

ALFA BANK

Annual Report

**1999**

Best Bank Awards 1999

**Global Finance**

Best Domestic Bank in Russia

Awards 1999

**Central European**

Best Domestic Bank in Russia

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## FINANCIAL HIGHLIGHTS

in USD millions

	1999	1998	1997
Total assets	1,336.8	951.2	1,427.2
Net profit	50.0	-204.6	45.3
Shareholders equity	233.5	51.0	244.5
Share capital (including share premium)	9.5	10.0	10.0
Reserves	224.0	41.0	234.5
Capital Adequacy Ratio (incl.forward provision)*	10.7%	-2.1%	12.5%
Capital Adequacy Ratio (excl.forward provision)*	12.6%	2.5%	12.5%
Operating income	23.0	-152.5	113.3
Loans and advances to customers	366.0	165.1	369.9
Customer accounts	553.0	291.5	434.1
Return on average total assets	4.4%	-17.2%	
Return on equity at start of period	98.1%	-83.7%	
Related party loans	96.8	17.2	26.2
Related party loans as a % of total shareholders equity	41.5%	33.8%	10.7%
Related party loans as a % of loans and advances to customers	26.5%	10.4%	7.1%
Related party deposits	194.0	7.6	86.9
Related party deposits as a % of total customer accounts	35.1%	2.6%	20.0%
Exchange rate USD 1=RR at year end	27.00	20.65	5.96

\* not directly comparable as 1999 was done on a group basis while 1998 was a bank stand-alone basis

Alfa Bank is the name given to the Group of companies, which provide both commercial and investment banking services. The head company of the Group is AB Holdings Limited and the consolidated accounts of AB Holdings presented herein are therefore the accounts of Alfa Bank as stated throughout this report.



**Michael Fridman**  
Chairman of Board of Directors  
of Alfa Bank

**1999 was another testing year for the Russian banking system.**

Against the backdrop of further financial and political upheaval following the 1998 financial crisis, we are proud to declare that Alfa Bank has strengthened its domestic market position and become the largest privately owned bank in Russia.

We believe that last year once again demonstrated that in Russia only the full service banking institutions with highly diversified assets had the strength and depth of commercial exposure to weather the conditions of rapid change and a volatile financial environment.

Alfa Bank's stability and the quality of its products and services have become key factors in establishing new client relationships.

During 1999 the Bank's corporate client base almost doubled and commercial credit activity became a significant and successful business for the Bank. At the same time; all corporate debt servicing took place on schedule, thanks to the Bank's management of its corporate lending and the underlying quality of its loan portfolio; and leasing, factoring, domestic and international promissory note and securities transactions businesses all displayed a significant advance.

Economic stabilization during the year stimulated investment banking and enabled the Bank to carry out a number of successful corporate finance transactions and significantly expand its consulting and intermediary services.

In line with the expansion of traditional services (volumes of FX settlements have increased over fivefold since the crisis), Alfa Bank prioritized the development of new banking products and services.

We are continually bringing to market new services in precious metals, insurance and financial engineering sectors. In addition, co-ordination of large international projects undertaken by the Russian State complemented the Bank's business portfolio. These activities all present greater opportunity for the further diversification of business, increased stability and development of new income sources in the future.

The year in review also turned out to be a notable period for the Bank's branch and subsidiary network. Apart from opening a new Moscow office, the Bank expanded its operations into 13 of Russia's largest cities.

Alfa Bank's Kazakhstan subsidiary opened three new offices in the Republic's leading cities. Expansion in the Commonwealth of Independent States (CIS) was launched with the completion of the purchase of Kievinvestbank to provide a wide range of commercial and investment banking services to customers in the Ukraine.

Future development of the branch network will be reinforced by new management and techno-

logical processes bringing operations under fully centralized online control. By the end of 2000, the number of branches in Moscow is planned to reach 30 with a further 45-50 in the regions. It is our intention to create the leading branch network in terms of quality and standards of service.

Initiatives such as these will provide additional impetus to the development of new retail banking services. Already Russia's leading VISA issuer, Alfa Bank will continue to lead the market in bank card operations, the import of foreign banknotes, check processing and individual fund transfer services.

Introduction of web and browser technologies based on high speed secure data and settlement networks will create additional conveniences for our many private customers. This will assist expansion of our retail banking relations across the whole of the branch network. As part of this strategy during 2000-2001, the Bank will invest more than USD 20 million in information technologies and infrastructure development.

Traditionally recognized as one of the most transparent and efficient Russian banks, Alfa Bank has become one of the country's largest clearing centers. More than 500 financial institutions across Russia, the CIS and the Baltic States regularly use our services for interbank market and settlements transactions which in many cases can be executed on a 24/7 basis.

It is our pleasure to note that the international financial community continues to regard our institution as the foremost full service financial institution in Russia.

In early 1999 many of our foreign partners re-established credit facilities for foreign exchange, banknotes and trade finance operations. In the latter part of 1999 and early 2000, a number of the largest export-credit agencies also confirmed their readiness to accept Alfa Bank as a counterparty for short- and medium-term trade and project finance transactions.

Finally, we are delighted to note that even during the most difficult days of the 1998 financial crisis, Alfa Bank remained one of the few Russian banks to maintain full business relationships with foreign financial institutions. All of our foreign commercial obligations were met in full. It is particularly pleasing to be recognized as the only domestic bank to have serviced all its Eurobond commitments in full and on time.

On behalf of the Board of Directors and the Executive Board of the Bank, we express our sincere appreciation to all of our clients and business partners whose trust and support have made us Russia's premier full service financial institution.

Special thanks are due from the management to all of the staff, who are by far and away Alfa Bank's most valuable asset and will be the foundation of its continuing development in the new millennium.



**Leonard Vid**  
Chairman of the Executive Board  
of Alfa Bank



## ALFA BANK EXECUTIVE BOARD

Upper row, From left to right:

**Ildar Karimov**

Deputy Chairman of the Executive Board

Planning and Budgeting, Accounting, Reporting and Control

**Alexander Tolchinsky**

Member of the Executive Board

International and CIS Capital Markets, Corporate Finance and Bank Consulting

**Pavel Gorbatshevich**

Deputy Chairman of the Executive Board

Russian and International Settlements, Back Office, International Banking, Foreign Representations Management

**Andrey Sokolov**

Deputy Chairman of the Executive Board

Corporate Banking, Precious Metals, C.I.S. Inter-bank business

**Alexander Antonets**

Deputy Chairman of the Executive Board

Government Authorities and Political Organizations

**Alexander Lukanov**

Deputy Chairman of the Executive Board

Credit and Loan, Debt Programs/Operations, Trade and Project Finance

Lower row, From left to right

**Andrey Kosogov**

First Deputy Chairman of the Executive Board

Merchant Banking and Asset Management in Russia and the C.I.S. Countries, Capital and Securities Markets.

**Alex Knaster**

Chief Executive Officer

General Management, Development Strategy, Risk Management, Treasury, International Relations

**Leonard Vid**

Chairman of the Executive Board

Administration, Legal, Public Relations, Advertisement, Internal Control, Credit and Tariff Policy, Personnel Administration, Security

**Peter Aven**

President of the Bank

Bank Perspective Development, Political and Social Organizations, External Relations

**Evgeniy Bernshtam**

First Deputy Chairman of the Executive Board

General management of Commercial Banking, Branch and Subsidiaries Management and Development, Bank Cards and Retail Banking Products

**John Hogan**

Member of the Executive Board

Information Technology

## MILESTONES IN ALFA BANK'S DEVELOPMENT

# 1990

**20th December**

Alfa Bank was established as a limited partnership commercial bank.

# 1991

**3rd January**

Alfa Bank formally received its domestic banking license from the Central Bank of the Russian Federation.

**August**

Alfa Bank's first corporate client account was opened.

