizhnevartovsk  
 Nizhny Novgorod  
 Nizhniy Tagil  
 Novokuznetsk  
 Novorossisk  
 Novosibirsk  
 Novotroitsk  
 Novy Urengoy  
 Omsk

Orenburg  
 Orsk  
 Pervouralsk  
 Perm  
 Raduzhny  
 Rostov-on-Don  
 Samara  
 St.Petersburg  
 Saratov  
 Severomorsk  
 Sochi  
 Surgut



**Alfa-Bank subsidiaries and partners: geographic coverage**

Tolyatti  
Tomsk  
Tuapse  
Tula  
Tyumen  
Usolye-Sibirskoye  
Ufa  
Khabarovsk  
Cheboksary  
Chelyabinsk  
Yuzhno-Sakhalinsk  
Yurga

Yaroslavl  
Consulting only:  
Abakan  
Almetevsk  
Astrakhan  
Berezniki  
Vladimir  
Vologda  
Ivanovo  
Kaluga

Kirov  
Kursk  
Penza  
Ryazan  
Serov  
Stavropol  
Syktyvkar  
Tambov  
Ulyanovsk  
Yakutsk

**Alfa Capital Markets:**

UK, London

**Alforma Capital Markets Inc.:**

USA, New-York

**Amsterdam Trade Bank N.V.:**

Netherlands, Amsterdam

**Alfa Capital Holding Ltd.:**

Cyprus, Nicosia

**Alfa-Bank Kazakhstan:**

Kazakhstan: Almaty, Astana, Aktau, Karaganda, Ust-Kamenogorsk, Ekibastuz, Uralsk



**Ildar Karimov**  
Member of the Board of Directors

**Nikolay Kosov**  
Member of the Board of Directors

**Andrei Sokolov**  
Chairman of the Executive Board

**Rushan Khvesyuk**  
Member of the Board of Directors,  
Chief Executive Officer

**Mikhail Fridman**  
Member of the Board of Directors

**Sergei Mednov**  
Member of the Executive Board, Head of Information Technology

**Alexander Lukanov**  
Member of the Board of Directors  
(till 25.10.2011)

**Andrei Kosogov**  
Member of the Board of Directors

**Andrew Baxter**  
Deputy Chairman of the Executive Board,  
Chief Financial Officer

**Alex Knaster**  
Member of the Board of Directors



**Petr Aven**

Member of the Board of Directors

**Alexey Marey**

Member of the Executive Board  
Head of Retail Business

**Johann Jonah**

Chairman of the Board of Directors  
(till 25.10.2011)

**Oleg Sysuev**

First Deputy Chairman of the Board of Directors

**Maxim Pershin**

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

**Valeriy Novikov**

Member of the Executive Board  
Chief Operating Officer

**Edward Kaufman**

Member of the Executive Board  
Co-head of Corporate-Investment Banking  
(till 25.10.2011)

**Ilya Poz**

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

**Vladimir Tatarchuk**

First Deputy Chairman of the Executive Board,  
Head of Corporate-Investment Banking

**Petr Smida**

Chairman of the Board of Directors  
(since 26.10.2011)

**Rushan Khvesyuk**

Member of the Board  
of Directors,  
Chief Executive Officer  
at Alfa Banking Group



## MESSAGE FROM CHIEF EXECUTIVE OFFICER

Alfa-Bank has yet again proven itself to be the leading private bank in Russia during its twentieth anniversary celebrations. Our leading status has been demonstrated by Alfa-Bank's financial results and our other achievements from the last year. Alfa-Bank's net profit for 2011 totalled \$641 mln, which is the highest sum ever in Alfa-Bank's twenty-year history. The total assets reached \$31.4 bln, which is 10% higher than at the end of 2010. The loan portfolio grew by 27%, to \$23.2 bln, and the customer accounts grew by 9% during 2011, reaching \$18.3 bln. Alfa-Bank's equity grew by 16% and reached a level of \$3.6 bln before payment of dividends.

Alfa-Bank, as Russia's largest private bank, strives to help clients solve all their financial problems, from everyday questions to the more complicated and unusual. Our clients have shown us that this approach is correct, demonstrating their loyalty and trusting Alfa-Bank with their financial needs.

The jubilee year was marked by considerable achievements for individual branches of the business as well. In 2011, the Retail Bank achieved its highest profit in Alfa-Bank's history, making \$264 mln before tax. The Retail Bank's operating profit was almost half of Alfa-Bank's total operating profit. Alfa-Bank's share in its priority segment, the demand deposits market, reached 6.20% at the end of 2011 compared to 5.66% in 2010, and in January 2012 it rose even higher to 6.47%. These results, just as the growth in the retail client base to more than 6 mln, demonstrate the deep trust in Alfa-Bank and its exceptional reputation in financial services.

This year was also successful for the Corporate-Investment Bank. Alfa-Bank's loan portfolio grew by 28.5% during the year, while average market growth was 20%. Corporate customer accounts grew by 9% in dollar terms in 2011, making \$8.9 bln. The commission profits for the settlement business grew by 16%. The Corporate-Investment Bank's client base now exceeds 56,000.



*Alfa-Bank, as Russia's largest private bank, strives to help clients solve all their financial problems, from everyday questions to the more complicated and unusual. Our clients have shown us that this approach is correct, demonstrating their loyalty and trusting Alfa-Bank with their financial needs.*

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An important distinction of the Corporate-Investment Bank from many competitors is the high quality of its loan portfolio. In 2011, volumes of overdue loans continued decreasing, from \$754 mln (4.7% of the corporate loan portfolio) at the end of 2010 to \$503 mln (2.5% of the corporate loan portfolio) in the end of 2011. Alfa-Bank's loan quality sets it apart from many competitors and is noted not only by its clients, but also by its investors. Alfa-Bank's stable financial situation provides an extra competitive advantage, which facilitates the Bank's ability to actively expand its loan portfolio.

Alfa-Bank's active presence across the Russian regions; its flexibility, transparency and mobility; and also its innovative platforms have led to the development of a volume business working with small companies. In 2011, Alfa-Bank offered small firms special service packages geared around their business structure, the size of their businesses and their degrees of financial activity. This model attracts progressively more companies to work with Alfa-Bank, receiving financial services catered to their particular business needs, including more than 20,000 new clients in 2011 alone.

The further consolidation of Alfa-Bank's corporate and investment businesses present some extraordinary possibilities, including the active sale of complex structured investment products to Alfa-Bank's corporate clients. Special priority has been assigned to Corporate-Investment Bank products that can be sold to Retail Bank clients, such as Alfa-Forex and Alfa-Direct services. Cooperation between the Corporate-Investment and Retail Banks will continue expanding in 2012 and beyond.

Furthermore, the Retail Bank's client base has grown almost twofold during the last three years to exceed 6 mln people. In 2011, Alfa-Bank had the third-highest volume of demand deposits in Russia, trailing only state-affiliated banks Sberbank and VTB-24, only narrowly trailing the latter. In 2012, we anticipate Alfa-Bank will move to second place in this critical sphere. Alfa-Bank's retail loan portfolio grew actively in high-margin, priority segments, i.e. personal instalment loans, credit cards and consumer loans. Retail Bank's loan portfolio grew by 21% in 2011 up to \$2.8 bln. Consumer loan volume granted in 2011 surpassed 2010 by 30%, while the credit cards and PILs portfolio grew by 66%. Special attention was paid to increasing the number of remote credit applications in order to economize both client and employee time. By the end of the year, the share of applications for credit products coming in online reached 30%.

Alfa-Bank's electronic services, like Internet acquiring, were well developed in 2011. By the end of 2011, according to VISA and MasterCard data, Alfa-Bank's share of Internet acquiring market was more than 40%, while volume exceeded \$1.3 bln. Alfa-Bank is undoubtedly the leader in this growing segment.

The development of remote client service channels is another priority for the Retail Bank. Alfa-Bank's 24/7 contact has been especially appreciated by clients. Using leading technologies, Alfa-Bank provides its clients unique opportunities to work with their accounts remotely. Alfa-Bank's strong competitive advantages in this sphere – Russia's foremost Internet banking, applications for all mobile platforms, extensive operations available from the comfort of one's home or office, and access across Internet, mobile phone and our call centres – intensify the growth of Alfa-Bank's client base and retention. Prioritizing the establishment of remote options for as many simple operations as possible has increased convenience for customers as well as allowing employees to reorient their schedules around consulting clients on more complex matters requiring a human touch.

The opening of a new operational centre in Ulyanovsk has also benefited Alfa-Bank's work. The Retail Bank has transferred numerous functions to this centre, creating an operational hub for more than 1,000 employees there. Thanks to careful organization, this significant shift was seamlessly integrated in to Alfa-Bank's operations.

Success in any financial organization depends on certain key ingredients, including client trust and a team of highly skilled specialists that assure the highest level of service, offer products and services that will appeal to clients, and develop and execute decisions that fulfil the general development strategy. This is the kind of team Alfa-Bank has.



Last year also saw important changes on Alfa-Bank's board. Chairman of the Board of Directors of OJSC Alfa-Bank Johann Jonah was replaced by Petr Smida, who was previously Member of the Board of Directors. Petr Smida has made important contributions to Alfa-Bank's transition to a new level of international standards, and also to the creation and development of Alfa-Bank's successful retail business. As Chairman of the Board of Directors, he will be responsible for development and execution of Alfa-Bank's most important strategic initiatives as well as participating in the development of Alfa-Bank's staff at the level of upper management. Alexey Marey, who had successfully directed Alfa-Bank's retail business from April 2007, became Deputy CEO in 2012 and then moved to CEO in May 2012. Starting from 2012, the Retail Bank is headed by Alexey Korovin, and the investment business of Alfa-Bank is headed by Igor Kolomeisky. All these changes are intended to further Alfa-Bank's role as the best private bank in Russia and fulfil Alfa-Bank's development strategy.

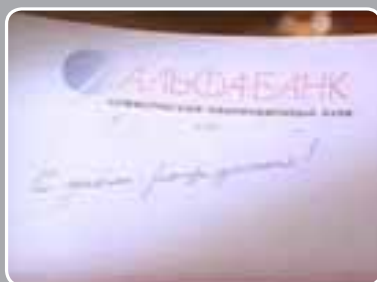
An important element of this strategy is fair and open dialogue with our clients. Alfa-Bank has been committed to transparency throughout its two-decade history, not only in relationships with the press but also with clients, listening to their opinions, reacting to comments and even executing ideas they offered. This policy has consistently improved Alfa-Bank's convenience for clients. Last year saw the beginning of a new stage in our dialogue, with Alfa-Bank launching an official presence on all the key Russian and international Internet platforms, i.e. Facebook, Twitter, LiveJournal, VKontakte and Odnoklassniki.ru. Alfa-Bank's pages offer up-to-date information about its products and services, connections to consultations with our specialists, and spaces to make proposals to Alfa-Bank or express personal opinions. Alfa-Bank also continues development of its own social network, Alfa-Idea (<http://idea.alfabank.ru>), where any client can propose ideas for perfecting our retail business products and expanding our services. This open communication with clients supports client loyalty and contributes to building long-term relationships with each client –one of Alfa-Bank's global priorities.

Alfa-Bank's thoughtfully conceived development strategy (which supported the stellar results for 2011) and its transparent communications not only reinforce client trust but also foster trust with investors. That trust was demonstrated in the successful placement by Alfa-Bank of its own Eurobonds in 2011. The high demand for the bonds deserves special attention as it was the first time a private Russian bank has placed 10-year Eurobonds. The placement's success presented solid evidence of the financial sector's positive view of Alfa-Bank throughout its history.

In 2012, Alfa-Bank also plans to achieve considerable success. Today we can say that not only next year but also the four following years will see Alfa-Bank reinforce its positions in all key segments, increase its competitiveness and further buoy our focus on client relationships, which have always been Alfa-Bank's main advantage. To make its further development as effective as possible, in 2011 Alfa-Bank approved its Development Strategy to 2015. The approval of this program document is noteworthy because only long-term planning will bring the bank higher results, just as we focus on particular goals within each business segment. For the successful fulfilment of its strategic goals, Alfa-Bank will concentrate on three key elements: a focus on clients and their needs, active teamwork, and the expansion and maintenance of Alfa-Bank's cutting-edge technology and processing. In turn, the Corporate-Investment Bank will focus on further development of the transaction business and sales of complex investment products to corporate clients. The Retail Bank, in turn, plans active sales of credit cards and cash credits to individual clients and further enhancement and expansion of its branches. Of course, just as twenty years ago, Alfa-Bank will strive to maintain and improve its main advantage – a unique level of client service. The attention to clients, desire to satisfy their needs, ability to listen to their opinions and dedication to making our services straightforward, convenient and transparent are what makes Alfa-Bank the foremost private bank in Russia.

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Alfa·Bank



With you  
for **20** years  
and counting

**Petr Aven**  
Chairman of the Board  
of Directors at Alfa  
Banking Group, Member  
of the Board of Directors



## **RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW**

### **The structure of economic growth remains weak**

The past year has clearly outlined many aspects of a new economic reality. While GDP in 2011 returned to pre-crisis levels, economic growth is still at less than half the pre-crisis rate. Structural imbalances, which explain the depth of the crisis of 2008-2009 in Russia, have not disappeared. In addition, the external environment remains a risk factor, as the sentiment and liquidity of world financial markets are subject to rapid changes. Both before the crisis and in 2010-2011, the recovery in economic activity was based more on consumption growth than any revival in investment. Retail trade turnover in 2011 rose by 7.2%, accelerating from 6.3% in 2010. Against this backdrop, investment recovery appears slow. The general situation of uncertainty in the real sector and financial markets has made it difficult for companies to predict the impact of their long-term projects. As a result, investment in 2011 was 4% below the level of 2008, unlike household consumption, which has risen 4% in the same time period. The key sectors are general and housing construction, which last year recorded growth of only 5-6%.

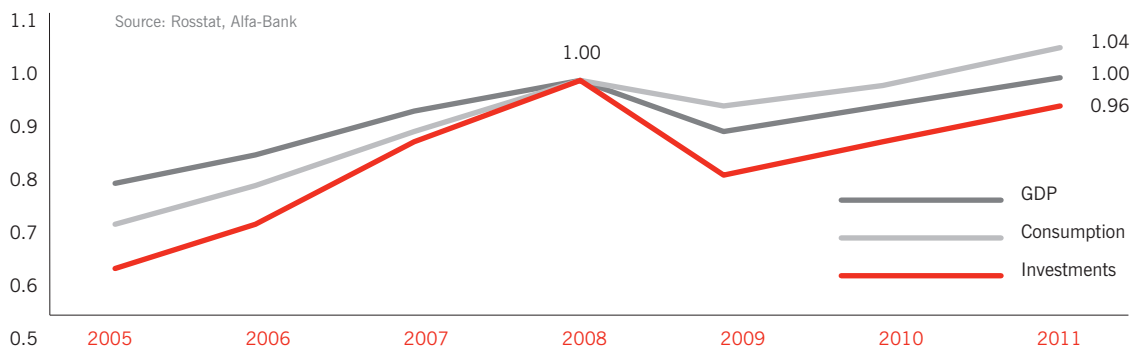
Despite the fact that Russia's economic growth has outshined a number of countries affected by the crisis, certain factors suggest continuing economic vulnerability. If you look at the structure of GDP, it becomes apparent that a large portion of the growth in 2011 was associated with the recovery in agriculture after the poor harvest of 2010. As a result, last year agricultural production increased by 16% in volume terms and provided one-seventh of the growth of the economy, whereas in 2000 to 2008 the sector grew by an average of 1-2% per year in real terms. Secondly, as in 2010, more than two-thirds of economic growth was associated with an increase in reserves. Just as in 2010, this means that economic growth largely reflects the positive mood of manufacturers and retailers rather than a real increase in demand. Thus, a recovery in investments remains the key factor that would provide the economy with a more robust platform for future continued growth. Thirdly, the economy is presently growing only by 4.3% per year, despite the fact that oil prices are now close to historic record highs, which suggests the real sector has been unable to use the available financial resources.