# 1992

**June**

The Central Bank of the Russian Federation granted Alfa Bank both the standard and extended hard currency licenses which, inter alia, led to the opening of its first nostro accounts with six foreign banks.

**December**

Alfa Bank's first branch was opened in Moscow.

# 1993

**March**

The Bank's first foreign shareholder, Altex, a Czech trading house consortium, was officially registered with and ratified by the Central Bank of the Russian Federation.

The Bank became a member of the Moscow Interbank Currency Exchange.

**April**

The Bank received a general banking license from the Central Bank of the Russian Federation, enabling it to carry out transactions in both Rubles and hard currencies. Alfa Bank became an official agent of the Moscow City Government.

**June**

The Bank's statutory capital was raised to RR 1.1 billion (USD 0.9 million).

October - Alfa Bank became an official agent of the Ministry of Finance and a primary dealer on the Russian Treasury Bill and Ministry of Finance Bond markets. The Bank was one of the most active participants in these markets and was, in fact, the first officially registered primary dealer on the MinFin bond market.

**December**

The Bank's statutory capital was raised to RR 4.5 billion (USD 3.6 million).

The Bank joined the Union Card settlement system.

# 1994

**April**

The Bank joined the international credit card system Europay.

**June**

Alfa Bank joined the SWIFT system.

The Bank's statutory capital was raised to RR 7.1 billion (USD 3.6 million).

**July**

Alfa Bank's general license was amended to allow it to deal in precious metals (gold and silver).

### **August**

The Board of Directors of the Alfa Group adopted a restructuring plan, expanding its activities from investment banking into a wider range of banking activities.

### **October**

Mr. Peter Aven was appointed President of the Bank.

### **December**

Alfa Bank became the first Russian bank to have a fully owned subsidiary in Almaty, officially registered by the National Bank of Kazakhstan.

Alfa Bank's statutory capital was raised to RR 23.45 billion (USD 6.9 million).

## **1995**

### **September**

Alfa Bank opened its Representative Office in London.

The Bank became a member of Factors Chain International, the largest international factoring organization.

Alfa Bank joined the Interbank Credit Union, an association made up of a limited number of major Moscow banks.

### **December**

The Bank increased its capital base under international accounting standards through the injection of USD 40 million, structured as long-term subordinated debt.

## **1996**

### **February**

Alfa Bank was authorized as a participating bank in the US Department of Agriculture's GSM-102 program.

The Board of Directors named Mr. Leonard B. Vid Chairman of the Executive Board.

### **May**

The Admissions Committee of Euroclear gave official approval to Alfa Bank joining this international clearing and settlement agency.

The EBRD granted the Alfa Group Consortium a USD 42 million long-term credit to be utilized by its supermarket chain subsidiary "Perekrestok" (Crossroads) for the expansion of its chain of stores in and around Moscow.

### **June**

Visa International's Board of Directors accepted Alfa Bank as a principal member.

### **July**

On July 2, 1996, Alfa Bank received accreditation under the World Bank/EBRD Financial Institutional Development Program from the Central Bank of the Russian Federation and the Ministries of Finance and Economics.

### **August**

IBCA (FITCH-IBCA), the bank rating agency, gave Alfa Bank its first credit rating.

### **September**

The German state export insurance agency, Hermes, officially appointed Alfa Bank as one of the group of Russian banks authorized to receive funds from German banks for financing Hermes-backed trade transactions.

### **October**

Alfa Bank was one of the few Russian banks to be authorized as an official agent for the first Moscow Government Municipal Bond Issue.

### **November**

Alfa Bank was one of three Russian Banks appointed to co-manage the USD 1 billion Eurobond issue for the Russian Federation, led by J.P. Morgan and SBC Warburg. This event marked the first international debt market issue by Russia since the 1917 Revolution.

Alfa Bank opened its branch office in Nizhny Novgorod, Russia's third largest city. The Bank's total capital at year-end reached a level of USD 118 million.

## 1997

### February

Alfa Bank successfully completed a USD 40 million syndicated loan arranged by Morgan Stanley. This facility represented Alfa's first public tapping of the Western debt markets and was 60% over-subscribed.

### March

Alfa Bank was appointed a Co-Manager in the first Deutschmark (DM) Eurobond issue of the Russian Federation, lead-managed by CSFB and Deutsche Morgan Grenfell.

### June

Alfa Bank became one of the first five Russian banks to be assigned an international rating from all three leading Rating agencies: Moody's (B1), Standard & Poor's (B) and IBCA (BB-).

### July

Alfa Bank became the first 100% privately owned Russian bank to enter the Eurobond market. It successfully launched a USD 175 million three-year issue led by Goldman Sachs International.

### September

The Board of Directors of the Alfa Group Consortium gave its go-ahead in principle to the merger of its banking and investment subsidiaries, Alfa Bank and Alfa Capital.

Alfa Bank opened its branch in St. Petersburg.

The Russian Federation Ministry of Economics granted Nizhny Novgorodskaya Leasing Company a license allowing it to carry out leasing operations in the Russian Federation.

### October

Alfa Bank successfully completed a groundbreaking USD 77 million US Commercial Paper Program, arranged by Bank of America International - the first for any Russian borrower.

This facility brought the total amount of Western debt capital raised by Alfa Bank over the first 10 months to more than USD 300 million.

### November

The Bank won the tender to act as an official financial agent and intermediary to service the contract between the Russian Ministry of Atomic Energy and the People's Republic of China (PRC) for the construction of a six-reactor nuclear power station in the PRC. The first stage of the project involves construction of two reactors and is estimated to be worth over USD 1.5 billion.

### December

Alfa Bank opened its branch office in Samara in further support of its regional corporate banking, financial services and retail banking initiatives.

Alfa Bank's capital base ended the year at a level in excess of USD 160 million.

## 1998

### January

The Central Bank of the Russian Federation ratified the new legal status of Alfa Bank, which transformed the bank from a limited liability company to an open joint-stock company.

### May

Alfa Bank signed a General Agreement of Cooperation with RESO-Guarantee, one of Russia's largest insurance companies. The agreement sets up a joint program, providing private and corporate medical insurance, travel insurance and other insurance services through Alfa Bank's retail branch network.

### July

Alfa Group Consortium announced the restructuring of its financial business. Alfa Bank becomes a full service commercial and investment operation by combining its operations with those of its sister investment company, Alfa Capital.

### **August**

Alfa Bank became an official distribution agent for Templeton mutual funds. Alfa Bank also became a participant in the Golden Crown payment system, which issued its plastic cards through Alfa Bank's recently acquired subsidiary in Novosibirsk.

### **August/September**

During the Russian financial crisis, Alfa Bank continued to fulfill all of its payment obligations on time and maintained a full range of banking services to an ever increasing customer base.

### **October**

Alex Knaster joined Alfa Bank as Chief Executive Officer on October 5, 1998. During the previous three years he had been head of CSFB's operations in the FSU and President of its Moscow subsidiary bank.

### **November**

Alfa Bank opened its branch in Toliatti, Samara Region.

## **1999**

### **February**

Alfa Bank Samara Branch rendered substantial financial aid to the families of all the people who died in a fire at the Samara's Regional Internal Affairs Ministry (police) division.

Alfa Bank opened its branch in Irkutsk, Siberia.

### **May**

Alfa Bank's new regional branches in Ekaterinburg, Kurgan and Tyumen were opened.

### **June**

Alfa Bank, jointly with Agency for Restructuring of Credit Organizations (ARKO), developed a program for Alfa Bank's regional expansion. ARKO's Council of Directors took a decision to extend RR 1 billion (USD 41 million) loan for the expansion of the Bank's branch network into more than 10 Russian regions.