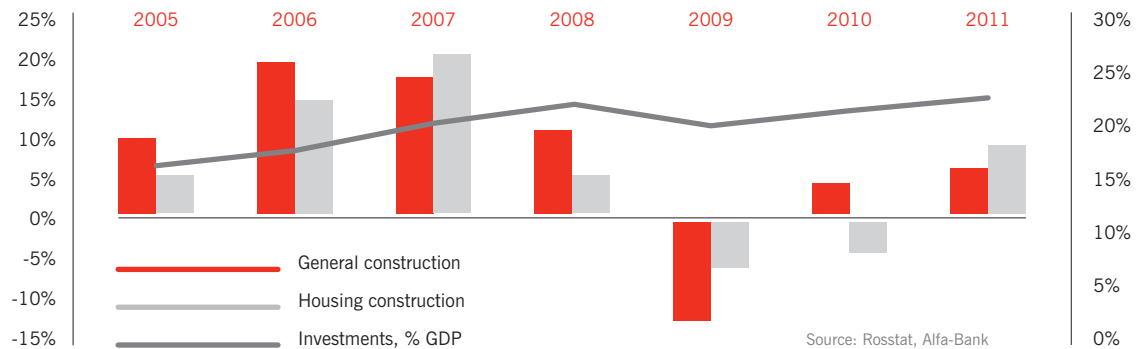
*The past year has clearly outlined many aspects of a new economic reality. While GDP in 2011 returned to pre-crisis levels, economic growth is still at less than half the pre-crisis rate. Structural imbalances, which explain the depth of the crisis of 2008-2009 in Russia, have not disappeared. In addition, the external environment remains a risk factor, as the sentiment and liquidity of world financial markets are subject to rapid changes.*

Identifying the above weaknesses is particularly important given that Russia continues integrating into the global economy. A landmark event last year was Russia's accession to the WTO. The country had been slow to sign an accession treaty, and in December 2011 finally completed negotiations. The long transition period established by the signatories allows the economy time to adapt and without sharp exposure to tightening competition in the next few years. However, it is already clear that the role of external factors in shaping the domestic trend will grow and increased competition will continue.

**Fig. 1: GDP, investment and consumption in real terms, 2008 = 100%**



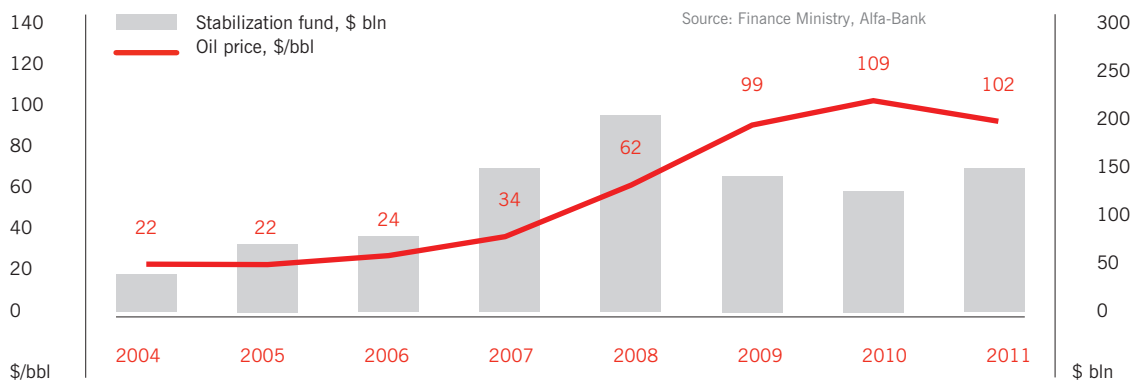
**Fig. 2: General and housing construction, investments**



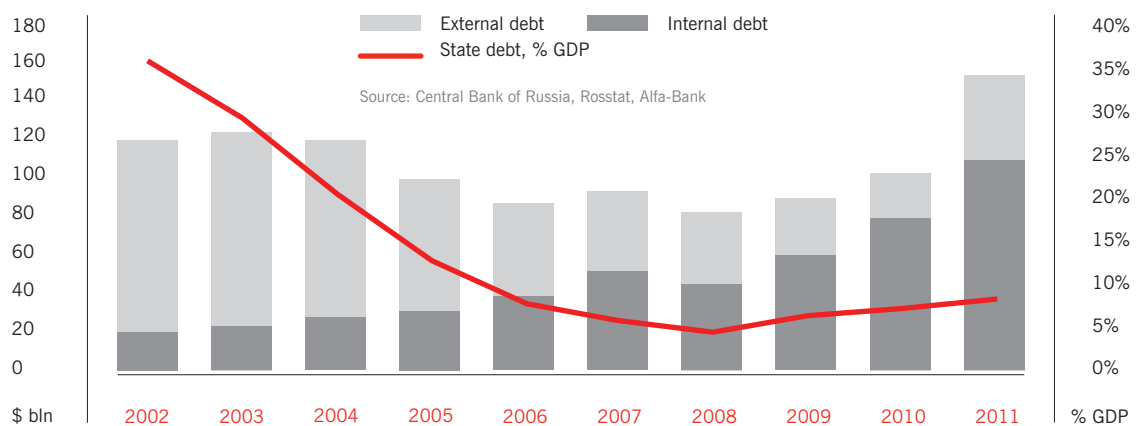
### Fiscal risks are under control

The main positive surprise from last year was the government’s tight budget discipline. Although initial Finance Ministry projections stated that the federal budget would end in deficit, in fact the year ended with a surplus of 0.8% of GDP. This result was partly achieved thanks to collecting unplanned revenues, but revenue from the oil sector provided only half of these revenues, which suggests that the economic recovery touched every part of the broader real economy. Contrary to expectations, the collection of the social tax, was increased to 34% from the beginning of 2011, remained at high levels. On the other hand, control over expenditures was made a significant part of the control of fiscal risks. Despite the pre-election period, federal expenditures were 98% financed, and about 200 bln RUB from the planned expenditures were saved. Although the average increase in pensions in the previous three years was 30% per annum, in 2011 they increased by only 10%. As a result, the sensitivity of the budget to the oil price was significantly lower than expected, and thus an oil price of \$102/barrel was necessary for the budget to be balanced.

**Fig. 3: Budget sensitivity to oil prices and the Stabilization Fund**



**Fig. 4: Internal and external public debt**



The budget surplus was one of the factors that facilitated the continued accumulation of reserves. While in 2009 and 2010 the Reserve Fund was used to cover the budget deficit, last year 1.1 tln RUB were added to the fund. Last year the Reserve Fund amounted to 1.9 tln RUB, while the National Welfare Fund accumulated 2.7 tln RUB – the total accumulation for the two funds accounts to 8.5% of GDP. At the same time, in response to a period of low interest rates, the government increased domestic debt by 1.1 tln RUB. The relatively low level of public debt will allow Russia to use this mechanism in the future, as total public debt amounts to only 9.0% of GDP, with 6.5% of GDP in domestic debt.

Tight fiscal policy has become an important factor in maintaining a favourable macro picture, but it has also weakened the dynamics of individual income. While in 2010, with 45 per cent indexation of pensions, real disposable income grew by 5%, in 2011 it grew by only 0.8%. This is the smallest increase in this index recorded in the post-crisis period, suggesting the importance of the budget in the dynamics of final demand. Social benefits provide 18% of total income, and in the last three years the share of this contributor accounted for approximately 30% of the annual income growth. The high social importance of the budget factor will obviously make tight fiscal policy difficult going forward.

Improving the budget's balance in 2011 has not removed long-term structural budget risks from the agenda. The reduction in the social tax rate to 30% in 2012 will increase the deficit of the Pension Fund and is now forcing the government to think about options for solving the problem. Discussion of a possible rise in the tax burden or changes to the pension system continues, but it is already clear that, given the aging of the population, the risk of increasing the tax burden on the economy remains significant.

## Capital outflow remains significant

Last year was not the easiest in terms of the external situation. On the one hand, oil prices remained high, which was the key to a stable trade balance. The positive current account balance in 2011 was 5.5% of GDP despite a significant 30% increase in imports. On the other hand, starting in late summer, the state of the European banking sector has led to significant concerns because of the possible negative impact of the Greek debt crisis on banks' balance sheets. As in 2008, problems in the banking sector, this time in Europe, have caused nervousness among Russian borrowers because of continued dependence on external financing. The volume of Russia's foreign debt in the post-crisis period has not declined but has on the contrary increased significantly.

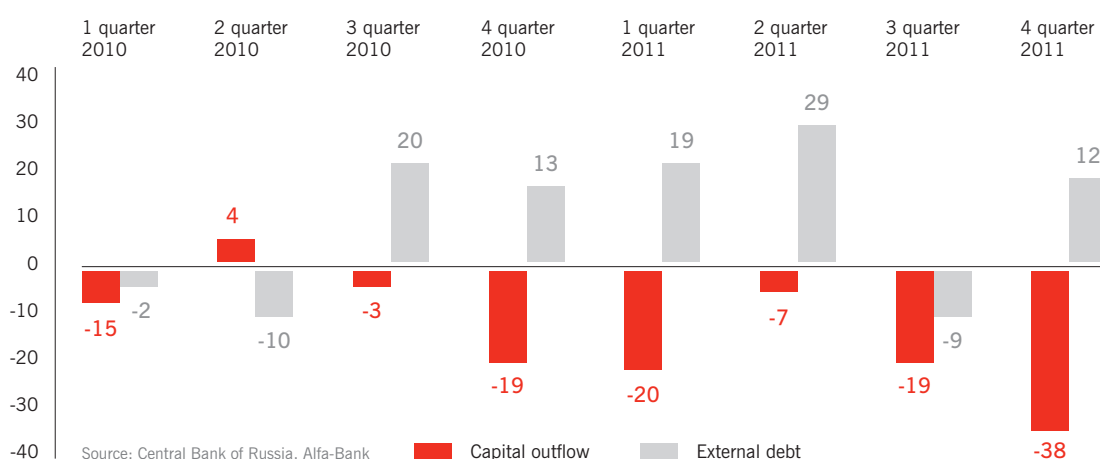
According to recent figures, foreign corporate debt in 2011 alone increased by more than \$50 bln to \$494 bln. External debt was increased equally by banks and companies. As a result, while a year earlier the Central Bank's reserves covered 100% of total external debt, this figure has now dropped to 93%.

Although the volume of Russia's foreign debt cannot be considered critical, there is some concern that, in fact, the raised debt capital is being used not to fund economic growth but to replace the capital outflow. The outflow of capital was significant in the first half of last year, when global markets were relatively healthy. The main reasons for this were internal, such as the weak dynamics of income, the risks of an increase of the tax burden and declining returns on capital. The situation worsened dramatically after August-September 2011, when structural considerations added to market factors. In the fourth quarter, total outflow amounted

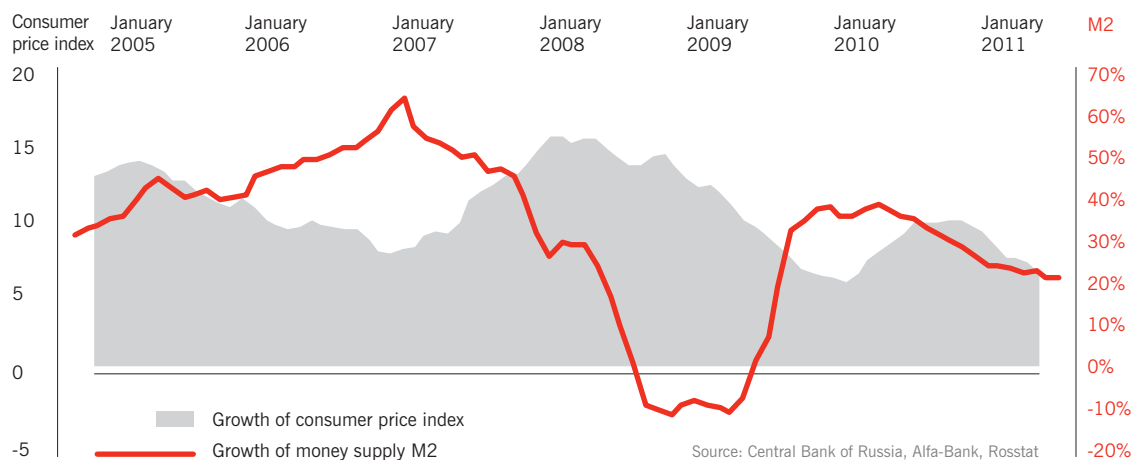
to \$38 billion, i.e. almost \$13 bln per month in comparison with \$4 bln of monthly outflow in the first half of the year. Therefore, by the end of the year, capital outflow increased to \$84 bln, or 4.5% of GDP. The outgoing capital actually withdrew more than 80% of the current account surplus from the economy, and, as a result, the Central Bank's reserves grew by only \$19 bln for the year.

It is not surprising that in an environment of capital outflow and quite tight fiscal policy monetary growth was only 23% last year. The slow growth in the money supply led to considerable success controlling inflation. At the end 2011, it had dropped to 6.1%, the lowest for the entire period since 1991, despite high oil prices. However, it is difficult to view this as a unique achievement of domestic policy because, in fact, slower price growth reflects a general weakness in demand in both Russia and the world economy.

**Fig. 5: Quarterly dynamics of capital outflow and external debt, \$ bln**



**Fig. 6: Consumer inflation and money supply dynamics, % YoY**





## Credit growth accelerated with state support

The outflow of capital and slow growth in the money supply led to higher domestic interest rates. The first round of growth occurred in late spring 2011, when one-day interbank market rates increased from 2-3% to 4%. The crisis in Europe caused this to accelerate, and in the beginning of the fall, rates reached 5%, and at the end of the year they had risen to 6%. Starting in summer, the rising cost of short-term money was felt by longer-term three-month rates, which over the course of 2011 increased from 3% at the beginning of the year to 7% by year-end. Starting in the fall, deposit rates also began growing.

Despite rising interest rates, the European banking crisis created a base for a significant acceleration in demand for domestic loans. Corporate lending grew at a rate of 18-20% in summer, but by the end of the year growth in this segment accelerated to 26%. The most rapid increase occurred in retail lending – it grew by 36%, not only due to the growth of consumer loans, but as a result of mortgage products as well.

At the same time, the banking sector's reliance on government funding increased. The total share of the Central Bank of Russia and Ministry of Finance in the financing of bank assets increased from 2% in early 2011 to 5% at the end of the year. The Ministry of Finance actively uses its deposits to support the banking sector, as a result of which, at its peak in October 2011, this source funded 3% of bank assets. In addition to support from the Ministry of Finance, the Central Bank of Russia also stepped up its lending to banks. All these measures helped avoid a further contraction of liquidity, but the long-term conditions for growth in rates persists. First of all, the continuing risks of capital outflows contribute to this. Second, the growth in rates contributes to increased competition between the corporate and public sector for credit. After borrowing 1.1 tln RUB in 2011, the Ministry of Finance plans to raise the same amount of money over each of the next three years on the domestic debt market. Finally, the tightening of fiscal policy, marked by the slowing of social indexing, resulted in the weak growth of the banking sector's deposit base, forcing banks to raise rates.

Nevertheless, the role of the banking sector in financing economic growth in the past year increased significantly. Total loan growth financed about one-third of economic growth, and the rise in retail lending accounted for one-fifth of the growth in final demand. Against the background of the low quality of growth, this suggests that credit quality issues remain on the agenda and that the priority of economic policy this year will be the regulation of credit growth to prevent the accumulation of financial risks.