Volgograd branch was established. Former First Deputy Head of the Russian Presidential Administration Mr. Oleg Sysuev accepted Alfa Bank's management proposal to become First Deputy Chairman of the Board of Directors of Alfa Bank.

### **July**

Alfa Bank reached a long-term agreement on the restructuring of its USD 77 million US Commercial Paper Program. The Agreement was signed by all of the banks that participated in the original facility, including the arranger - Bank of America.

The Bank's Board of Directors confirmed that Alfa Bank in due time and in full amount had paid the annual coupon due under its European Medium-Term Note Program.

New regional Alfa Bank branches were opened in Omsk, Perm, Orenburg and Vladivostok.

### **September**

Alfa Bank rendered financial aid in the amount of USD 200,000 to cover necessary emergency expenses for the families who suffered from terrorist actions in Moscow and Dagestan.

Alfa Bank Kurgan branch was opened.

### **December**

Alfa Bank Deputy Chairman of the Executive Board, Mr. Alexander Abramov, was appointed as Deputy Head of the Russian Presidential Administration.

# 1990

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On the 20th of December 1990 Alfa Bank was established as a commercial bank under a status of a limited liability partnership.



Amidst the financial crisis at the end of 1998, it became clear that Alfa Bank was one of the few Russian banks, which was able to survive the crisis and maintain the trust of its customers. This status allowed the bank to adopt a regional expansion program, which began in January 1999 and served as yet another step towards positioning the Bank among leaders on the Russian market.

# 1999



In 1999 the main concerns of the Russian Government were: to overcome the financial crisis and the impact that it had had both on the economy and on living standards; an improvement in the real sector; and the creation of conditions for sound and socially orientated growth.

The increase in industrial output and GDP in 1999 was the result of a rise in oil and gas exports, the development of import-substitution businesses and an increase in world prices for oil and oil products. Stimulated by the improved performance of the real economy, payment mechanisms began to function normally again. Around 65% of the gain in industrial output arose through domestic demand. Import-substituting sectors are mainly producing consumer goods satisfying demand for cars, railway equipment, chemicals and machine tools. There was a significant upturn in house construction, spurred on for the most part by an increase in individual savings and a fall in property prices.

It is important to note that none of these achievements was of a stable or long-term nature and in fact had a number of negative consequences. Many import-substituting goods are produced by increasing the capacity of old industrial machinery, and employing old technology and production methods. Much of this revitalized production is many years behind western comparisons.

Russia's share of world exports does not exceed 1.37%. During the year exports declined by 14% (by 13% with non-CIS foreign countries) and imports fell by 44% (52% with non-CIS countries). These figures do not include cross-border exports and imports that did not clear customs officially. The total volumes of foreign trade (including trade not officially registered) were 23.3% lower in 1999 than in the previous year (20.7% lower with non-CIS countries). The foreign trade balance remained positive and stood at USD 21.2 billion (USD 19.8 billion with non-CIS countries) which is the highest level for the whole of the 1990s. Such a healthy trade balance (especially in the absence of foreign investment flows or external lending) allowed the country to continue servicing its external debt (albeit at a lower level) and to achieve and maintain relative stability on the currency markets.

The breakdown of exports shows a base of primarily raw materials of which 41% were oil- and gas-related (i.e. similar to 1998) and 16.4% ferrous and non-ferrous metals. After the OPEC decision in March 1999 to adopt an agreement on reducing oil extraction and export there was an increase in world oil prices, which remained stable from April 1999 onwards.

The volume of imports was restricted by the falling domestic currency, making imports more expensive. However, there was a slight rise in the volumes of imports although the prices of goods fell.

### INFLATION AND PRICE DYNAMICS

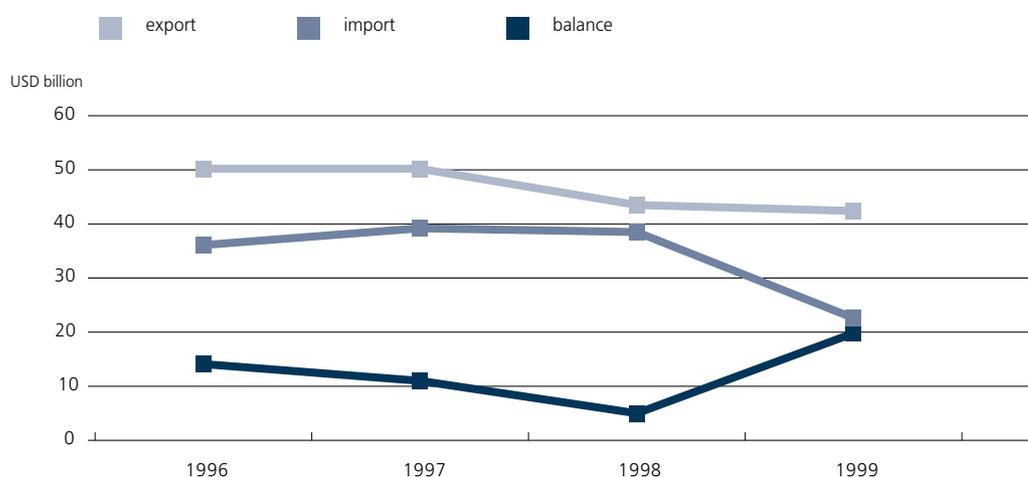
The most important goal of 1999 was to prevent high levels of inflation, which could be brought about by large budget commitments. As in previous years price dynamics were subject to seasonal variations. However, the suppression of consumer good inflation led to lower levels of inflation in industrial markets as a whole.

In certain sectors of the real economy, high levels of demand coupled with a reduction of the tax burden on producers, in favor of consumers, meant that inflation rates, as in 1998, somewhat lagged behind inflation levels in consumer goods markets. To a lesser extent than in consumer goods markets, ruble devaluation affected inflation levels in the industrial sector as a result of a lack of bank lending, high levels of barter and non-payment. Inflation had the largest effect upon import-substituting factories producing consumer goods. Changes in customs policies which reduced tariffs for imported raw materials, favored domestic producers and softened the effects of ruble devaluation in 1999.

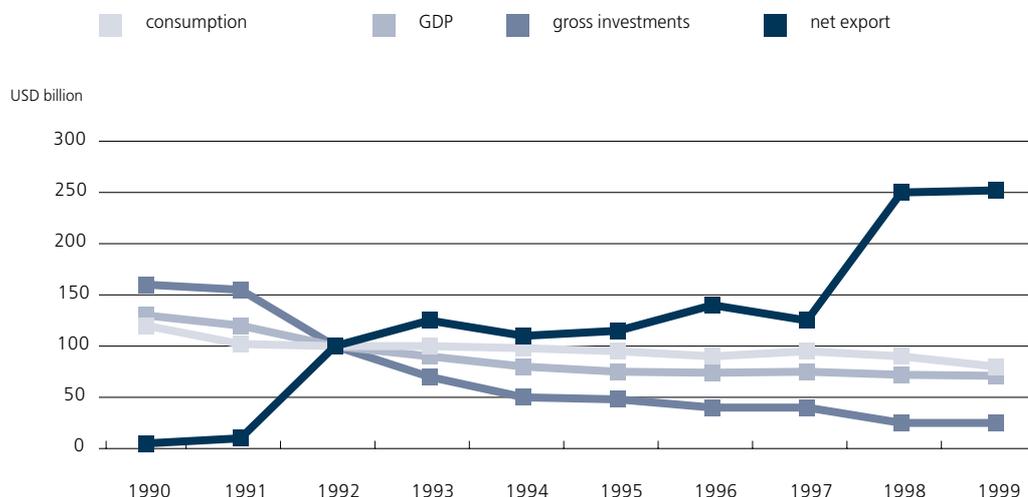
The weakening of inflation was to a large extent a result of the Central Bank's well balanced monetary and credit policy (growth rates of money in circulation were roughly equivalent to inflation rates). This was coupled with the strengthening of the real ruble exchange rate (control for production from natural monopolies; and a drop in the population's spending power). The average monthly inflation rate in 1999 was 2.2% or 30% for the year as a whole. Money supply (M2) increased during the year by 33%.