Vladimir Tatarchuk  
First Deputy Chairman  
of the Executive Board,  
Head of Corporate-  
Investment Banking



## CORPORATE - INVESTMENT BANKING

Last year was a new stage in the successful development of the Corporate and Investment Bank. Alfa-Bank underwent significant structural transformation during 2011. In addition, a long-term development strategy has been created. This is why the year was of extreme significance to the corporate business of Alfa-Bank in general.

Alfa-Bank combined the strategic planning of its further development and meticulous everyday work, the aim of which was to raise Alfa-Bank's level of performance. As a result, Alfa-Bank managed to regain nearly all the market share that was lost during the financial crisis, which fully corresponded with Alfa-Bank's strategic plans. Alfa-Bank's corporate portfolio grew steadily in spite of the fact that the margin from commercial transactions appeared to be a bit lower than what was planned for 2011. Not only Alfa-Bank's corporate business but also its transaction business demonstrated rapid growth in the regions. Both Alfa-Bank's business and the corresponding market share of Alfa-Bank expanded in all main areas of Corporate and Investment Bank's activity in 2011.

Initial estimates indicate that for the year, the consolidated loan portfolio of Alfa-Bank under IFRS grew by 28.5% up to \$20.4 bln compared to the overall market increase of 20% (including loans to large and medium customers – \$16.8 bln, SME loans – \$0.6 bln, Mass Business loans – \$50 mln, loans granted by the Investment Bank – \$1.2 bln, Amsterdam Trade Bank loans – \$1.7 bln). As of December 31, 2011, the market share (under IFRS) was 2.94%, which is 0.14 percentage points above the corresponding figure from the previous year. Corporate customer accounts increased by 9% up to \$8.9 bln.

Regarding the investment business, Alfa-Bank, unlike many of its competitors, managed to close the year without any material losses in spite of the difficult situation on both Russian and international markets.

In our view, the recent situation on the corporate market is in general favourable for the further active development of the Corporate and Investment Bank. Major international market participants that were active on the Russian market are no longer ready to support the financial needs of their potential customers. They are cutting financing and thus contributing to lower competition in the corporate segment. The



*Alfa-Bank has a great future in terms of the further development of its corporate business since it remains the largest rapidly developing bank and the most rapidly developing large bank.*

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major competitors of Alfa-Bank are government-sponsored banks – Sberbank and VTB. In spite of their aggressive development plans, they appear to be moving rather slowly. In general, they remain competitive because the prices for their services are low. Thus, Alfa-Bank has a great future in terms of the further development of its corporate business since it remains the largest rapidly developing bank and the most rapidly developing large bank.

Alfa-Bank's other competitive advantages are the low levels of problem loans and its loan quality. In spite of the fact that Alfa-Bank's provisioning level is one of the lowest among Russian banks, its loan-loss provisioning strategy is rather conservative. Due to its business strategy, Alfa-Bank managed to survive the crisis without any material losses, which provides the opportunity to actively lend to its corporate customers.

Nevertheless, to keep its position as the leading Russian private bank, Alfa-Bank must constantly develop. This means significant changes in practically all spheres of the corporate and investment business, among other things. A very important document – the strategy for the further development of Alfa-Bank – was adopted in 2011 in order to strengthen Alfa-Bank's position on the market by using its competitive advantages.

## **Development Strategy of the Corporate and Investment Bank**

**In 2011, the basic priorities for the further development of the Corporate and Investment Bank were formulated. The following aspects should be noted:**

The foundation and development of a separate corporate segment – the Transaction Business Unit – will be one of Alfa-Bank's main goals. Alfa-Bank plans to significantly increase its earnings from the transaction business through 2015. One of this unit's tasks is to change the transaction business sales model, which provides for the establishment of strong product units that will be largely responsible for the sale of banking products. Thus, account managers, of whom Alfa-Bank is proud and famous for, will have more time to communicate with clients. This model will be employed in other business segments as well.

In 2011, similar changes were already in progress in the Corporate and Investment Bank. In particular, we decided to change the sales model. In 2012, it will be improved further. In the future it is planned to make the connection between an employee's performance and salary more clear. In addition, a differentiated approach will be applied regarding the responsibilities of sales specialists. This will make it possible for successful employees to sell even more products and earn higher profits for Alfa-Bank. In 2012, special attention will be paid to personnel training since the training of staff in the transaction business is done not only by attracting qualified employees in this sphere but also by retraining (and further training) those specialists who work with clients.

Another priority will be transitioning to a conveyer system used to prepare complex structured products. This will be done using the balance of Alfa-Bank's investment units. The task of Alfa-Bank is to create a system that will provide for the effective evaluation of risks not only pertaining to traditional commercial banking products but also to financing a customer's additional needs. Moreover, Alfa-Bank will start using "conveyer" sales, which are connected with risk evaluation and risk acceptance by experts who work in investment units. An important goal for the investment unit is to develop products that can be sold en masse to Alfa-Bank's customers – individuals and small legal entities. We are referring here to the Alfa-Forex strategic initiative and Alfa-Direct platform.

## Alfa-Forex

In 2011, a team was formed for the development of the Alfa-Forex retail business. Alfa-Forex's customer base and the earnings from this segment were several times larger for the year. The strategic initiative adopted by Alfa-Bank is formed on the basis of team-building processes, expansion of marketing and the introduction of new services and products. Thus, Alfa-Bank will have a powerful instrument that will make it possible to offer customers the best prices and sales terms on the retail forex market due to Alfa-Bank's leading position on the interbank market. Alfa-Bank's dynamic development and its commitment to reaching its goals allow us to hope that Alfa-Bank will become one of the leaders on the retail forex market within five years.

The installation of the most popular trading platform, MetaTrader, and the ability to open a trading account in moments turned to be the key factors influencing the development of Alfa-Forex in 2011. This allowed Alfa-Forex to reach new heights. In addition, it became more affordable, leading to improvement in the growth dynamics of the customer base.

In 2012, special attention will be paid to providing customers with fast and convenient payment methods and to increasing the list of traded instruments substantially. The adoption of measures to attract beginner customers to Forex and support them is planned as well. These measures include training and analysis.

Further development of cooperation between the Corporate and Investment Bank and Retail Bank will be a part of the general strategy. The level of this cooperation is currently high, allowing us to make complex offers to our corporate customers.

Lastly, an extra task is to constantly carry out a comparative analysis of our own business and the business of our competitors. This applies not only to the product line that we offer our customers but also to all banking processes. This type of analysis will make it possible for Alfa-Bank to follow market trends and thus strengthen its positions in all segments. In addition, a new platform is planned to be introduced in 2012, which will allow for processing a significantly larger number of transactions.

## Alfa-Bank's Operation in the Regions

In 2011, the expansion of Alfa-Bank's regional network continued. All regions can boast of significant growth as well as of an increased number of corporate clients, ranging from major participants on the local market to small companies and individual entrepreneurs. In general, Alfa-Bank's regional business model is designed to transfer full responsibility for the local operation and the development of all the Corporate and Investment Bank's product lines in each region in all segments (including the industrial segment) to local managers. This also applies to organizational management, such as employee incentive programs and business planning.

One of the priorities of regional operation is the development of the transaction business in various Russian cities. Currently, pilot regions are being chosen, where personnel are selected to be responsible for changing the local sales model as well as for sales of transaction products. The first successes in the regional implementation of this strategy could be achieved as early as 2012.

As of year-end 2011, the regional loan portfolio, according to management accounts, totalled \$7.5 bln, which translates into annual growth of 27%. As of year-end 2011, corporate deposits from regional customers totalled \$2.1 bln, which represents 15% growth from 2010.

## Large and Medium-Sized Businesses

The competitive advantages of Alfa-Bank in the area of products and technologies made it possible to successfully cooperate with large and medium-sized businesses in 2011. Alfa-Bank's loan portfolio grew significantly in 2011 due to transactions with financially stable borrowers. According to management statements, the loan portfolio of the Corporate and Investment Bank to the large and medium-sized regional customer segment (excluding ATB, including \$7.3 bln loans to regional customers) grew by 20% in dollar terms to \$16,8 bln as of December 31, 2011.

### The following major deals were closed in 2011:

- Syndicated loan to ITERA Oil and Gas Company LTD

In April 2011, Alfa-Bank purchased the receivables from one of the original lenders of a syndicated 3-year loan granted to ITERA Oil and Gas Company LTD. Under the loan agreement, a syndicated loan in the amount of \$200 mln was granted in November 2010 for the company's general purposes as well as to replenish circulating capital. This amount was further increased to \$250 mln. In 2011, Alfa-Bank became a rightful lender to the company. Its participation share was \$33 mln. Later, in August 2011, Alfa-Bank

took part in a second transaction to grant a syndicated loan to the company. The loan, which totalled \$325 mln was granted for five years. Deutsche Bank (London) was the loan arranger.

- Club-deal loan granted to EMC Group

Alfa-Bank was a co-arranger of a club-deal loan to EMC Group. The total amount of the loan was \$70 mln. The leading authorized arranger, book runner and deal coordinator was Raiffeisen Bank, while the leading deal manager was Banca Intesa. The loan was granted to finance the construction of EMC's multiuse centre. The centre was planned to open in May 2012.

- Alfa-Bank set a loan ceiling of 3.4 bln RUB for Razgulay Group

In June 2011, Alfa-Bank began cooperating with Razgulay Group OJSC. It set a loan ceiling of 3.4 bln RUB for the Group through June 2016. This is of great importance not only in terms of the cooperation between the two companies. The cooperation with a major company in the agricultural sector is a milestone event marking the arrival of Alfa-Bank in the Russian agricultural sector.

- Bad asset restructuring / repayment of overdue debt

Debts under leasing transactions with A-Trans Carriage Rolling Stock, KTS, MA-Trans, ETK, and Transport Investments were restructured. As a result, overdue debt of \$534 mln was repaid.

In 2011, all stages of debt restructuring for MOST Group were completed. Overdue debt in the amount of \$115 mln was repaid in full in June 2011 by claiming the collateral bank guarantee issued by a state bank.

In June 2011, the debt under a bad loan to Dominikon-M LTD was assigned, with a principal amount of \$87.4 mln. In payment for the assignment, \$90 mln was received. A settlement agreement was made with respect to the remaining debt, which was fixed in the amount of \$12.3 mln (Peresvet-Invest, CJSC) in October 2011. Interest and penalties totalling \$15.7 mln were included. The interest accrued on the debt was equal to 10%. The debt was to be repaid in equal instalments in 36 months.

- Other deals

A deal was closed to refinance the debt of Russian Coal Group in the amount of 4.6 bln RUB. As a result, Alfa-Bank became a majority lender to the Group (with a share of 55%). The equipment and mortgage agreements were registered as collateral. The total value of the collateral is over 5 bln RUB.

In August 2011, SUEK (Siberian Coal Energy Company) was granted a short-term loan (until October 2011) totalling \$550 mln USD as a funding bridge until the syndicated loans were taken out from Western banks.

In September 2011, a loan in the amount of 5 bln RUB was granted to Novolipetsk Steel (NLMK) OJSC.

In May 2011, Alfa-Bank decided to raise the loan ceiling for Chelyabinsk Tube Rolling Plant. This led to Alfa-Bank's position increasing by 6 billion RUB (Alfa-Bank's share in Chelyabinsk Tube Rolling Plant's portfolio amounted to 7%).

A second revolving credit facility agreement was made with INTER RAO UES OJSC, with a debt limit of 3.8 bln RUB. As part of this credit facility, a loan totalling 2.5 bln RUB was granted until February 25, 2014. The total position of INTER RAO UES, OJSC amounted to 4.7 bln RUB.

Loan limits totalling 3.6 bln RUB were set for INTER RAO UES Vostok Group. Alfa-Bank participated in a tender for lending to Far Eastern Generating Company, OJSC and was announced the winner of one of the lots (700 mln RUB for 12 months). Alfa-Bank provides short-term lending for Far Eastern Generating Company, OJSC (under the terms of the tender).

A loan limit of 10 bln RUB was set for Atomenergoprom OJSC (the managing and treasury company of the Group) and a corresponding loan agreement was made. In 2011, the client did not need any loans, but it deposited its available cash in the amount of 7 bln RUB in on-demand accounts (from May through August 2011).

A loan limit was set for Almaz-Antey Air Defense Concern. This included loans and bank guarantees totalling \$136 mln. In April 2011, a general credit risk limit was set for member companies of Almaz-Antey Group. The limit is \$498 mln and the 24 member companies can receive loan products within this limit.

A loan limit totalling \$779 mln was set for Rostelecom OJSC, while the company's actual debt is \$300 mln.

A revolving credit line in the amount of 1 bln RUB was opened for RESO-Garantiya OIJSK for 1 year.

Cooperation with Rusagro Group is expanding. The credit risk limit was raised from 5 bln RUB to 12.35 bln RUB, including an increase in the limit for sugar production from 3 bln RUB to 9.5 bln RUB. In 2011, funding was for the investment program related to the renovation of the Group's sugar plants. In the first 9 months of 2011, loans of 1.27 bln RUB were granted (out of subordinated loan funds granted by Vnesheconombank for 5-7 years as part of investment program financing). In addition, banking guarantees in the amount of 607 mln RUB were granted to Federal State Reserve Agency. The companies of the Group raised the funds to finance circulating capital, with the total amount of the granted loans equalling 2.7 bln RUB. The actual debt for all of Alfa-Bank's loan products is 6.2 bln RUB.

In January, Alfa-Bank set a loan limit of 3.0 bln RUB for United Confectionary Manufacturers Group. The loans were granted within a loan ceiling for the formation of circulating capital of 530 mln RUB and to purchase equipment (as part of confectionary plant modernization and a program to increase capacity) in the amount of 645 mln RUB. Negotiations are being held to provide financing backed by a money claim assignment (factoring).

In April 2011, Alfa-Bank granted a credit line of 1.7 bln RUB to PANAUTO Group (a major Mercedes dealer). The credit line was granted for 7 years to refinance the Group's debt to Sberbank. Later, the loan limit was raised to 2.2 bln RUB to allow for granting short-term auto loans to customers. As a result, today Alfa-Bank is not only the major lender to the Group but also the main settlement bank.

In June 2011, a credit transaction was made with 7th Continent Group in the amount of \$250 mln. The loan was granted to refinance the current loan portfolio of Mcapital, one of the Group's member companies. The collateral for the loan was 50 fixed assets (the stores of 7th Continent Network) with a market value of nearly \$400 mln.

In May 2011, a limit of \$54 mln was set for Donrechflot Group. Loan products were granted to Donrechflot OJSC for 7 years within the limit to take the place of loans with Sberbank that were granted to purchase 19 river/sea vessels with aggregate deadweight capacity of 101 thousand tons. This allowed the Group to increase its market share to 15%. The collateral for the loans was the 19 purchased vessels and 3 barges with a total market value of \$65 mln. At this time, the loan limit has been completely used up.

In February, a loan limit of 3.6 bln RUB was set for Yuzhkuzbasstroy Group for 7 years. The purpose of the loan was to refinance the debt of the Group's owners to a non-banking credit institution. The loan is backed by 6 shopping and entertainment malls and 2 business centres with a total area of 145 thousand square meters and a market value of more than 4 bln RUB. In March 2011, the first loan with a total value of 3.6 bln RUB was granted to the company for a term of 6 months. The borrowers and pledgers were all individuals (business owners). In July 2011, after the property rights for real estate assets were transferred from the individuals to reformed legal entities, the loan was refinanced for 7 years.

The debt of Rublevo-2 CJSC (Snegiri Group) under a \$124.2 mln loan to Credit Suisse was refinanced. The loan was granted for 36 months. The collateral and repayment source is Rublevo Residence Villa Community (near Moscow Ring Road), which is currently being built, and cash flows coming from the sale of the villas.

In August 2011, a general credit risk limit of 14.5 bln RUB was set for Spetsstroy. Loan products will be granted to the regional subdivisions of Spetsstroy within the set limit, such as GUSS Dalspetsstroy Federal State Unitary Enterprise (Khabarovsk), USST No. 9 at Spetsstroy of Russia, Federal State Unitary Enterprise (Krasnoyarsk), USST No. 4 at Spetsstroy of Russia, Federal State Unitary Enterprise (Novorossiysk), USST No. 5 at Spetsstroy of Russia, Federal State Unitary Enterprise (Saratov), USST No. 8 at Spetsstroy of Russia, Federal State Unitary Enterprise (Izhevsk), USST No. 3 at Spetsstroy of Russia, Federal State Unitary Enterprise (Saint-Petersburg), USST No. 2 at Spetsstroy of Russia, Federal State Unitary Enterprise (Moscow). The current size of the loans is 3.2 bln RUB.

In August 2011, a credit limit of 20 bln RUB was set for Stroygazconsulting LLC. Loan products will be granted to the customer within the set limit. The customer's current loan amount is 5.5 bln RUB. A bank guarantee of 10 bln RUB will be granted.



In May, it was decided to set a credit limit of 71.4 bln RUB for RMB Group to finance the purchase of three METROMARKET shopping centres in Moscow, which belong to Capital Group. The deal was closed and the current debt of the Group is 71.4 bln RUB. The loan was granted for 7 years. Escrow coverage accounts opened in Marfin Popular Bank Public Co Ltd (Cyprus) were used for the deal.

In July-August 2011, two projects of JAGERBERG HOLDINGS LTD (BIN Group) were analysed and financed within a set limit. The total financing amounted to \$87 mln and the term of the deal was 72 months. The source for repaying the loan is property rental (warehouse and office real estate). In May, JAGERBERG HOLDINGS LTD was granted a second credit tranche of \$20 mln (under the loan agreement made previously) on with Smolensky Arcade Business Centre as collateral. The total liabilities of this project are \$110 mln (the set limit is \$130 mln). The life of the transaction is 84 months.

In March a \$380 mln loan was granted to Optimatechnostimul CJSC. The debt of Kompleksnyie Investitsii Group within the set limit was raised from \$326 mln to \$640 mln and the previously granted loans were rescheduled (they were partially repaid using the loan granted to Optimatechnostimul CJSC, while cross-mortgage loans were granted to Cherry Tower and the loan payments were rescheduled following the receipt of rental payments from real estate units that had been pledged earlier). As a result, Alfa-Bank's position improved significantly.

## Volume Business Segment

Alfa-Bank pays special attention to working with small companies and individual entrepreneurs. Working with so-called volume businesses (that is, companies with an annual revenue of up to 150 mln RUB) was made one of Alfa-Bank's priorities in June 2010. The main task of the Volume Business Unit is the development of a transaction and loan business with legal entities with annual revenue of up to \$5 mln). As of year-end 2011, 84 new format offices had been opened to provide services to corporate customers both in Moscow and in the regions as part of the Volume Sales Organization project. Alfa-Bank offers a growing number of products and services designed exactly for this category of customers. The main features unique to volume business offerings that differentiates them others available on the market are speed (analysis of the credit application lasts no more than 5-7 days), an absence of hidden commissions and the largest amount of unsecured credit.

In 2011, in honour of its 20th anniversary, Alfa-Bank provided an additional present for small enterprises – it offered special terms for a “Partner” loan designed for small companies and individual entrepreneurs. Last year, the maximum unsecured loan amount was raised to 3 mln RUB. This is yet another step Alfa-Bank has made to accommodate small businesses. Partner loans are granted to customers in 33 Russian cities. In 2011, 1,570 loans were granted for a total of \$50mln.

A notable advantage of Alfa-Bank is that it offers special-purpose service packages that are worked out with consideration of customers' business structure and the extent of their financial activities. Each of these packages includes the necessary banking services. This provides extra advantages for the products that are the most popular among customers.

Last year small companies with settlement accounts at Alfa-Bank, were granted access to an easy-to-use software for bookkeeping – Elba Electronic Bookkeeper web service by SKB-Contour. This multipurpose service allows for optimizing business expenses. Elba makes it possible to maintain elementary accounts and to prepare reports for all regulatory bodies without the help of an accountant. In 2011, Alfa-Bank attracted more than 20,000 new customers.

In 2011, Alfa-Bank once again proved to be a standard-bearer in the development of banking services. It offered an innovative product to its customers – a local card Alfa-Cash. This card secures direct access to a company's settlement accounts through Alfa-Bank's ATM network. This saves a great deal of customers' time. Using the card, a businessman can replenish his account or withdraw funds from it in any branch of Alfa-Bank, provided it has an ATM that receives cash. Thus, a businessman can make cash transactions on his company's accounts around the clock. An extra service of SMS messaging makes it possible to control cash inflow on the settlement account online. There are no analogous products on the Russian market. In 2011, this service was made available to Alfa-Bank's customers not only in Moscow and Saint Petersburg but also in Chelyabinsk. At present, this unique service is provided in all Alfa-Bank's offices that provide services to legal entities. More than 2,000 cards have already been sold.

## Settlement Business

In 2011, the Settlement Business commission income grew by 16% compared to 2010, up to \$83mln. Share of commission income in Settlement Business total income increased by 4% up to 41%. The number of external payments grew by 31% in 2011 compared to 2010. In December 2011, the number of payment orders reached almost 1mln. The volume of payments increased by 22% compared to 2010. In 2011, the average daily term deposits of Settlement Business grew by 36% compared to 2010, demand deposits – by 25%.

The major clients of Alfa-Bank's Settlement Business are FSK EES, TNK, UAC, X5 Retail Group, RESO-Garantiya, Oboronprom.

### Widening of Cooperation with the Existing Customers

- ER-Telecom CJSC. The Company has been a customer of Alfa-Bank since 2009. Since then, all extra receipts have been received on the company's accounts only through Alfa-Bank, which was chosen to be the main settlement bank after the service "collection and identification of incoming payments" was introduced. Alfa-Bank's business expanded in the following way: Incoming revenue increased from \$100 thousand per month to \$21 mln per month and commission income increased from \$1.6 thousand per month to \$8.5 thousand per month.
- Sibir Airlines (S7 Airlines). Besides existing RUB cash flow, the company made the following foreign currency transactions with Alfa-Bank in 2011: conversion (including night desk operations), opening of transaction passports and express money transfers in foreign currency.

- One can also characterize as positive activities aimed at increasing the settlement business figures as a result of selling cash management products and complex structured payment processing to such companies as Russian Authors Society, Rusclimate, Mosstroytransgaz, Russian Coal, etc.

### Encashment

- Sportmaster – 47 stores in 12 cities yielding \$8 mln per month. The company was attracted by the possibility of encashment of sale proceeds (revenue) and identification of incoming payments (broken down by region and store).
- Avtovek Group – 13 automobile dealerships in 8 cities yielding \$7.9 mln per month.
- Sofas and Armchairs Company – 71 stores in Moscow, Moscow region and Yaroslavl yielding \$4.3 mln per month.
- DiHouse Group (ReStore) – 67 stores in 13 cities yielding \$3.4 mln per month, with sale proceeds encashment and identification of incoming revenue.

In 2011, sale proceeds of over \$80 mln were received for X5 Retail Group N.V. Alfa-Bank receives cash from more than 50 of the customer's stores located in various regions as well as from 150 Kopeyka retail stores that were purchased at the end of 2010.

An increasing number of Moscow customers receive Alfa-Bank's own encashment service. The development of this service in 2011 extended our potential to a large degree in terms of the encashment of customers' cash flows.

### Projects Completed by the Settlement Business Unit in 2011:

- A new Volume Business Settlement Product Development Administration was created in the Settlement Business Directorate. This continued the development and improvement of cash management service products in order to attract customers to the new volume business segment.
- An exclusive settlement project was issued in cooperation with RESO-Garantiya OIJS to handle accounts between RESO-Garantiya OIJS and its individual entrepreneur agents. As a result, a new process was worked out in Alfa-Bank to replicate this service for other insurance companies.
- Alfa-Bank started a "20 Years of Free Service" campaign. This involved giving customers who used the "Yubileyny – 20 Years" service package the opportunity to use Alfa-Bank's services for free for 240 months. As a result of this campaign, Alfa-Bank acquired around 1,000 new customers.

- New innovative insurance products (that are unique on the market) for individual entrepreneurs, small companies, their owners and employees were developed together with AlfaStrakhovanie OJSC.
- Commission collection for external foreign currency money transfers was automated. This improved commission collection and reduced the time Bank employees spend calculating the commission amount and writing it.
- An individual service – Incoming Payment Identification under Factoring Agreement was developed. In addition, the Alfa-Factor system was improved.
- A new individual service called Processing of INTER RAO Group Payments was introduced. An interaction between Alfa-Bank's subdivisions when processing payments made by INTER RAO Group was developed as part of the abovementioned service.
- Alfa-Bank's customers were offered a new product called On-line Conversion (Alfa-Forex System (Alfa-FX)). This allows a customer to independently buy and sell foreign currency (without the assistance of a Bank employee), exchange currencies on-line, follow rate movements and make transactions from 6:00 AM until 10:00 PM (Moscow time). The introduction of this product will make it possible to increase commission income from conversion transactions. More than 20 customers purchased this product within the first month of sales. Purchase and sale turnover was over \$20 mln.
- A new banking product called Overdraft with Partial Interest Reimbursement to the Group was introduced. This product makes it possible for companies to draw loans from Alfa-Bank in the form of standard or umbrella overdrafts and at the same time compensate interest expense related to overdraft usage by receiving interest accrued on balances on settlement accounts. This product has now become typical for Alfa-Bank.
- Another new service is Funds Conversion at Central Bank of Russia Rate for Tomorrow. This product allows a customer to make conversions using this rate, which is the most balanced rate on the spot currency market. This service gave Alfa-Bank the opportunity to offer its customers a rate not available in the tariffs of its competitors using a transparent scheme.
- Another newly introduced banking product was Standing Order for Legal Persons. Alfa-Bank's customers were given the ability to allow it to be able to transfer funds from the customer's RUB settlement account at any time convenient for the customer without any extra submission of payment orders. The execution of a standing order is automatic. It requires no participation on the part of Alfa-Bank's account manager and can be performed as often as the customer wishes.
- Moscow customers enjoy the opportunity to use the service Rapid Deposit of Funds in the Currency of the Russian Federation. The procedure for cooperation between Alfa-Bank's units in the event of a single rapid deposit of funds for customers of Moscow outlets was developed. The product allows for rapidly crediting a certain amount of money to a customer's account.

- The Zero Balance Account (ZBA) product was improved. Since December, customers have been offered extra services such as ZBA/RT%, ZBA On-line and ZBA-Overdraft.

As part of ZBA/RT%, a customer may transfer funds from one account of the Group to another as 1) a percentage expressed in a fixed amount, 2) as a percentage of the available balance or opening balance, 3) of the credit turnover on the current day, 4) of "cleared" credit turnover on the current day, 4) expressed as a percentage of the closing balance as of the end of the day, 5) as the credit turnover of the day immediately preceding the day when the funds are written off the customer's account, but not exceeding the available balance of the cleared credit turnover of the day immediately preceding the day when the funds are written off the customer's account, but not exceeding the available balance.

A customer may transfer funds from one account of the Group to another four times a day (the time is determined by the customer) and take part in the closing of the transaction day (as a part of ZBA On-line). By using ZBA-Overdraft, a customer may transfer funds from participating accounts to the main account provided the overdraft limit is used on this account.

#### **We single out the following major projects**

- TNS S Group. The Group was offered a package of cash management services designed to raise the effectiveness of account and incoming cash flow management (of funds coming from various payers). The services included Single Treasury, Single Balance and incoming payment identification. Moreover, working with a major holding had a synergy effect. For instance, the employees of Roznitsa (Yaroslavsky Back Office) succeeded in signing up Yaroslavl Retail Company to the Alfa-Click internet bank payment system. An internet payment project was implemented for certain Group members. Alfa-Bank is also becoming the main settlement bank for the Holding.
- Russia OIJS. Alfa-Bank performs encashment of the federal insurance company's cash flows. The customer chose Alfa-Bank as its servicing bank since it valued the Single Treasury system running with the help of Single Operator, Summary Extract and Automated Budget Control software. Thirty-seven settlement accounts were opened in succession at 34 local units of Alfa-Bank where this service is provided.
- Marins Group. This federal company, which unites agricultural, hospitality and property management companies, as well as companies from other industries, was provided the use of Single Balance. This product makes it possible to use the cash flows received on multiple accounts as efficiently as possible.

The Settlement Business Directorate proposes increasing the incoming cash flow of customers' receipts by both selling bank products to new customers and working with current customers, to whom bank products were first sold at other times, on an everyday basis.

## Factoring

As of year-end 2011, Alfa-Bank had once again proven to be a leader on the factoring market. This is included in the top-3 list in terms of portfolio size, assigned receivables and financing provided.

According to the annual statistical survey of the Russian factoring market made by the Association of Factoring Companies (AFC), at year-end 2011, Alfa-Bank provided 12% of factoring market services. The total amount of receivables assigned to Alfa-Bank was 103.2 bln RUB, the funding provided to customers reached 83.3 bln RUB, and annual growth totalled 40.2 bln RUB, or 93%.

The fact that funding provided to Alfa-Bank's customers increased twofold was due to active promotion of factoring to customers from various industries, performing non-recourse factoring deals and providing customers with new services (uncertified financing and providing analytical data online using the Alfa-Factor module). At year-end 2011, the growth in the number of active customers was over 52%. Alfa-Bank acquired new, globally famous customers for factoring services (LG Electronics RUS LTD and Gorenje BT LTD).

According to management, the growth of the factoring transaction portfolio amounted to more than 60%, or \$520mln. The portfolio of one of the major iron and steel companies – Magnitogorsk Iron and Steel Works OJSC – increased nearly six times, and non-recourse factoring transactions began. The factoring in the SME segment increased 2.7 times last year from 800 mln RUB at year-end 2010 to 2.2 bln RUB at year-end 2011.

## Trade Financing

In June 2011, an event took place that was important for Alfa-Bank and its customers. Alfa-Bank and Atradius export credit agency (the Netherlands) made a partnership agreement. The purpose of this agreement is the further development of export and import relationships between Russia and the Netherlands. The agreement allows for the provision of long-term trade financing to Russian companies for them to buy equipment produced in Holland and pay for the services provided by Dutch contractors. The cooperation with Atradius makes it possible for Alfa-Bank to raise funds in euros and US dollars from foreign banks for its customers. It offers attractive rates for a term of 10 years for contracts made with Dutch companies. Alfa-Bank and Atradius have already enjoyed working together on such deals. The first deal under this agreement was made in 2011. The agreement was signed because Russian and Dutch companies are becoming more interested in efficient cooperation.

In 2011, Alfa-Bank continued to strengthen its position on the trade finance market. The number of products offered to Alfa-Bank's customers increased threefold compared to 2010. The product portfolio grew by 80% by the end of the year and totalled \$1.2 bln. Alfa-Bank offers a wide range of products to its customers (including letters of credit, guarantees, direct loans and long-term financing in partnership with ECA). Alfa-Bank is flexible in reacting to the changes in commercial partnership terms for its customers to cooperate with their international partners. It is ready to seek unique market solutions together with foreign banks. An example this are deals made to refinance equipment already delivered to Russia within the framework of ECA programs, as well as financing contracts that customers made with the subsidiaries of companies supplying the equipment to Russia.