During the year prices of industrial producers rose by 49.1%, exceeding inflation rates in the consumer goods market (see table). The increase in industrial prices is explained by the reaction of manufacturers to ruble devaluation at the end of 1998 (as distinct from the jump in consumer prices), together with a widening demand for domestically manufactured products as a result of active import substitution; an increase in world prices for raw materials; and an increase in exports of raw materials.

### Russia's foreign trade (excluding CIS countries)



### GDP dynamics and its components (1992 = 100%)



## INCOME AND EMPLOYMENT

Following a sharp drop in the population's income in August to September 1998, the period of recovery was extremely slow and indeed still continues. Meanwhile, as the decline in consumer demand hampers the new economic growth, real disposable income remained low, with 1999 levels standing at 83% of 1998 levels. This is because the standard of living of those on a fixed income was very slow to recover. In the period following the crisis, spending patterns changed significantly. In 1999 a high proportion (over 80%) was spent on buying goods and paying for services while the proportion of income spent on food also increased.

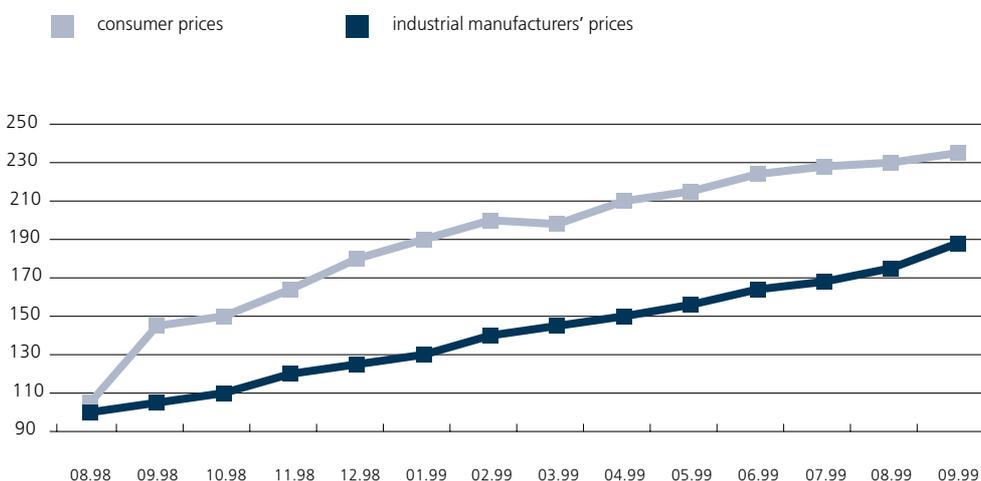
Wage arrears have declined significantly. Total arrears as of 31 December 1999 stood at around RR 55 billion, down by 29% from the previous year. Pension arrears, which stood at RR 26 billion at the start of the year, were fully paid by September 1999. The income of the population in nominal terms was 1.7 times higher in 1999 than in 1998. Nevertheless, the total repayment of pension arrears and the partial repayment of wage arrears did not compensate for the significant decline (by 15-16%) in real disposable income.

Positive changes in the general economic outlook and above all in industrial output dynamics were dependent on an improvement in the labor market although the situation as a whole remains quite difficult. Total unemployment (calculated using the methodology of the International Labor Organization) at the end of 1999 stood at 9 million or 12% of the active population against 9.73 million (13.3%) at the end of 1998.

## BUDGET AND TAXES

Russia is a country in which the state budget accounts for less than one third of gross domestic product (31.4%). The Russian Federation's consolidated budget deficit in 1999 was estimated at between 4% and 6%, while the provisional surplus for 2000 is around 5%. According to IMF forecasts, the Russian budget surplus in the first half of 2000 will be 4.7%. In 1999 there was a signifi-

### Indexes of consumer and industrial manufacturers' prices. August 1998–September 1999 (July 1998 = 100%)



cant improvement in tax collection while wage and pension arrears were significantly cut. The collection rate of National Insurance contributions did not exceed 65.2%. Capital investment levels over the year were practically unchanged. The proportion of capital provided by the government comprised 17.3%, while that provided by other sources comprised 62%. A low level of investment activity is an indicator of the general level economic activity and in particular of the activity in the financial sector. Political and economic risks remain and are the main factors for low confidence among potential investors, inadequate activity on the part of banks and high rates of interest on loan financing.

Significant capital flight continues to plague the country. Due to a very high level of non-payment within the economy, barter and other non-cash forms of payment remain widespread. The decline in the agricultural sector output was caused, for the most part, by a crisis in the animal-rearing industry. Poor climatic conditions resulted in a very low grain harvest. The need to increase purchases of animal feed became a further burden on the federal budget.

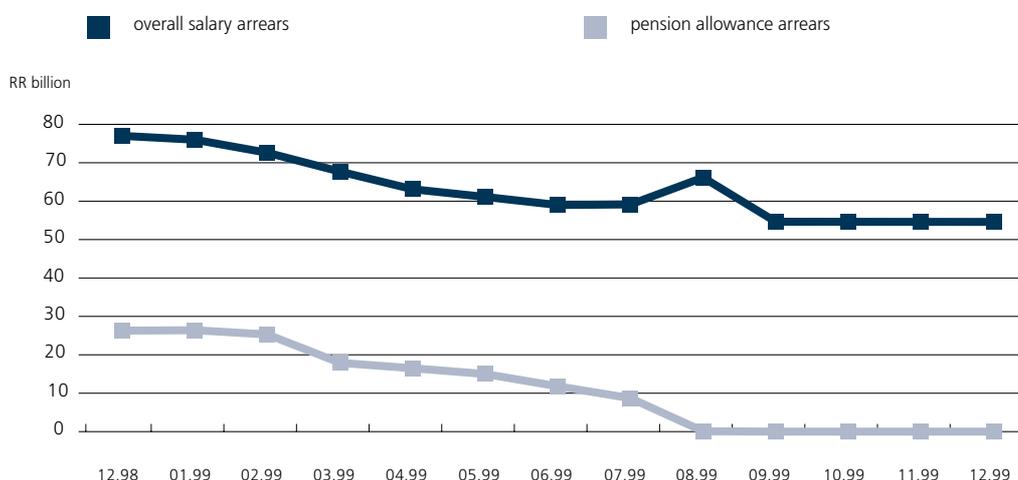
#### BANKING SECTOR: CURRENCY AND DEBT MARKETS

The situation in the country's banking sector is complex. The future of the former large and influential banks remains uncertain. The Bank of Russia and ARKO have not reached a final decision on possible restructuring or the need to initiate bankruptcy proceedings.

The share of loans to the real sector economy in aggregate assets of the banking system has steadily declined from 32.2% in January to 26.1% at the end of the year.

During the past year, the refinancing rate gradually decreased (in March 2000 to 38%). Unlike western markets where changes in interest rates normally have a significant impact on the economy, a fall in the refinancing rate in Russia has not yet stimulated any significant investment activity. Counterparties continue to prefer barter. At the beginning of 1999, the total amount of capital attracted by commercial banks, including Sberbank, came to RR 255 billion. The volume of deposits subsequently grew reaching a level of RR 316 billion at the beginning of 2000. Russia's gold deposits increased to USD 13.6 billion but were subject to considerable fluctuation in the gold price.

#### Salary and pension allowance arrears (as of the end of period)

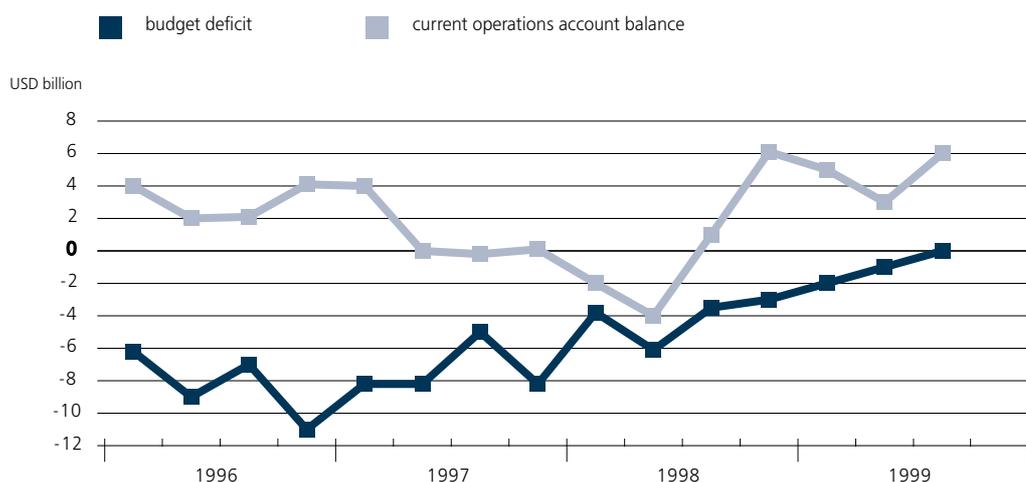


The situation in the currency markets was characterized by a significant increase in supply of foreign currency, caused to a large extent by a major improvement in foreign economic activity and the resultant healthy trade balance. Favorable trends in the ruble exchange rate were due mostly to import substitution, increased export earnings, lower interest rates and a deceleration of inflation. Supported by limited intervention policy on the part of the Central Bank of the Russian Federation, the current ruble exchange rate has remained at a level of 28-29 RR/USD since the end of 1999.

### Banking asset-liability structure (in %)

	1996	1997	1998	1999
<b>ASSETS</b>				
liquid assets	17.4	13.6	16.4	21.6
loans to the economy	28.7	31.8	32.0	29.6
loans to government structures	20.9	21.6	17.2	13.8
<b>LIABILITIES</b>				
private individuals deposits	24.3	22.3	19.9	19.3
corporate deposits	18.2	19.0	20.5	26.4
capital	20.5	17.1	8.5	9.3

### Federal budget deficit and current operation account balance



## PRIVATE HOLDERS

<b>13.94</b> % – «Alfa-Om», Ltd
<b>28.39</b> % – «Monna», Ltd
<b>28.28</b> % – «Khan», Ltd
<b>2.16</b> % – «Bezelyansky», Ltd
<b>1.49</b> % – «Sobstvennik», Ltd
<b>2.16</b> % – «Dom Finansista», Ltd
<b>2.36</b> % – «Otkrytaya Kompaniya», Ltd
<b>2.08</b> % – «IVA-CAPITAL», Ltd
<b>9.36</b> % – «Kalderra», Ltd
<b>9.79</b> % – «Dendar», Ltd

ALFA BANK

## SUBSIDIARIES COMPANY (% in Share capital)

<b>83.01</b> % – Alfa Bank - Bashkortostan, Ufa
<b>50.01</b> % – Alfa Bank - Novosibirsk
<b>98.76</b> % – Alfa Bank - Kazakhstan, Almaty
<b>100</b> % – Alfa-Russia Finance B.V., Amsterdam
<b>100</b> % – Alfa-Securities, London
<b>100</b> % – Alfa Kapital Brok, Moscow

### Introduction

For the year ended 31 December 1998 the company prepared Combined Financial Statements for the Alfa Financial Group (Group). These financial statements were 'combined' and not 'consolidated' because as of 31 December 1998 the two main sub-groups, Alfa Bank Group (commercial banking) and Alfa Capital Holdings (investment banking) had not been formally and legally merged. As of 31 December 1999, this formal legal merger had occurred and consolidated financial statements were prepared for the parent company, AB Holdings Limited.

### Financial Highlights for 1999

- Return to profitability.

USD 50 million profit for the year as against a loss of USD 205 million in 1998.

- Fourfold increase in equity.

A fourfold increase in the group's total shareholders' equity from USD 51 million to USD 233 million.

- 40% growth in total assets.

Total assets of the group increased by 40% from USD 951 million on 31 December 1998 to USD 1,337 million on 31 December 1999.

### Return to profitability

The Bank saw a return to profitability after the dramatic events of August 1998. A profit of USD 50 million was recorded for the period, and while it is recognized that a USD 72 million gain was made by the early retirement of our Euro Medium-Term Notes, the results achieved in a still depressed market, augur well for the future.

A summary of Alfa Bank's results under International Accounting Standards (IAS) for the year is as follows:

	in USD million
Interest margin	(27)
Fee and commission income	15
Securities and FX trading	34
<b>Other operating income</b>	<b>10</b>
Provisions	(8)
Operating income	24
Gains from retirement of Euronotes	72
Monetary gain from open currency position	68
<b>Total income</b>	<b>164</b>
Administrative and other expenses	(104)
Tax	(10)
<b>Net profit</b>	<b>50</b>

# 01.03.1999

## Irkytsk

...During the first year of Alfa Bank's operation in Irkytsk, three quarters of the region's leading enterprises and companies transferred their accounts from other institutions to become Alfa Bank clients. Among them were companies from the fuel and energy, chemical, metallurgy, wood processing, pulp and paper, coal and gold mining sectors - all of which make the near-Baikal region so attractive for investors....



# 15.06.1999



## Kyrgan

....By the beginning of 2000, Alfa Bank became one of the leading banks on the Kurgan cash currency market. The Bank handles more than half of the region's volume of foreign currency exchange transactions. Alfa Bank is the only bank in the city, which offers Kurgan residents funds transfer services using Western Union payment system....

The group's negative interest margin is a direct result of the group's investment in TNK. The group has made significant gains on this investment but under IAS these gains are posted directly to reserves in the balance sheet and not to the profit and loss account.

In 2000 TNK will be sold outside the Group to a company that belongs to the Alfa Consortium. Within the books of the group the investment in TNK will be replaced at book value (i.e. market value as the investment is independently revalued every year) with a loan to the purchasing company. This loan will be at a market rate of interest.

The effect of this transaction will be to achieve the group's previously stated desire to be a purely commercial and investment banking business without its net asset value being affected by non-banking investments. The interest margin will become positive again and as the loan is repaid by the consortium company additional funds will be available for lending to non-related third parties.

Professional legal and taxation advice has been received with regard to this transaction and it is at an advanced stage of completion as witnessed by reference to it in the audited financial statements.

**Fee and Commission income**

**USD 15 million**

Fee and commission income fell from USD 51 million in 1998 to USD 15 million in 1999.

**Securities and FX trading**

**USD 34 million**

The recovery of all markets, equity, fixed income and currency, enabled the group to earn USD 34 million in the year. The August 1998 crash resulted in securities and FX trading returning a loss of USD 150 million in that year.

**Gains from retirement of Euronotes**

**USD 72 million**

During 1999 the group purchased certain of its Euro Medium-Term Notes (Euronotes). While these Euronotes were not formally retired, the gain on retirement has been reflected in the accounts, as it is the intention to retire these notes. The outstanding balance on the Euronotes on 31 December 1999 was USD 24.8 million and all outstanding Euronotes will be redeemed on 28 July 2000 in accordance with the agreement.

**Monetary gain from open currency position**

**USD 68 million**

In accordance with IAS rules the company's gains/losses on its long-term currency position are reflected as non-operating income. This does not do justice to the fact that this is a short-RR position taken by the authorized body in the group as mandated by the Board of Directors. As a result of the steadily weakening ruble in 1999, the group's ruble short position yielded a profit of USD 68 million in the year.