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## Investment Business

Alfa-Bank received international recognition when it came in 34th in the annual survey held by EUROMONEY Foreign Exchange, making it the only Russian bank listed in the top-50.

## Cooperation with Exchanges

An event that was very important for the Russian stock market and was long-anticipated took place in 2011. MICEX CJSC and RTS OJSC consolidated and Alfa-Bank, being a large RTS shareholder, participated in this directly by selling a part of its shares. In addition, a team of Bank employees was an RTS investment consultant. The sale of an equity stake brought in revenue of \$90 mln (as a result of investing in RTS shares).

## Equity Capital Market

Alfa-Bank participated in two share placement deals – the sale of an STS Media equity stake and Rusagro's IPO.

## Debt Instrument Market

As of year-end 2011, Alfa-Bank had cemented its place on the debt capital markets. It performed a number of important transactions and secured a place on the top-10 list in a number of segments. In 2011, Alfa-Bank's specialists made several successful placements for its customers in the financial, metallurgy and power engineering sectors. The total amount of bond issues organized by Alfa-Bank for Russian borrowers was over \$2.5 bln in 2011.

## Alfa-Bank's Bonds

In 2010, Alfa-Bank broke through on the international capital markets. It became the first Russian bank to place Eurobonds after the crisis. In 2011, Alfa-Bank Group made a second Eurobond offering in the amount of \$1 bln maturing in 2021 at a rate of 7.75% per annum. The Eurobonds were issued by Alfa-Bank Bond Issuance Plc at a price equal to 100% of the Eurobonds' nominal value. The funds received from the placement were allocated toward growing Alfa-Bank's loan portfolio. This transaction was of great significance, as it was the first time a private Russian bank had placed Eurobonds for a term of 10 years. This was possible thanks to Alfa-Bank's successful operation in 2010 and its clear development strategy. High investor confidence made it possible to set the issue price at a relatively low spread compared to Russian state-owned banks. The lead managers and underwriters were Goldman Sachs International, UBS Investment Bank and Alfa-Bank OJSC.

In addition, in February 2011, Alfa-Bank was an exclusive lead manager of its series 01 bond issue (RUB denominated) with a circulation period of 5 years and the face value of 5 RUB. This placement was the first borrowing by Alfa-Bank on the RUB bond market in the past 7 years and was one of the first deals made on the Russian market in 2011. The fact that Alfa-Bank resumed its borrowing on the RUB bond market demonstrates that it interests the market and that investors see the true value of its credit quality.

In the second half of 2011, Alfa-Bank issued a second tranche of RUB bonds. The nominal value of the offered securities was 5 bln RUB. This placement was actually a continuation of Alfa-Bank's successful operation on the RUB bond market. In spite of the market's instability, investors showed substantial interest in this placement. By the time the term for sending offers had expired, total demand in the range of 9.00-9.25% was 1.5 times above supply at more than 7.3 bln RUB. It is expected that the bonds will be included in the Lombard List in the future.

In December 2011, Alfa-Bank closed a club-deal to raise a syndicated loan of \$250 mln for 12 months. The initial amount of the loan was \$160 mln. However, despite problems on global financial markets and in particular on European financial markets, Alfa-Bank managed to increase the amount to \$250 mln. The loan was arranged through such leading financial institutions as Citibank, HSBC Bank PLC, Wells Fargo NA and West LB London Branch. It should be noted that new counterparties that had never participated in Alfa-Bank's syndicated loans before were the parties in this deal.

The loan's interest rate was 175 basis points above LIBOR, which was the lowest rate for such transactions made by private Russian banks in 2011. The funding was allocated to make loans to corporate customers. This was the first syndicated loan granted after the economic crisis of 2008. This club loan was no doubt a success in terms of cost of funding. It demonstrates that on the international financial markets, Alfa-Bank is perceived as the leading private Russian bank.

## Derivatives Deals

Alfa-Bank started using the conveyer sales model to sell derivatives in 2011 as a part of its development strategy. We strengthened our trading subdivision, which provides the best quotes for our customers. Besides, we increased the number of staff responsible for the sale of derivatives and simplified product handling for our customers. Today a wide range of companies can receive high-quality service in the sphere of currency, interest rate and price risk hedging. We provide all-inclusive services to our customers. Additionally, we provide consultations on legal and tax issues related to the derivatives and provide recommendations on the accounting of deals, thus securing the competitive advantage of our product.

The newly implemented strategy quickly produced an effect. Already in 2011, the number of customers who use this product increased by several dozen. At the same time, Alfa-Bank managed to maintain its business that is traditionally done with the largest Russian companies. We expect that in 2012 the number of customers will increase at a faster rate than before.



Efficient investment and financial consulting services are provided to various companies. Alfa-Bank was a sell-side financial consultant for Mechel OJSC, the leading Russian iron mining and steel company, in its deal to purchase 100% of the shares of Donetsk Electrometallurgical Works (DEMZ private joint stock company, Ukraine) in December 2011. The deal amounted to 537 mln USD.

### **Alfa Capital Holdings (Cyprus) Limited**

Alfa Capital Holdings (Cyprus) Limited Investment Company has operated in the Republic of Cyprus since 1996. Alfa Capital Holdings (Cyprus) Limited is a holder of the European license issued by the Cyprus Securities and Exchange Commission for providing investment and financial services. For this purpose, the Company uses a variety of financial instruments. It operates on the principal global markets as well as in Ukraine and Russia. The Company's branch Alfa Capital Markets (ACM UK) is in Great Britain. It is primarily involved in arranging deals for the companies from Russia and CIS countries.

### **Alfa Capital Markets (United Kingdom)**

Alfa Capital Markets (ACM UK), the London branch of Alfa Capital Holdings (Cyprus) Ltd, provides services to a lot of institutional investors and hedge funds in Great Britain and continental Europe. It works with assets from Russia and CIS countries.

### **Alforma Capital Markets (USA)**

Alforma Capital Markets USA is a subsidiary investment company of Alfa-Bank in New York. It was opened in the USA in 2001. The Company is a holder of a license issued by the U.S. Securities and Exchange Commission (SEC). It specializes in working with institutional investors and hedge funds in the USA, Canada and Latin America.

### **Cooperation with Other Banks**

It was always very important for us to work together with other banks since other financial institutions are the parties in the deals made in both the corporate and investment sectors. Under such circumstances, the confidence of major Russian and foreign companies that consider Alfa-Bank to be their reliable financial partner is very important.

## Investment Conferences

Last year, Alfa-Bank hosted the VI All-Russian Mass Media Conference “The Russian Banking Sector: Potential and Threats in New Circumstances”. The representatives of more than 100 federal and regional media organizations took part in the aforementioned conference. Well-known experts such as Chairman of the Board of Directors of Alfa-Bank Group Petr Aven, Aide to President of the Russian Federation Arkady Dvorkovich, Deputy Chairman of the Central Bank of the Russian Federation Alexey Simanovsky, Deputy Minister of Economic Development of the Russian Federation Stanislav Voskresensky, State Duma Deputy and President of the Association of Regional Banks of Russia Anatoly Aksakov, MICEX President Ruben Aganbegyan and others shared their views on the development of the Russian banking system with journalists.

Finally, when summarizing Alfa-Bank's activity in 2011, it is necessary to say that it was recognized by the experts. Alfa-Bank was announced the winner in The Best Commercial Bank of the Year category based on the results of the annual banking award “Big Money” that was started by the weekly business magazine Itogi. This was the second time that Alfa-Bank won this award. Besides, Alfa-Bank's team of analysts won an award in the Stock Market Elite contest.

## Forecasts and Prospects for 2012

The goals set for the Corporate and Investment Bank in 2012 are quite ambitious. This applies not only to certain figures that are to be reached and that indicate its successful performance, but also to systemic changes, which will provide for the possibility to restructure the business model so that the corporate and investment units would really be a team. Following the approved strategy, the transaction business will be developed further. Besides, the sales model employed by Alfa-Bank is to change. The updated model will be based on raising the profile of product units. It is also planned to activate the conveyer evaluation of substandard risks. This will make it possible to maximize investment business returns. A great deal of attention will be paid to servicing the existing customers of Alfa-Bank. Products designed for small companies and individual entrepreneurs will be developed further. All the elements mentioned above form a single strategy that is oriented towards the complete unification of corporate and investment business platforms and towards further improvement of services that Alfa-Bank provides to both existing and potential corporate clients. One more goal that is to be achieved using this strategy is the integrated development of Alfa-Bank as the leading private bank of Russia.

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Alfa·Bank



A unique  
approach for every  
client, founded  
in **20** years  
of experience

Alexey Marey  
Member of the Executive  
Board, Head of Retail  
Business



## RETAIL BANKING

Alfa-Bank achieved much progress in Retail Banking in 2011. The annual results show Alfa-Bank managed not only to fulfil its objectives for retail banking in 2011 but also exceeded planned ratings in many areas. The most striking illustration of this is the record-breaking ratio of operational profit in the retail banking in 2011, \$264 mln before tax. This is the highest result in the whole history of Alfa-Bank's retail business.

This well-rounded success came from positive development in all areas of the retail business. Alfa-Bank's strong gain in market share for demand deposits deserves particular consideration. In 2010, Alfa-Bank's market share was 5.66%, while at the end of 2011 it reached 6.20%, and then 6.47% as of January 31, 2012. This shift is very important as it shows customers' loyalty to and trust in Alfa-Bank as their provider of banking services. In the demand deposit market, Alfa-Bank retained the third position, lagging only state-affiliated banks Sberbank and VTB 24, being behind the latter by less than \$0.5 bln in terms of customer accounts, with the amount of funds attracted equal to USD 5.0 bln. As for the total retail deposit market, Alfa-Bank confidently ranks fourth among Russian banks.

More importantly, the bank increased its number of retail clients by 17%, or more than a million people, reaching a total of 6 mln customers.

### E-business

Acting in accordance with customers' needs, Alfa-Bank appreciates their time and offers solutions that allow them to interact with it at any time without limits like branch business hours. Furthermore, the future of online banking is in mobile devices, and Alfa-Bank has taken this in to consideration in developing special applications and services that allow a customer to make necessary transactions with the help of mobile devices across all major platforms.



*Acting in accordance with customers' needs, Alfa-Bank appreciates their time and offers solutions that allow them to interact with it at any time without limits like branch business hours.*

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The number of Internet bank customers now exceeds 1.5 mln, and the number of Alfa-Mobile and Alfa-Check SMS Bank users has reached 150 thousand and 1.4 mln, respectively.

Revenue from Alfa-Bank's retail e-business in 2011 exceeded \$50 mln.

Among the new functions, we highlight the Financial Targets Service, which provides the customer with a convenient tool for special-purpose deposits, and long-term orders that help automate regular payments. Alfa-Check has also gained new functions for disabling check cards as well as filing and servicing payments via SMS.

We also note the growing interest in the Alfa-Mobile service. This interest indicates that more and more clients use bank services via their mobile phones. Alfa-Bank is now the most mobile-equipped bank in the country (possibly even in the world) with an extensive array of applications for various platforms (i.e. iOS, Android, Java, Symbian, Blackberry). Today, Alfa-Mobile allows clients to execute almost any transaction, including account-to-account transfers in various currencies, online cell phone account payments, fees for Internet providers as well as housing and communal services, and credit payments. Clients can also check account balances and create payment templates for later reuse.

Alfa-Bank's e-invoicing service showed strong development in 2011, with more than 150,000 invoices settled. Moreover, the number of companies whose services can be paid via Internet banking now exceeds 5,000.

Alfa-Bank will continue the development of its e-business products and the implementation of new innovative products like Alfa-Click and Alfa-Mobile. Additionally, existing services like Internet acquiring will continue further expansion and development.

Today, Alfa-Bank's share in the Internet acquiring market is more than 40%, while turnover is more than \$1.3 bln, according to VISA and MasterCard data. OJSC Mosenergosbyt should be mentioned as being among the most substantial partners, with Alfa-Bank implementing all e-commerce projects for this company: Internet acquiring via the company's site, storage of credit card data and automatic withdrawal of credit card funds, and service payments via SMS or the company call centre.

In line with Alfa-Bank's strategy for e-business for 2011, two innovative projects were launched with mobile telcos. First, Alfa-Bank launched a pilot project for the world's first check card tied to the balance of a cell phone in the beginning of the year. This can be based on either a virtual card for Internet shopping or a plastic check card for cash withdrawals. In summer, the project was expanded countrywide, and by the end of the year around 220,000 virtual cards had been issued.

## Cooperation with Virtual Payment Systems

In July 2011, Alfa-Bank and VimpelCom jointly launched the RuRu Payment System, which aims at the development of mobile electronic payments.

Alfa-Bank also continues to collaborate with leading social sites in the Russian-language Internet. Last year, an application for service payments via the Odnoklassniki social network was launched and subsequently installed by several hundred thousand users of the network.

## Personal Instalment Loans (PIL)

In 2011, the Retail Bank continued seeing growth in the loan portfolio. Despite the high rates of growth planned, including 80% PIL portfolio growth, Alfa-Bank still managed to exceed expectations with results higher than planned, i.e. growth of approximately 90%. One of the factors behind the loan portfolio growth is the higher productivity of branch offices, for which the number of engaged customers trebled. Moreover, in 2011 Alfa-Bank's range of loan products was updated and made more attractive to prospective customers. In addition, loan limits were raised, and average loan value in 2011 was 20% higher than in 2010.

In 2011, growth in sales of express loans (the products of the Prompt Loan service) also trebled. This service was first offered to customers in 2010, and by the end of 2011 the share of such loans made up 40% of all cash credit loans.

Online offers of loans were also started in 2011. By the end of the year, the share of online applications for loan products reached up to 30%. This process was kicked off with a great project launch in 2011. The key objectives of the project have been maximum time savings for customers in processing cash loans and credit cards, and optimization of operating processes within Alfa-Bank. Customers now have the opportunity to apply online for loans on the Alfa-Bank website with a follow-up response to the application. Thus, the application for a loan now takes only several minutes.

In 2011, Alfa-Bank's model for issuing cash loans was revised to be clearer and more convenient. Customers only need to bring the required set of documents to the branch office, and within ten to fifteen minutes he/she will receive all the relevant information concerning feasible lending terms (i.e. the interest rate, tenor and limit). Necessary record checks are then carried out and, in the event of approval, the customer will obtain a loan on exactly the terms offered in the initial discussion at the branch office.

In 2012, lending to individual clients will remain a priority in retail banking. Particular emphasis will be placed on standard loan products and express loans. We forecast loan portfolio growth of 44%. Additionally, Alfa-Bank plans to increase its lending through affiliate networks.

## Consumer Loans

Consumer lending is an important area in the sector of private individual lending that has attracted a significant number of new clients to Alfa-Bank. The volume of consumer loans granted in 2011 was 30% higher than in 2010. Alfa-Bank's gross consumer loan portfolio totalled \$924 mln at year-end 2011.

At present, Alfa-Bank is the only player on the market with a fully fleshed out presence in major national and regional retail chains. This includes segments like home appliances, household electronics, mobile retail and distribution networks for the DIY segment (i.e. OBI, Kastorama, Baucentre, K-Rauta), and furniture distribution networks (Mnogo Mebeli and Tsvet Divanov). The number of domestic and affiliate retail outlets where this service is offered has increased greatly, and their overall performance has increased as well. For example, the number of outlets in the affiliate network in which consumer loans are issued via Alfa-Partner technology increased 1.2 times over 2010. This technology has been very profitable for Alfa-Bank as loans are issued by staff members of the affiliate network. Today, the number of such outlets is more than 17,000. At the end of 2011, more than 45% of all consumer loans were issued in the affiliate network of Alfa-Bank, exceeding the year-on-year results 1.4 times.

For 2012, we expect substantial growth in consumer loans. This applies above all to sales growth in the affiliate network. The development of this sales channel will help to expand the distribution network and to increase Alfa-Bank's market share in consumer loans.