**Administrative and other expenses**

**USD 104 million**

Despite an increasing branch network and employee base, strict cost-saving measures enabled the group to reduce its administrative and other expenses from USD 110 million last year.

#### Fourfold increase in shareholders' equity

The year saw shareholders' equity grow from USD 51 million on 1 January 1999 to USD 234 million on 31 December 1999. USD 50 million was added via operations reflected in the profit and loss account. The remaining growth in shareholders' equity came via the revaluation of the investment in TNK.

It is important to note that as of 31 December 1999 the revaluation reserve contained in shareholders' equity amounts to USD 246 million. On completion of the sale of TNK outside the group, as described above, this amount will be transferred to normal revenue reserves, becoming Tier 1 capital in the process.

#### 40% growth in total assets

An abridged version of our cash flows in the year clearly indicates the reasons for our growth in total assets.

	in USD million
Cash balances at the start of the year	72
Incoming funds	433
<b>Increase in customer accounts &amp; bills of exchange</b>	<b>396</b>
<b>Loan received from ARKO</b>	<b>37</b>
Payments of external borrowings	(80)
<b>Purchase of Euro Medium Term Notes</b>	<b>(54)</b>
<b>Payment of US Commercial Paper Notes</b>	<b>(20)</b>
<b>Payment under REPO agreement</b>	<b>(6)</b>
Net cash effect of operations (p&l-cash basis)	(13)
Expenditure on assets	(256)
<b>Increase in loans and advances to customers</b>	<b>(198)</b>
<b>Increase in dealing securities</b>	<b>(42)</b>
<b>Fixed asset purchases</b>	<b>(15)</b>
<b>Sundry asset/liability movements net</b>	<b>(1)</b>
Cash balances at the end of the year	156

#### Increase in customer accounts and bills of exchange **USD 396 million**

Customer accounts and bills of exchange grew by 119% in 1999 from USD 334 million to USD 730 million. Particularly strong growth was prevalent in the energy and oil sector (now 31% of the customer base) and the manufacturing and construction sector (now 26% of the customer base). The customer base is located predominately in Russia and elsewhere in the CIS (92%), with 6% of customers based in Europe.

**Loan received from ARKO** **USD 37 million**

In 1999 the group obtained a loan from ARKO amounting to USD 37 million.

**Purchase of Euronotes** **USD 54 million**

During 1999 the group purchased certain of its Euro Medium-Term Notes (Euronotes) at a cost of USD 54 million. The gain on retirement of these notes resulted in a profit of USD 72 million in the year. The outstanding balance on the Euronotes of 31 December 1999 was USD 24.8 million and all outstanding Euronotes will be redeemed on 28 July 2000 in accordance with the agreement.

**Payment of US Commercial Paper Notes** **USD 20 million**

As of 31 December 1999 the balance owing on these notes amounted to USD 53 million. This amount will be repaid under scheduled repayments by 31 December 2002.

**Payment under REPO agreement** **USD 6 million**

As of 31 December 1999 the balance outstanding was USD 24 million. Monthly payments will be made until expiration of the agreement on 29 May 2001.

**Increase in loans and advances to customers** **USD 198 million**

Gross loans and advances to customers (excluding provisions) increased by 88% in 1999 from USD 255 million to USD 423 million. The increase was primarily due to an increase in lending to the energy and oil sectors, which makes up 47% of the loan portfolio. Loans to trade and commercial concerns and to the agricultural sector make up another 31% of the portfolio.

**Increase in dealing securities** **USD 42 million**

The general improvement in markets after the August 1998 crash enabled the group to make significant profits from equity and fixed income in 1999. In line with this increased activity our holding of equity and fixed income instruments increased from USD 30 million on 1 January 1999 to USD 66 million on 31 December 1999.

**Fixed asset purchases** **USD 15 million**

The increase in the branch network during 1999 was the main reason for the Bank's capital expenditure of USD 15 million in the year. Over the next two years it is planned that USD 20 million will be spent on the development of information technology within the Bank.

The significant transformations that took place in the administration of Alfa Bank's expanding countrywide branch network in 1999 were primarily driven by the revision of its corporate client management system. Fundamental changes in customer management policy are based on the transition from the divisional system of branch network management, viewed in the past as a specialized business unit, to a matrix-functional system, which integrates all aspects of corporate services under a single operational umbrella. This new form of corporate banking management has enabled the Bank to ensure the uniformity of its client policy, streamline corporate customer business in the regional branches and the central office and to devise a systematic approach to the task of establishing new client relationships.

During 1999 the Bank's client base continued to show signs of strong growth. The number of corporate clients increased by more than 18%, commercial settlement and state budgetary accounts by more than 17%, while the number of non-RR accounts grew by more than 7%. It must be noted, however, that the rate of corporate portfolio growth in 1999 was lower than in 1998, during which time customers of non-solvent institutions were left with little choice of banks with sufficient liquidity to execute their payments. At the same time new clients are being targeted in a more focused manner with an emphasis on working with large and middle-size corporates. More time is allocated to networking with existing clients to establish leads on their outside commercial relationships, which could benefit from Alfa Bank's in-house settlement products. Improvements have been made in the corporate fee structure as well as in client service technologies, where experience gained from customer relations in the head office is adopted by all regional branch offices. To guarantee the uniformity of methodology and equality of access to products and services across all branches, irrespective of their geographic location, Alfa Bank is developing a new Corporate Banking Service Quality Standard.

Expansion of the Bank's subsidiary network across the CIS has facilitated timely payment settlement as well as the netting of arrears for customers in the fuel and energy sector, and food and processing industry doing business in the Ukraine and Kazakhstan. Taking advantage of the extensive branch network and latest telecommunications technology, Alfa Bank has created financial clearing centers for its largest trans-regional clients, including natural monopolies. The use of promissory notes and guarantee instruments has enabled the Bank to optimize settlements for customers with a large regional network of counterparties.

Clients active in foreign trade have access to unparalleled services in traditional and structured trade finance products. The Bank has accumulated a wealth of experience in working with debt instruments of the former USSR and Russian Federation as well as export contacts for goods manufactured in Russia in redemption of these liabilities.

Backed by many years of successful association with key federal and municipal agencies, Alfa Bank maintains its premier accreditation status as the financial intermediary for some of the Russian Federation's most important fiscal programs. Some of these programs included servicing the accounts of the State Customs Committee and handling payments for the Ministry of Atomic Energy's nuclear power station construction projects in China and Iran.

The expanding client portfolio for 1999 has enabled the Bank to establish relationships with key aerospace and civil aviation enterprises. A number of the largest regional airlines have become the Bank's clients. Long-term leasing programs developed by the Bank enable them to renew their fleets and upgrade aircraft engines with the latest domestic models.

Over the year Alfa Bank intensified its activities on the precious metals market. Apart from providing loans to mining and processing/refining companies, the Bank began trading precious metals on the domestic and international markets.

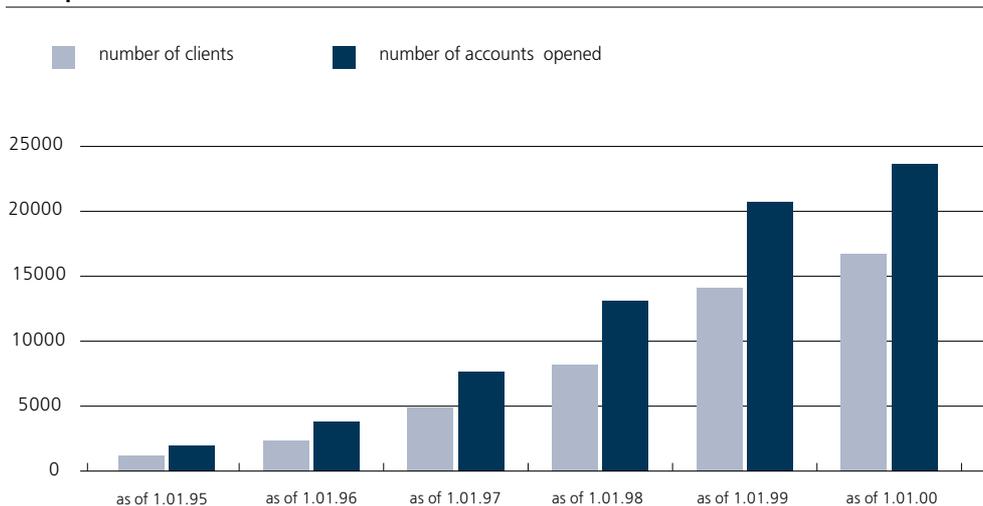
One of the priority areas for 1999 was the Bank's financial participation in various federal and municipal construction programs. During the year the Bank funded commercial and retail construction projects in Moscow and participated in the Russian Federation Housing project, financed with World Bank resources.

When working with its largest clients, the corporate banking department engages in the comprehensive planning of future development in those bank-client relations specifically aimed at providing tailored solutions across all products and service groups.

**List of Corporate Product and Services:**

- Free opening and operating of ruble and foreign currency accounts for both resident and non-resident corporations and individuals;
- settlements in rubles and hard currencies;
- settlements in soft currencies with Ukraine, Belorussia, Kazakhstan and other CIS countries;
- hard currency foreign exchange operations, including spot, forward and options contracts;
- all forms of currency conversions - rubles, hard and soft currencies;
- deposit and credit facilities in soft currencies;
- ruble and hard currency loans for individual and corporate clients;
- financing of export-import transactions, including pre-export financing;
- promissory notes and certificates of deposit;
- ruble and hard currency corporate loans;
- currency-of-settlement import trade financing under inter-governmental agreements between the former USSR and foreign states;
- a range of short- and long-term company financing;

**Increase in the number of corporate clients and accounts opened for 1995–1999** (Moscow branches)

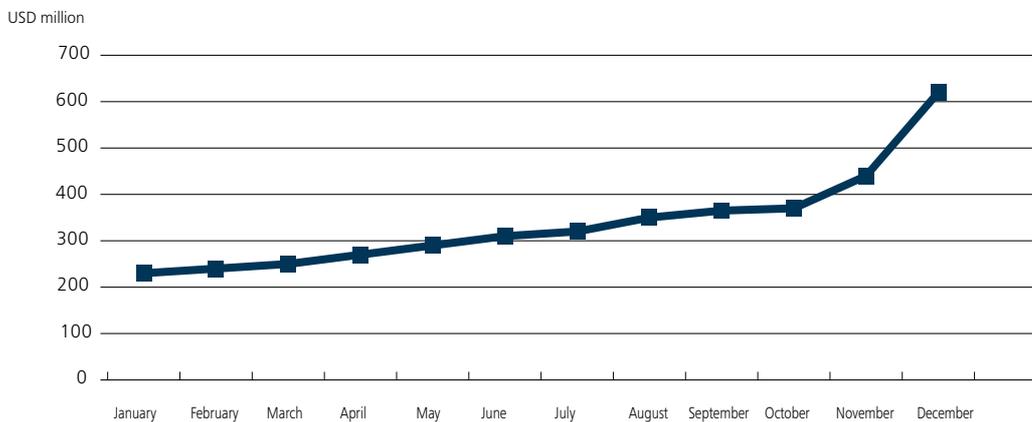


- corporate and project finance, including joint-venture projects with foreign partners;
- transactions with precious metals on international markets;
- commercial and traveler's check processing;
- bank card services for Eurocard/MasterCard, Diners Club, UnionCard;
- custody services;
- Ministry of Finance and Vnesheconom debt brokerage services on the Russian and international markets;
- guarantees for Customs Authorities; and,
- financial consulting and other services.

#### Trade Finance Services

- Opening of Letters of Credit for up to 180 days covered by securities, deposits and third party guarantees. In some cases, the Bank is prepared to offer guarantees for longer maturities;
- financing under the US government GSM 102 program for agricultural exports from the United States;
- trade finance facilities in the form of loans;
- post-export financing and payment on bills of acceptance;
- trade finance consulting and document preparation;
- opening of special 'S' type hard currency accounts for non-residents; and,
- advice on international trade counterparties.

#### Increase of corporate deposits in 1999



At the beginning of 1999, Alfa Bank's branch operations consisted of 18 offices in Moscow, three regional branches in St. Petersburg, Nizhny Novgorod and Samara (with a sub-branch in Toliatti) as well as three subsidiary banks in Ufa, Novosibirsk and Almaty. Having overcome the consequences of the 1998 financial crisis and cemented its position in 1999, the Bank was able to focus on the development of its branch network.

During the past year Alfa Bank's regional operations underwent considerable expansion with the opening of 13 regional branches and one Moscow office. New Alfa Bank branches were opened for business in Irkutsk, Angarsk, Tyumen, Kurgan, Ekaterinburg, Volgograd, Omsk, Perm, Orenburg, Vladivostok while customers in St. Petersburg, Ekaterinburg, Vladivostok and Moscow further benefited from a network of several Alfa Bank offices established in their cities. Some of the new Bank's branches were established on the premises of the former Inkombank branches where access to experienced staff and an existing client base allowed Alfa Bank to significantly reduce the time for operations to get off the ground.

Continuing its drive towards becoming the biggest private retail financial institution in Moscow, the Bank's branch division has now received management approval for an additional 20 offices to be operational in the capital area by 2001. Five of these new branches have already begun servicing clients in the first half of 2000. Complementing the Moscow expansion, seven new Alfa Bank branches were opened in St. Petersburg over the same period.

Regional expansion plans are equally as ambitious with 20 new branches and a subsidiary bank being established in Kiev, Ukraine before the end of 2000. More than 75% of all Alfa Bank regional branches will be opened under the joint project with the Federal Agency for Restructuring of Credit Organizations (ARCO).

### MOSCOW BRANCH NETWORK

As the banking system returned to regular activity, following the August 1998 financial crisis, the Moscow network recorded stable growth in all operational parameters. The Bank is strengthening its territorial presence and continues to work on targeted expansion in the Greater Moscow area.

During 1999 the total number of clients serviced by the 19 Moscow branches increased to over 15,000 while some of the more centrally located offices processed over 1,000 client transactions per day. The number of retail locations being serviced by our automated teller machines (ATM) increased by more than twofold over the year.

Also of note is the evidence of individual client's renewed confidence in Alfa Bank. At the end of 1999, more than 180,000 individuals maintained active personal accounts with the Bank. This in turn supported a total of over 45,000 international and domestic banking cards issued by the Bank for the same period. As a result of the customer base growth, Moscow branch network account balances on 31 December 1999 exceeded the same figure for the previous year by more than 2.5 times while the operational income generated by the Moscow network increased by 1.6 times over the same period.

# 15.06.1999

## Ekaterinburg

...Having established close working relationship with the Ural Customs Division Alfa Bank developed new services allowing to considerably reduce processing of customs payments.

Enterprises from the Sverdlov region engaged in foreign trade can now considerably reduce costs associated with clearing and bonded warehouse storage of their goods...