In 2011, Alfa-Bank also expanded its presence in the trade segment, with its products becoming available in such industries as furniture, fitness, tourism, education, medicine and clothing.

## Credit Cards

In 2011, credit card portfolio growth continued, totalling more than 20%, according to management data.

Alfa-Bank also expanded its options for applying for loan products with the Online Inquiry Form. By the end of the year, this service accounted for more than 30% of all applications. Credit card sales also increased more than threefold. The fourth quarter broke Alfa-Bank's record for credit cards sales due not only to the increased efficiency of sales but also to the launch of a promotional 100 days interest free. This was the most popular promotion for Alfa-Bank in 2011 and offered clients unique, pioneering products on the Russian market.

In 2012, Alfa-Bank plans to continue increasing sales productivity, having already stepped up the pace from the beginning of the year, with an ambitious goal of doubling its portfolio. Alfa-Bank launched the express loan service with instant confirmation in branch offices or via the Internet to service affluent customers en masse and to expand the geography of Alfa-Bank's lending.

In addition, Alfa-Bank plans to optimize its products further. We intend to raise credit limits, reduce minimum payments and launch a new product, a fixed-payment credit card that differs from the standard card in offering a clearer schedule of monthly payments.

## Regional Development

Alfa-Bank services are in demand across different regions of Russia. Every year, we re-optimize the network to best satisfy this demand. Retail Bank branch offices suffering lagging demand are moved to other regions where they are more necessary, and additional branch offices are opened as deemed necessary to satisfy Alfa-Bank's blossoming client base. In 2012, Alfa-Bank plans to open several different branch offices in order to ensure customer convenience. At present, there are 29 standard offices, 20 outlets, and 30 customer loan service offices.

Branch development for the more affluent customer segment, the A-Club format, continued in 2011, including with the opening of the Ordynka Central A-Club. Ordynka Central is based in a new, large building of more than 1,000 sq. m. in the centre of Moscow. This new branch office provides VIP customers with a new, higher level of services to suit their unique needs.

This format has seen significant demand throughout Russia with a positive growth rate in all cities where the format has been instituted, as demonstrated by the number of clients and their respective balances with Alfa-Bank. Alfa-Bank also plans to open 33 VIP modules in presently operating branches in 2012.



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## Enhanced Credit Card Practices

As far as the Retail Bank's product lines are concerned, 2011 saw a continuation of the focus on development and implementation of new, innovative products with leading technologies. Several new, interesting projects were launched over the course of the year.

For example, Alfa-Bank issued chip-equipped credit and debit cards under the VISA and MasterCard international payment systems that provide customers with an extra level of safety when carrying out transactions.

Another interesting particular project was the issue of state-of-the-art, innovative cards equipped with MasterCard PayPass and VISA PayWave non-contact technologies that allow for one-touch payments for products and services. An individual need only bring such a card in to close proximity to a non-contact scanning unit at a checkout counter or terminal to make purchases of 1,000 RUB or less. The high purchase speed, security (i.e. no need to hand the card to a cashier) and convenience of this format are especially attractive. These cards have both transmitting non-contact antennae and chips along with the traditional magnetic stripes, allowing payments to be made through any terminal accepting MasterCard and VISA.

Alfa-Bank is the first bank in Russia to introduce VISA PayWave cards for customers and the third Russian bank to introduce MasterCard PayPass.

Furthermore, in April 2011 Alfa-Bank implemented a service of card-to-card transfers that can be made through ATMs and Alfa-Click.

This service is not limited to Alfa-Bank accountholders, as cardholders of other banks may also use this new service in ATMs and the Internet portal. In this regard, Alfa-Bank broadens its circle of prospective users and increases the profitability of its own services by offering new services to non-accountholders. Alfa-Bank has continued the development of the Alfa-Bank-Cosmopolitan-VISA and Men's Card, marketed by gender. In 2011, these cardholders were given opportunities to save money while making purchases and to earn prizes from transactions. Following the success of these two projects, Alfa-Bank intends to launch another card targeted toward affluent female customers in 2012.

The successful development and promotion of the "Maximum" service package for affluent customers was also a significant achievement. At the end of 2011, the number of customers who had chosen this service model exceeded 6,000.

## Customer Relationship Management

For customer convenience, Alfa-Bank's call centre was switched from service alone to service and transactions in 2011, allowing some Alfa-Bank services to be purchased by phone. This includes issuing insurance policies, opening certain deposit accounts when a main account is already present, arranging meetings to apply for personal loans and also receiving verbal confirmation from customers to offers from Alfa-Bank.

Alfa-Bank has also developed a system for customer relationship management that allows information about the client available within the organization to be directed toward specific business actions by staff that contact the client. Today this system is used by branch office staff, and in future will also be used by the call centre and integrated with Alfa-Click.

In the long term, communicating with Alfa-Bank representatives –not only with staff but also via the Internet portal – will allow the customer to express his/her wishes and be sure that Alfa-Bank will acknowledge these needs and offer an optimal solution. This is a solid investment for the future, intended to offer the customer exactly the products needed at exactly the right time.

## Feedback

Alfa-Bank places high value on fair and open customer feedback through convenient media. In the beginning of 2011, Alfa-Bank established presences on leading social sites on the Russian-language and broader Internet, including VKontakte ("ВКонтакте" in Russian), Odnoklassniki ("Одноклассники"), Facebook, Twitter and LiveJournal. Currently, the total number of registered users associated with Alfa-Bank's sites totals more than 50,000. These platforms have become an effective means of communication with our customers, facilitating responses to customer feedback and receiving first-hand perspectives on Alfa-Bank's service quality.

Our social media presence has also facilitated online town halls for discussion of in-demand topics. Alfa-Bank's specialists convey the special features of the products and services, making the financial world clearer for our clients.

For more than a year, Alfa-Bank has maintained its own social network, Alfa-Idea (<http://idea.alfabank.ru>). During this time, some 4,000 unique ideas for improvement of our retail products have been received from customers. Seventy of these have already been implemented, and 160 more are currently under development. In particular, these "Alfa ideas" have led to services such as My Targets, allowing for the tracking of financial goals, as well as the ability to disable a card or tie it to another account, in addition to many other Alfa-Click services.

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## Business Opportunities for 2012

In 2012, the Retail Bank expects significant expansion of its client base, including in the affluent client segment. According to the forecast the positive trend in Alfa-Bank's total and demand deposit market shares is expected to continue. Loan portfolio growth in the Retail Bank is also expected in 2012 thanks to three business segments: credit cards, personal instalment loans and consumer loans. Alfa-Bank forecasts its loan portfolio will reach \$3.4 bln by the end of 2012. Moreover, Alfa-Bank plans to continue expanding the branch network, actively seek out payroll clients and strive to continue improving the quality of all our services.

Finally, the major target for the Retail Bank in 2012 is to remain the best bank in terms of customer experience, as this is the base value for all Alfa-Bank retail operations. This foundation of customer service has allowed the development of a long-term web of relationships with each customer. Today, Alfa-Bank makes uniquely appealing offers to clients including an excellent range of banking products, a convenient service platform and high-quality service. The development of the customer database that took place in 2011 shows that such an approach to customer relationship management yields concrete results, and each year more and more people choose Alfa-Bank as their financial partner.

## FINANCIAL RISK MANAGEMENT

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Alfa-Bank places great emphasis on proper financial risk management. The primary goal of Alfa-Bank's risk management is to achieve the optimum level of risk to transaction profitability ratio. In 2011, Alfa-Bank also paid great attention to perfecting risk management since it is a key element of its development strategy implementation in a more competitive banking market. Internal and external risk factors were reevaluated, both at the existing portfolio level of Alfa-Bank and at the level of future transactions and potential deals. Due to the work performed, Alfa-Bank avoided financial losses and improved the loan portfolio quality to a high extent. Besides, it managed to increase its profit in the current economic environment.

Today all the product lines of Alfa-Bank are managed using a single risk management technique, which provides for financial risk management (including credit, market, currency, liquidity and interest rate risks) and operational risk management. Financial risk management provides for risk limit determination. Besides, for this purpose it is necessary to monitor the risk of possible losses, which should not exceed the said limits. The essence of transaction risk management is that it is necessary to secure the proper operation of internal procedures and processes in order to minimize Alfa-Bank's exposure to other internal and external risks.

The risk management strategy employed by Alfa-Bank consists of several basic components: risk management, risk identification, risk assessment and risk control.

### Risk Management Organization

Alfa-Bank's Board of Directors is fully responsible for risk management monitoring. It controls key risk management. Besides, the Board of Directors is also responsible for the approval of transactions, which may endanger the better part of the Alfa-Bank's capital.

The audit committee is responsible for monitoring the internal control structure. It decides whether the risk management is proper and develops corresponding statutory and regulatory requirement control procedures and policies. The committee meets on a regular basis. It advises the Board of Directors on the issues of the risk management structure and quality perfection and gives recommendations concerning the corresponding regulatory requirements.

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Alfa-Bank's Executive Board is responsible for the implementation and monitoring of risk reduction measures as well as for the control over compliance with the existing risk profile. The Risk Management Directorate together with the Retail Risk Division are responsible for the operation of the risk management system, thus ensuring that general risk management principles are followed, risks are limited and reports on them are submitted.

Credit risk, market risk and liquidity risk are managed and controlled by a system of Credit Committees, the Treasury, the Risk Management Directorate, the Retail Risk Division and the Asset and Liability Committee («ALCO»), both at the portfolio level and the transaction level. Alfa-Bank ranked the credit committees depending on the type and amount of risk. The Risk Management Directorate is responsible for credit risk management related to those customers, who are represented by legal entities, financial institutions and SMEs as well as credit risk management related to mortgage loans. Additionally, it manages market and transaction risks. The Retail Risk Division is in charge of credit cards and consumer loans to be repaid in instalments, car loans and consumer loan portfolios.

## **Risk Identification**

Both internal and external risk factors are identified within the framework of the Alfa-Bank's operational structure. Special attention is paid to risk analysis preparation, which is used later on to identify all the risk factors and the procedures necessary to reduce such risks. A brief survey of the key risks is regularly presented to Alfa-Bank's Executive Board and to its Board of Directors.

## Risk Assessment, Risk Management and Risk Control

Risk assessment performed by Alfa-Bank and its reporting and control procedures vary depending on risk types. However, there is a general methodology common for all of them, which is created and updated by the Risk Management Directorate and the Retail Risk Division. Regular assessment carried out by Internal Audit Division ensures compliance with the Alfa-Bank's standards. Review results are discussed with the managers of Alfa-Bank's corresponding departments. Later, they are presented to the Audit Committee and to the top managers of Alfa-Bank.

In 2011, no material changes were introduced to the Alfa-Bank's risk management system (if compared to 2010). However, since competition got stiffer, Alfa-Bank introduced certain changes into its loan policy as well as to certain risk management procedures in order to keep its position on the banking market and to strengthen it further.

### Credit Risk

Being a financial institution, Alfa-Bank takes credit risks. A credit risk denotes the risk of its counterparty not meeting its obligations in full when due. Credit risks are structured depending on the loan product, the borrower, the industrial sector, etc. A risk limit is set for every risk type. Such risks are monitored and reviewed on a regular basis.

Financial asset loan quality analysis is based on asset stratification and is carried out using the set limits. Higher limits are set for those counterparties, whose credit exposure is of higher quality. The exposure per one borrower is limited by sublimits, which include off-balance accounts, as well as risk limits set for the daily supply compared to such buy and sell instruments as forward exchange rate contracts.

Credit risk exposure is managed by means of regularly analysing the ability of the Alfa-Bank's borrowers and its potential borrowers to meet their obligations as concerns the repayment of the principal and interest as well as changing the credit ceiling where necessary. Credit risk exposure is partially managed by means of loan collateralization as well as guarantees of legal entities and natural persons.

Alfa-Bank's position on risks is expressed in its Loan Policy. Alfa-Bank authorizes its committees to make decisions on the issues of taking risks and approving any major deals. The Loan Policy determines the credit exposure structure and the segregation of duties. In 2011, Alfa-Bank reviewed its Loan Policy in order to guarantee that it be consistent with the current risk appetite and market situation.

The credit committees of Alfa-Bank approve the credit risk amount. Each credit risk committee operates on the basis of special instructions approved by the Board of Directors.

- Depending on the credit risk amount, decisions on deals made with the Alfa-Bank's customers, which are legal entities, are to be approved by either its Main Credit Committee or Supplementary Credit Committees. The maximum risk exposure is approved by the Management Board. Maximum risk deals are most of the major deals above 100 mln USD. In certain circumstances the deals approved by the Main Credit Committee shall also be approved by the Executive Board or by the Board of Directors.
- The Retail Lending Committee monitors retail loan portfolio figures and the growth potential of the portfolio. The Retail Lending Committee also approves new retail lending products, the effective margin for all retail lending products, the loan-loss provisioning level for the retail loan portfolio as well as the retail loan portfolio write-off. It also makes other retail lending decisions. The Committee meets every month. Its members are the representatives of all the Alfa-Bank's key departments.

## Credit Risk Monitoring

The Group's credit risk amount is to be monitored on a regular basis.

The Corporate Lending Directorate is in charge of identifying would-be problem deals. Depending on the problem status, it uses for this purpose the express criteria as well as escalation procedures for the deal to be deemed "questionable". Any material risks presented by a customer, whose lending capacity is deteriorating, shall be reported to the corresponding Credit Committee, which then analyses it.

### The Alfa-Bank divided the loan portfolio into the following pools:

- A current loan pool includes current loans as well as loans that are less than 30 days overdue.
- A doubtful loan pool, which includes loans with early symptoms of potential loan quality deterioration that require close attention from Alfa-Bank's management.
- A problem loan pool, which includes loans that are more than 30 days overdue or loans that were transferred to problem asset departments for the latter to work out plans for loan restructuring, exercise of security, commencement of proceedings, etc.

The analysis of sales to customers, the margin and loan portfolio dynamics is made on a monthly/quarterly basis, depending on customer loan quality and risk exposure.

Retail Risk Management monitors retail loan portfolios at the end of every month or before the end of the month, as may be necessary. This kind of control includes monitoring the following indicators, namely: approval/decline for all segments (products, customers), days overdue (both at different times and at the same time), prolongation (overdue debt being prolonged for varying periods), contacts and promises (in order to monitor debt recovery effectiveness), loan loss rate at various stages per product and per approval type, special pilot programs, maximum limits set for each retail portfolio, write-off of bad debts for each product portfolio, debt recovery for each product portfolio, scorecard usage stability and the figures pertaining to all the products, for which the scorecards are used, as well as the effectiveness of audit segmentation.

Portfolio concentration limits are checked weekly and the results are reported to the Main Credit Committee. In addition, the Committee is informed of situations when the limit used is almost the maximum limit. The Main Credit Committee ensures that new deals' influence on the loan portfolio concentration corresponds to the position of the Alfa-Bank's risks and to the portfolio limit structure.

Throughout 2011, Alfa-Bank paid special attention to the processing of doubtful and problem loans. Moreover, the Committee on Corporate Customers' Bad Loan Recovery monitored bad loans, namely the outlook for their repayment, exercise of security, legal proceedings pertaining to debt recovery, terms of loan restructuring and the demand for the provision of additional security for the loans.

## Credit Risk Monitoring

The measures taken to control credit risk are aimed at securing the implementation of the policies and procedures employed by Alfa-Bank. Thus, Alfa-Bank uses credit risk regulation mechanisms, which facilitate effective risk management. The Retail Risk Division introduced scorecards pertaining to debt recovery (for various stages of debt recovery) and took more control over debt recovery figures in different segments in order to secure more effective debt recovery as concerns loans granted to individuals and to secure more effective monitoring of overdue loans in 2009.

## Credit Risk Mitigation

Alfa-Bank employs a variety of methods (relying on its loan portfolio) in order to mitigate credit risk in the sphere of lending. For this purpose, it manages the loss factors (such as losses from transactions made with individuals, probability of default and default caused by incurred losses) and the amount of risk in the event of default, as well as system risk indicators.

The Borrower's ability to service the planned debt amount is evaluated when every new deal is made. Besides, loans are secured by either a mortgage, floating charge or pledge of material assets. Various remedies are used such as mutual settlement agreements, obligations under commercial lending agreements as well as credit support methods.



The credit risk amount is actively managed. There are procedures that provide for early detection and prompt response to such situations when deals demonstrate signs of worsening. A part of this response is credit risk mitigation, additional collateral, restructuring or any other measures that may appear necessary.

A credit risk premium shall be part of the risk assessment and part of the loan decision-making process. The credit risk premium is necessary to secure fair compensation for the amount of each credit risk accepted by Alfa-Bank.

Credit risk diversification is managed on the portfolio level. It is necessary to prevent unreasonable portfolio concentration. The portfolio concentration limit includes the maximum credit risk per borrower, concentration limits for each industry branch, concentration limits based on payment term, the unsecured lending limit as well as the internal ratings limit. In 2011, the unsecured lending limit and the internal ratings limit were not obligatory although these indicators were to be monitored and included in reports.

Alfa-Bank's maximum credit risk amount is included on the balance sheet value of the financial assets in the consolidated financial statement. The maximum credit risk is equal to liabilities in respect of the guarantees provided and other loan commitments.

## Market Risk

Alfa-Bank accepts market risks. Market risks result from open positions on equity securities, currency and interest rate products that are subject to general and specific changes in the market situation.

Alfa-Bank manages its market risk through notional-based and risk-based limits for the sub-positions. Overall position of Alfa-Bank is split between Corporate and Retail Banking positions, Treasury position and Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by Treasury. Investment Banking operations are also exposed to market risk. This risk is managed using Value at Risk ("VaR") limits and critical loss limits established for both aggregate position of the investment business in shares, fixed income instruments, in foreign currency and derivative securities (treated as separate "trading positions") and to manage individual trading positions

In addition, sublimits are set for the risk amount pertaining to different types of securities (including shares and debt securities) and markets, as well as position limits per issuers and individual instruments. The limits for securities positions are approved by ALCO. Additional limits for issuers pertaining to debt securities are approved separately by the corresponding Credit Committees.

Alfa-Bank's portfolio consists mainly of liquid trade securities. Two main factors stimulating derivative transactions are the necessity to hedge the bank's risks – mainly using foreign currency, securities and interest rate securities – and customer demand for derivative transactions.

Limits that are based on statistical risk levels are monitored on a daily basis by the Risk Management Department for the purpose of determining individual trade positions (foreign currency, equities, bonds and derivatives). Aggregate VaR for investment business positions is monitored by the Risk Management Department on a weekly basis. The limit for daily VaR with a 99% degree of credibility is 47 mln RUB. However, using this approach does not prevent losses above the said limits when changes in the market situation are more significant.

In 2011, the following changes took place in market risk management: ALCO reviewed market risk limits, and the limits for debt securities were increased.

### **Risk of Equity Security Value Change**

As noted before, Alfa-Bank uses VaR to measure the risks related to equity security value changes. This pertains exclusively to the position of Alfa-Bank's investment activities.

The effectiveness of the VaR model is evaluated using tests that use historical data. Such testing provides for the possibility to determine the number of loss-related incidents above VaR and to compare said number with the established degree of credibility.

The main advantage of VaR risk evaluation – using empirical evidence – is at the same time its principal defect. It is necessary to evaluate the changes in the market situation that may be too drastic and may cause a significant deterioration in Alfa-Bank's position. The resulting data serve as an approximate value, illustrating possible losses (according to the existing scenario). Alfa-Bank uses stress testing in order to simulate the financial impact of various exceptional market scenarios on individual trading portfolios and Alfa-Bank's overall position. Stress testing indicates the potential amount of losses, which may be incurred in the event of an emergency.

VaR, which is a daily quantitative indicator of equity securities price, represents an evaluation with a degree of credibility of up to 99% on a horizon of 1 day of potential losses (this refers to the losses, which could be incurred in a normal market environment if the current positions of the Bank remained unchanged during one working day).

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## Currency Risk

The Treasury of Alfa-Bank is responsible for the centralized management of currency risk of Alfa-Bank. ALCO sets limits for the open currency position, which are controlled by the Treasury on a daily basis subject to the corresponding management accounts submitted in relation to the open currency position. Alfa-Bank uses derivatives to manage its current and forecasted risk, which appears in relation to the open currency position.

## Interest-Rate Risk

Alfa-Bank is subject to interest-rate risk, which mainly results from lending to customers and other banks at fixed rates. The amounts and the terms of such loans are different from the amounts and terms of term deposits and debt securities issued with fixed or floating interest rates. The interest rates offered by Alfa-Bank for debt commitments may be inadequately high compared to the rates offered for assets and vice versa, due to changes in interest rates for debt commitments. One of the Alfa-Bank's goals is to minimize losses from unexpected negative changes in the interest margin.

The Bank's interest-rate risk is managed by the Treasury within the limits set by ALCO. Such limits are monitored on a weekly basis by its subdivision for Asset and Liability Management. ALCO sets sensitivity limits for the values of "current value to 100 basis points of interest rate change", which are used to measure the influence of the rates increased by 100 basis points (for various terms on the yield curve) on the current value of the Alfa-Bank's assets, liabilities and off-balance instruments. ALCO sets such limits for the Alfa-Bank's positions in RUB, USD and EUR as well as for Alfa-Bank's overall exposure. The Treasury also uses forward exchange rate contracts to manage interest rate positions in different currencies as well as interest rate derivatives such as interest rate swaps in USD and RUB.

## Liquidity Risk

A liquidity risk is defined as the risk of a company facing hardships when performing its duties related to financial commitments. Every day Alfa-Bank has to satisfy payment demands in respect of funds received from overnight deposits, against the current accounts, maturing deposits, loan disbursements, the margin and other demands related to financial instruments. Alfa-Bank does not maintain the amount of available funds necessary to meet all these demands, as experience suggests that the minimum level of reinvestment of maturing funds can be forecasted with a high degree of probability. Liquidity risk is managed by the Alfa-Bank's Treasury and ALCO.

Alfa-Bank tries to keep its funding base stable. First of all, the funding base includes amounts to be paid on deposits of legal entities and individuals, issued debt securities and amounts to be paid to other banks as well as adequate diversified liquid asset portfolios. This will make it possible for Alfa-Bank to react promptly to unexpected liquidity demands.

The Bank's liquidity management requires considering the level of liquid assets necessary to settle obligations as they come due, keep access to a number of funding sources, maintain plans for financing in case of emergency and monitor liquidity ratios be recorded on the basis of the mandatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis following the requirements of the CB RF.

The said requirements are the following: acid ratio (N2), which is calculated as the readily obtainable assets to demand liabilities ratio; current liquidity ratio (N3), which is calculated as the liquid assets to liabilities (that come due within 30 calendar days) ratio; long-dated bank-liquidity (N4), which is calculated as the assets (that come due no earlier than in a year) to regulatory capital and liabilities (that come due no earlier than in a year) ratio.

Daily liquidity is monitored and liquidity stress testing is held on a regular basis as part of various scenarios, which take into account both regular and severe market conditions.

Every day the Treasury builds a forecasted liquidity model. Various scenarios are monitored, including those that account for forecasted new loans and those that do not. To calculate the liquidity, information on late payments is updated on a regular basis.

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Alfa·Bank



Our **20** years  
of experience tell us  
that honesty  
is not only right, it's  
also profitable

## CORPORATE GOVERNANCE CODE

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Alfa-Bank, recognizing the effectiveness of corporate governance as one of the most important conditions for ensuring stability, its successful work in financial markets, as well as the importance of maintaining high standards of corporate governance and business ethics for business success, adheres to the principles of the Code of Corporate Governance.

The Code was developed based on the Principles of Corporate Governance agreed by countries (members of the Organization for Economic Cooperation and Development (OECD) as of 22.04.2004), the recommendations of the Basel Committee on Banking Supervision, “Improving corporate governance in credit institutions” (1999), the Federal Law “On Joint Stock Companies” “On Banks and Banking Activity”, and the Code of Corporate Conduct recommended to use the order of the Federal Commission for Securities Market as of 04.04.2002 № 421 of Alfa-Bank’s Charter.

Corporate governance refers to the overall management of Alfa-Bank, carried out by the General Meeting of its shareholders, the Board of Directors and includes a set of their relations with the executive bodies of Alfa-Bank and other stakeholders (employees, creditors, depositors, other customers, partners, contractors, the banking regulatory and supervisory bodies of the state power and administration) to the extent that:

- identifying the strategic goals of Alfa-Bank and effective system management;
- creating work incentives to ensure that Alfa-Bank’s controlling bodies and its employees implement all actions necessary to achieve the strategic objectives of its activities;
- achieving a balance of interests of shareholders, board members and governing bodies of Alfa-Bank and other interested parties;
- ensuring compliance with the legislation of the Russian Federation, the Charter of Alfa-Bank, the Code of Conduct and other internal documents, as well as the principles of professional ethics adopted by banking unions, associations and other self-regulatory organizations.

Recognizing the important role of the Code, all governing bodies and employees of Alfa-Bank are guided by the provisions thereof in the performance of their obligations to Alfa-Bank and its shareholders. Corporate governance in the implementation of activities to ensure corporate governance is based on respect for the human rights and legal interests of its members and promotes the efficient operation of Alfa-Bank, maintaining its financial stability and profitability.

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In order to improve the corporate governance system, Alfa-Bank is governed by the following basic principles of corporate governance:

- ensuring the rights and interests of shareholders;
- effective management;
- distribution of powers between the governing bodies and effective control;
- effective monitoring of financial activity;
- transparency of ownership structure and informational transparency;
- monitoring compliance with the law and ethics;
- effective communication with employees and their fair remuneration;
- social responsibility and development of partnerships with stakeholders.

The corporate governance of Alfa-Bank maintains an adequate balance between governing bodies, distributes and delimits the powers of the general leadership carried out by shareholders and the Board of Directors and management of current activities of Alfa-Bank, carried out by its executive bodies. Guided by the interests of shareholders, creditors, customers, business partners and contractors, Alfa-Bank is conducting a permanent monitoring of its activities in accordance with the provisions of the Code of Corporate Governance.

Alfa-Bank's Code of Corporate Governance can be provided upon request.

## PARTNERS

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### AlfaStrakhovanie Group

AlfaStrakhovanie Group includes OJSC AlfaStrakhovanie, AlfaStrakhovanie-Life LLC, CJSC AVICOS, OJSC Unified Insurance Aviation Fund (AFES) Insurance Company, AlfaStrakhovanie-MS LLC, VIRMED Medical Insurance Company LLC, Medicine AlfaStrakhovanie LLC, Alfa-BankMedProject LLC, AsStra Medical Insurance Company LLC and OJSC Insurance Company Moscow and SMO Sibir.

AlfaStrakhovanie Group's own funds exceed 8.5 billion RUB. Under the terms of its license, the Group offers more than 100 insurance products, including life insurance and accident insurance products. Its regional network in Russia consists of over 400 representative offices.

AlfaStrakhovanie Group obtained accreditation from major banks such as Sberbank, VTB, VTB-24, Gazprombank, Alfa-Bank, Rosselkhozbank, Raiffeisen Bank, Bank of Moscow, MDM-Bank, and UniCredit. It is also among the official insurers, which insure the property of the customers of the aforementioned banks.

In 2011, AlfaStrakhovanie Group collected fees of up to 32.8 billion RUB, and its net profit amounted to 0.5 million RUB.

### Basic Principles

AlfaStrakhovanie Group has a reputation of a reliable and stable company, which is confirmed by reinsurance programs in major international companies, including Munich Re, a reinsurance company from Munich; Swiss Re, a reinsurance company from Switzerland; Hannover Re, a reinsurance company from Hannover; SCOR; Genre, a reinsurance company from Cologne; Partner Re and Lloyd's of London corporation. AlfaStrakhovanie Group's partnership with Lloyd's of London is facilitated by international brokers Willis Limited, Marsh, AON Benfield, etc.

According to research carried out by Expert RA rating agency, AlfaStrakhovanie Group ranks among the ten leaders of the open insurance market. In January 2011, the agency confirmed the highest reliability rating of the Group, A+ +. It was first awarded to AlfaStrakhovanie Group in 2003. In March 2012, Fitch Ratings, an international rating agency, confirmed the ratings of AlfaStrakhovanie at "BB-", stable forecast.

The group is oriented towards the perfection of services and developing new insurance products, which would be fitted to the requirements of every customer. The recognition of professional market participants confirms that the Group's strategy is correct. In 2010, the Group received the Russian Financial Elite 2005–2010 Award in the Customer Recognition category. It became the best company of the five-year period.

### Customers

More than 12 million private customers and over 323,000 companies use the Group's services. The Group's clients include leading banks, major ship owners and forwarders, companies representing the nuclear



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power industry, metallurgical engineering and machine building, as well as the representative offices of major foreign companies, public organizations and state institutions, such as:

BEIERSDORF; Campina; Dirol Cadbury; DPD Russia; Electronic Arts Russia; Fitch Ratings; Frito Lay Russia; GOLDEN TELECOM; LG; METRO Cash&Carry; MIRAX Group; Navteq CIS; Philips; Robert Bosch; Sony CIS;

Sony Ericsson; TNT Express; Wimm Bill Dann; Urals Energy; X5 Retail Group; Absolut Bank, Iceberry Group, Alfa-Bank, OJSC Archangelsky CB, Aeroflot – Russian Airlines, Belgorodoblغاز, Belomortrans Group, OJSC Volga, VimpelCom, CJSC Daimler AG, Delta-Credit Bank, Don-Stroy Group, Evraz Holding, CJSC Eurocement Group, Kazanorgsintez, Kommersant publishing house, IES-holding, Lactalis Group, OJSC Lenenergo, LLC Continental Management Timber Company, Megapolis Group, Metalloinvest Holding Company, OJSC Magnitogorsk Iron and Steel Company, Mondi Syktyvkarsky forest-industry complex, OJSC Moesk, Independence Group, NOVATEK, MMC Norilsk Nickel, United Depository Company, RF Pension Fund, Razgulay Group, Rigla, Rolf Group, Rosselkhozbank, Rusdragmet, OJSC Slavneft-YANOS, Sovtransavto, Sunny Products Management Company, SUAL Group, TAIF Group, TNK-BP, TransContainer, CJSC Transmashholding, Transnefteproduct, OJSC Tumenenergo, Federal Drug Control Service of the Russian Federation, Federal Customs Service of the Russian Federation, OJSC FSK-EES.

## Recognition

For the third year in a row the managers of AlfaStrakhovanie have taken leading positions in the annual top-1000 Russian Managers rating, a common project of the Manager Association and Kommersant Publishing House.

AlfaStrakhovanie was a prize winner of the Russian Financial Elite 2011 Award in the Customer Service category. AlfaStrakhovanie-Life was a prize winner in the category “Company of the Year in Life Insurance”.

World Finance magazine, one of the most well-known business magazines in the world, named AlfaStrakhovanie the best insurance company in Russia in 2011.

AlfaStrakhovanie received a Golden Salamander Award in three categories, namely “The Best Internet Project of the Year”, “Innovation of the Year in Insurance” and “IT Project of the Year”. Besides, AlfaStrakhovanie won a special non-contest prize Insurance Reserve Management while AlfaStrakhovanie-Life won a prize in “Innovation of the Year in Insurance” nomination (“The Best Marketing Project of the Year” category).

AlfaStrakhovanie was a prize-winner of the First National NAMIKS award in category “The Best Insurance Company for Low-Rise Housing Construction”.

According to the results of a reputational audit by Romir Holding Company, AlfaStrakhovanie took one of the leading places in the business reputation rating of Russian insurance companies.

According to Sekret Firmy magazine, which is a part of the Kommersant Publishing House, for the second year in a row AlfaStrakhovanie was the first among growth companies in the Russian financial sector.

AlfaStrakhovanie became a prize winner of the 5th annual forum “The Future of the Insurance Market” in the nomination “Leaders in Property Insurance of Legal Entities from Fire and Other Risks”.

AlfaStrakhovanie was the winner of the National Transport Award “Golden Chariot” in the nomination “Leader in Transport Company Insurance in Russia”.

Alfa-NEWS, a corporate newspaper of AlfaStrakhovanie, became a prize-winner of the All-Russian contest “The Best Press Service of 2010”. The newspaper was announced to be one of the best in the “Corporate Mass Media” category.

AlfaStrakhovanie was a prize winner of the PROpeller Digital International Internet Award in Marketing in 2011. It won an award in the “Virtual Promotion Instruments” category.

AlfaStrakhovanie won a prize in the 2011 contest for the best online course developed using WebSoft CourseLab software.

The animated flash promo “Lucky Insurance Polis” created by AGIMA Internet Marketing Agency for the annual report prepared by AlfaStrakhovanie became the winner of the “Animation” category at Russian Flash Awards contest.

## **Alfa-Capital Management Company**

Alfa-Capital Management Company is one of the leaders in the asset management market in Russia. It has been operating since 1996. The basic business lines of Alfa-Capital are represented by the administration of unit investment fund assets, private pension fund assets, insurance companies’ and corporations’ assets as well as individual trust management of high net worth private investors’ assets. The Alfa-Capital brand literally represents high-quality services in the asset management market. [www.alfacapital.ru](http://www.alfacapital.ru)

### **2011: A Year of Opportunities**

Many events important for Alfa-Capital Management Company took place in 2011. The Company proceeded with investing into its business development, attempting to achieve its strategic goals. It actively developed its product range, increased assets, perfected its service quality system and paid great attention to personnel selection and training while at the same time developing new motivation methods. In addition, the Company worked actively in the sphere of marketing.

Alfa-Capital went on strengthening its position in private customer asset management. It tried to work in the customer segment, prioritizing services for individuals with annual income of USD100,000 or more. As a result, the total funds invested in Alfa-Capital individual trust management products amounted to more than 31.8 billion RUB.

The corporate investor segment is a new promising direction for the Company's business. To develop this business line, the Institutional Investor and Corporate Customer Centre was founded with Igor Voloshin as its head (Mr. Voloshin joined the Company in 2011). Corporate investor management is a new concept on the Russian asset management market. Currently, this market niche is almost empty. Alfa-Capital is the first Russian company to work with non-captive corporate customers.

At the end of 2011, the total assets of the Company amounted to 79.5 bln RUB, which translates into growth of nearly 40% y/y. At year-end 2011, Alfa-Capital was still the Russian management company leader by number of wealthy customers. In December 2011, the number of trust management accounts increased and totalled 1,300. The average customer deposit totalled 10 mln RUB.

Alfa-Capital continues to operate within the framework of the product concept that was adopted in 2010. It offers specific investment ideas to its customers instead of abstract investing in the stock market or the commodity market. More than 40 attractive investment opportunities with different risk to profitability ratio profiles were offered to the Company's clients. A new international portfolio product line was also launched.

In order to make the use of its investment products and services more convenient, the Company started to expand its sales and customer service network both in Moscow and in the regions. In February 2011, Alfa-Capital Management Company's new customer service office was opened in Moscow on Kutuzovsky Avenue. In July, an office of Alfa-Capital was opened in Novosibirsk.

Alfa-Capital Management Company paid special attention to personnel development after the crisis. As a result, the professional level and loyalty of the Company's staff have risen significantly. The annual opinion survey held at the end of 2011 indicated that more than 94% of the Company's employees were satisfied with their work for the Company.

## Prospects for 2012

The Company's strategy, which reads "We do more", is acquiring new modern implications that are in line with the challenges of the time in which it is being implemented. In the following year, an emphasis will be put on increasing the Company's profitability, its capitalization, and creating additional surplus value for customers in the following investment service areas: asset management, risk management, and investment consulting and expertise.

Like before, special emphasis will be on the priority business segment, namely wealthy private customers, retail and corporate clients. The product range and additional set of services will be extended to a high degree in every segment. New innovative products, which are a source of competitive advantage for Alfa-Capital Management Company, will be offered to customers.

The Company is planning to add to the strength of its leading position in the number of clients and in the assets of high net worth individuals, which will secure its place in the top-10 list of the major Russian management companies in terms of total assets under management.

## Market acceptance

**At year-end 2011, the professional activities of Alfa-Capital Management Company received wide acclaim and high ratings from independent experts:**

- National Rating Agency confirmed the “AAA” (highest reliability) individual financial strength rating of Alfa-Bank-Capital Management Company.
- Expert RA Rating Agency confirmed the “A++” (Extremely high/the highest reliability and service quality) reliability and service quality rating of Alfa-Capital Management Company.
- EFFIE, brand of the year – nominated in the category “Financial Institutions. Products and Services. Insurance”.
- Diploma in the category “Most Popular Management Company”. National League of Management Companies.
- Diploma for a wide product range. Expert RA.
- Diploma for the application of international standards in management performance presentation. Expert RA.
- Diploma in the category “Intranet as an Instrument of Personnel Management”. III All-Russian Competition “BEST INTRANET RUSSIA-2011”
- “Family Office of the Year” reward (MFO “Alfa-Capital”) — CHIVAS SPEAR’S Russia Wealth Management Awards 2011.
- “The Most Popular Fund at Year-End 2011” – “Alfa-Capital Reserve”. Investfunds.
- “The Most Profitable Russian Fund at Year-End 2011” “Alfa-Capital Commodity Markets”. Investfunds.
- “Most Successful Bond Fund of 2011” – “Alfa-Capital Bonds Plus”. Russian Economic School.

## Assets under Management of Alfa-Capital Management Company – 2011

designation	total asset (rubles)	%
<b>Open and interval mutual investment funds</b>	8 063 106 381,05	19,23%
<b>Closed mutual investment funds</b>	2 600 226 766,05	6,20%
<b>Pension reserves (NGPIF)</b>	3 652 893 134,06	8,71%
<b>Pension accumulation (NGPIF)</b>	1 780 307 291,56	4,25%
<b>Pension accumulation (PFR)</b>	676 303 896,34	1,61%
<b>Reserves of insurance companies</b>	6 654 446 473,27	15,87%
<b>Endowment funds and equity capital foundations</b>	206 274 495,03	0,49%
<b>«Military mortgage»</b>	—	0,00%
<b>Other trust management of corporate clients assets</b>	18 292 895 535,09	43,63%
<b>Other trust management of natural persons assets</b>	37 564 962 595,34	89,60%

## FINANCIAL STATEMENTS

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### Report of the Independent Auditor on the Summary Consolidated Financial Statements

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

- The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2011, the summary consolidated statement of comprehensive income, the summary consolidated statement of changes in equity and the summary consolidated statement of cash flows for the year then ended are derived from the audited consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group”) for the year ended 31 December 2011. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 16 April 2012. Those consolidated financial statements, and these summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.
- The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (“IFRS”). Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group prepared in accordance with IFRS.

#### Management’s Responsibility for the Summary Financial Statements

- Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in Note “Basis for preparation”.

#### Auditor’s responsibility

- Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 “Engagements to Report on Summary Financial Statements.”

#### Opinion

- In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2011 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note “Basis for preparation”.

18 April 2012  
Moscow, Russia

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In millions of US Dollars</i>	31 December 2011	31 December 2010
<b>1</b>	<b>2</b>	<b>3</b>
<b>ASSETS</b>		
Cash and cash equivalents	2 707	3 182
Mandatory cash balances with central banks	316	189
Trading securities	1 206	1 426
Repurchase receivables relating to trading securities	568	914
Due from other banks	2 242	2 754
Loans and advances to customers	21 804	16 795
Investments	1 381	2 108
Other financial assets	576	474
Other assets	221	287
Premises and equipment	340	304
Deferred tax asset	4	45
<b>TOTAL ASSETS</b>	<b>31 365</b>	<b>28 478</b>
<b>LIABILITIES</b>		
Due to other banks	2 384	2 097
Customer accounts	18 254	16 812
Debt securities issued	4 619	4 107
Syndicated and other debt	396	190
Subordinated debt	1 335	1 395
Other financial liabilities	533	332
Other liabilities	353	327
Deferred tax liability	56	139
<b>TOTAL LIABILITIES</b>	<b>27 930</b>	<b>25 399</b>

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

1	2	3
<b>EQUITY</b>		
Share capital	1 265	1 265
Fair value reserve for investments available for sale	(15)	55
Revaluation reserve for premises and equipment	28	30
Cumulative translation reserve	(416)	(331)
Retained earnings	2 572	2 060
Net assets attributable to the Company's owners	3 434	3 079
Non-controlling interests	1	-
<b>TOTAL EQUITY</b>	<b>3 435</b>	<b>3 079</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		
Interest income	2 625	2 320
Interest expense	(1 169)	(972)
Expenses directly attributable to leasing and deposit insurance	(42)	(41)
<b>Net margin</b>	<b>1 414</b>	<b>1 307</b>
Provision for loan impairment	(148)	(370)
<b>Net margin after provision for loan impairment</b>	<b>1 266</b>	<b>937</b>
Fee and commission income	617	436
Fee and commission expense	(162)	(119)
Gains less losses arising from trading securities	(42)	70
Gains less losses arising from interest based derivatives	6	(15)
Gains less losses arising from foreign currencies and precious metals	(18)	57
Gains less losses arising from investments	49	87
Gains less losses arising from acquisition of own debts	-	(5)
Other provisions	(6)	12
Other operating income	29	82
Operating expenses	(977)	(842)
<b>Profit before tax</b>	<b>762</b>	<b>700</b>
Income tax expense	(121)	(147)
<b>Profit for the year</b>	<b>641</b>	<b>553</b>

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



1	2	3
<b>Other comprehensive income/(loss):</b>		
Available for sale investments:		
– Fair value gains less losses during the year	(73)	52
– Reclassification adjustments for losses included in profit or loss	(4)	(54)
Revaluation of premises and equipment	-	4
Effect of translation of the financial statements of foreign operations	(161)	(41)
Net change in hedge of net investment in foreign operations	76	14
Income tax recorded directly in other comprehensive income	7	3
<b>Other comprehensive loss for the year</b>	<b>(155)</b>	<b>(22)</b>
<b>Total comprehensive income for the year 486</b>	<b>531</b>	
<b>Profit is attributable to:</b>		
The Company's owners	641	550
Non-controlling interests	-	3
<b>Profit for the year</b>	<b>641</b>	<b>553</b>
<b>Total comprehensive income is attributable to:</b>		
The Company's owners	486	528
Non-controlling interests	-	3
<b>Total comprehensive income for the year</b>	<b>486</b>	<b>531</b>

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## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of US Dollars	Attributable to the Company's owners						Non-controlling interests	Total equity
	Share capital	Fair value reserve for investments available for sale	Revaluation reserve for premises and equipment	Cumulative translation reserve	Retained earnings	Total		
1	2	3	4	5	6	7	8	9
<b>Balance as at 1 January 2010</b>	1 265	54	33	(304)	1 647	2 695	3	2 698
Profit for the year	-	-	-	-	550	550	3	553
Other comprehensive loss for the year	-	1	4	(27)	-	(22)	-	(22)
Total comprehensive income for the year	-	1	4	(27)	550	528	3	531
Realised revaluation reserve	-	-	(7)	-	7	-	-	-
Dividends declared	-	-	-	-	(150)	(150)	-	(150)
Acquisition of non-controlling interest	-	-	-	-	6	6	(6)	-
<b>Balance as at 31 December 2010</b>	1 265	55	30	(331)	2 060	3 079	-	3 079
Profit for the year	-	-	-	-	641	641	-	641
Other comprehensive loss for the year	-	(70)	-	(85)	-	(155)	-	(155)
Total comprehensive income for the year	-	(70)	-	(85)	641	486	-	486
Realised revaluation reserve	-	-	(2)	-	2	-	-	-
Dividends declared	-	-	-	-	(131)	(131)	-	(131)
Acquisition of subsidiary	-	-	-	-	-	-	1	1
<b>Balance as at 31 December 2011</b>	1 265	(15)	28	(416)	2 572	3 434	1	3 435

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## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In millions of US Dollars</i>	31 December 2011	31 December 2010
<b>1</b>	<b>2</b>	<b>3</b>
<b>Cash flows from operating activities</b>		
Interest received	2 684	2 254
Interest paid, other than on debt securities issued, syndicated and other debt and subordinated debt	(693)	(606)
Expense directly attributable to the lending operations	(42)	(39)
Fees and commissions received	619	428
Fees and commissions paid	(163)	(121)
Net income received from trading securities	(37)	80
Net income received from trading in foreign currencies	85	(196)
Net income received from interest rate derivatives	(6)	(22)
Other operating income received	26	71
Staff costs paid	(550)	(438)
Other operating expenses paid	(365)	(283)
Income tax paid	(59)	(193)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>1 499</b>	<b>935</b>
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with central banks	(151)	(43)
Net decrease/(increase) in trading securities and repurchase receivables	486	(1 025)
Net decrease/(increase) in due from other banks	497	(502)
Net increase in loans and advances to customers	(6 126)	(3 706)
Net increase in other assets and other financial assets	(41)	(20)
Net increase in due to other banks	370	1 010
Net increase in customer accounts	2 181	3 381
Net increase/(decrease) in other liabilities and other financial liabilities	17 (65)	
<b>Net cash used in operating activities</b>	<b>(1 268)</b>	<b>(35)</b>
<b>Cash flows from investing activities</b>		
Acquisition of investments available for sale	(620)	(795)
Proceeds from disposal and redemption of investments available for sale	1 029	509
Acquisition of investments at fair value through profit or loss	-	(11)
Disposal of investments at fair value through profit or loss	40	13

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1	2	3
Acquisition of investments held to maturity	(49)	(411)
Proceeds from redemption of investments held to maturity	251	93
Acquisition of premises, equipment and intangible assets	(118)	(61)
Proceeds from disposal of premises, equipment and intangible assets	8	31
Dividend income received	1	1
<b>Net cash from/(used in) investing activities</b>	<b>542</b>	<b>(631)</b>
<b>Cash flows from financing activities</b>		
Proceeds from syndicated and other debt	247	-
Repayment of syndicated and other debt	(32)	(99)
Interest paid on syndicated and other debt	(12)	(13)
Proceeds from debt securities issued	2 323	3 260
Repayment of debt securities issued	(1 750)	(759)
Interest paid on debt securities in issue	(324)	(166)
Repayment of subordinated debt	(9)	(185)
Interest paid on subordinated debt	(119)	(116)
<b>Net cash from financing activities</b>	<b>324</b>	<b>1 922</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(402)</b>	<b>1 256</b>
Cash and cash equivalents at the beginning of the year	3 182	1 966
Effect of exchange rate changes on cash and cash equivalents	(73)	(40)
<b>Cash and cash equivalents at the end of the year</b>	<b>2 707</b>	<b>3 182</b>

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

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## **ABH Financial Limited Note to the Summary Consolidated Financial Statements**

### **Basis for preparation**

These summary consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group”) have been prepared by extraction, without any modification, of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows from the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards.

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issued by the Central Bank of Russia on January 29, 1998

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