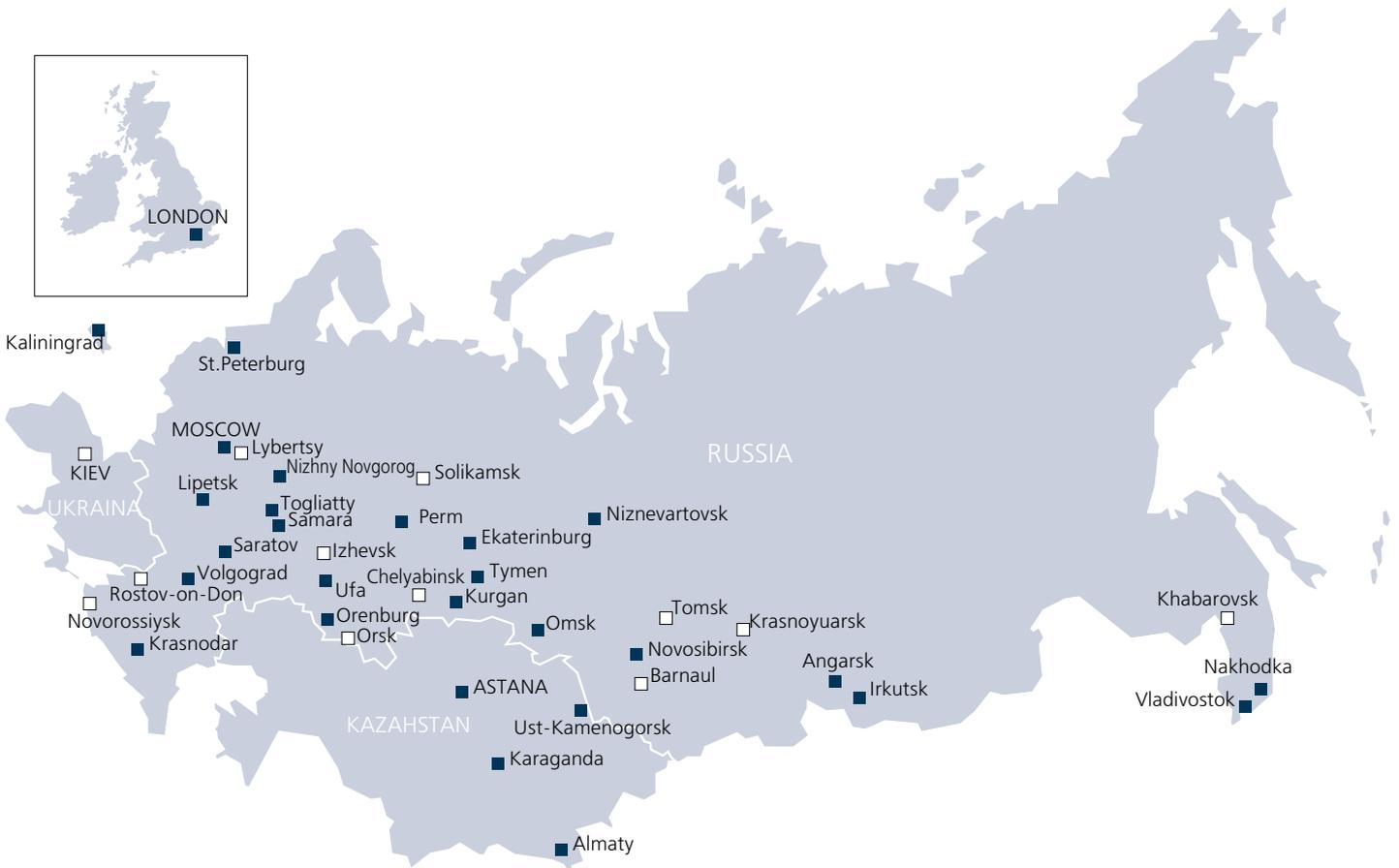


# 15.06.1999



## Tyumen

...During the first year of operations, the Tyumen branch issued approximately seven thousand international banking cards. Large and medium sized companies representing oil and gas, food processing, construction, machine building and transportation sectors became Bank's clients...



ALFA BANK	
TWENTY MOSCOW ADDITIONAL OFFICES	
REGIONAL BRANCHES	
SUBSIDIARY BANKS	<ul style="list-style-type: none"> <li>Nizhny Novgorod</li> <li>Volgograd</li> <li>Perm</li> <li>Samara</li> <li>Toliatti</li> <li>Novosibirsk</li> <li>St. Petersburg</li> <li>Tumen</li> <li>Nizhnevartovsk</li> <li>Ekaterinburg</li> <li>Omsk</li> <li>Vladivostok</li> <li>Kurgan</li> <li>Orenburg</li> <li>Irkutsk</li> <li>Angarsk</li> <li>Lipetsk</li> <li>Saratov</li> <li>Krasnodar</li> <li>Kaliningrad</li> <li>Nakhodka</li> </ul>
OFFICES TO BE OPENED IN 2000	<ul style="list-style-type: none"> <li>Russia, Bashkortostan, Ufa</li> <li>Kazakhstan, Almaty</li> <li>Astana</li> <li>Karaganda</li> <li>Ust-Kamenogorsk</li> <li>Krasnoyarsk</li> <li>Khabarovsk</li> <li>Izhevsk</li> <li>Solikamsk</li> <li>Rostov-on-Don</li> <li>Chelyabinsk</li> <li>Tomsk</li> <li>Barnaul</li> <li>Novorossiysk</li> <li>Orsk</li> <li>Lybertsy</li> <li>7 additional offices in Moscow</li> <li>5 additional offices in St. Petersburg</li> <li>Kiev, Ukraine</li> </ul>

## REGIONAL BRANCHES

Being one of the first Alfa Bank regional offices, the St Petersburg branch has, in two and a half years of operation, become the house bank for a diversified portfolio of leading corporate clients. The Bank has established lasting relationships with companies from economic sectors such as industry and transportation, construction, wholesale/retail, food and consumer goods, publishing/mass media and advertising, real estate and financial services. The expanding St. Petersburg network is actively lending to the city's most successful enterprises, with specific attention paid to the needs of export oriented industries, food and consumer companies as well as municipal and federal agencies.

Alfa Bank's oldest regional branch in Nizhny Novgorod continues to expand client relationships with some of the most progressive regional enterprises. In co-ordination with the Governor's supported industrial investment program, the Bank has considerably expanded its lending activity to the real economy sector of the local economy, which brought about a 150% increase in the branch's loan portfolio. At the same time, the Nizhny office maintained its co-operation with the regional agricultural sector through the federal agricultural funding initiative.

Catering to the specific industrial requirements of the Urals region has been the driving force for the development of the Alfa Bank's Ekaterinburg branch. Considerable attention has been paid to the products and services provided to some of the region's biggest industrial clients. In October 1999 the Bank signed an agreement with the Sverdlovsk regional administration to implement a joint program dedicated to the expansion of financial resources required for future development of the region's economic and social infrastructure.

A highlight of the regional operations in 1999 has been the record performance of the Irkutsk branch which, while having opened its doors in March, has achieved client growth statistics exceeding those of its competitors in the region by three or four times. More than 70% of the city's premier corporate enterprises consider Alfa Bank to be their key financial partner. At the same time the new branch now services a significant number of the regional administration and municipal organizations.

Late in the year the Bank opened two branches in the resources-rich area of Tyumen in Western Siberia. The Tyumen City and Nizhnevartovsk branches quickly became instrumental in servicing the region's largest oil and gas companies, which include the Tyumen Oil Company.

Supported by the management's commitment to branch expansion, the regional branch network in 1999 was able to prove its strategic importance for the future development of Alfa Bank. Focused branch expansion over the past year has produced more than a six-fold increase in year-end total regional corporate account balances.

SUBSIDIARY BANKS

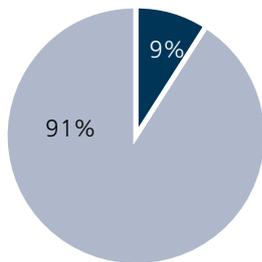
At the end of 1999 Alfa Bank’s subsidiary network included three banks. Established in 1994, Alfa Bank Kazakhstan was successful in maintaining its drive towards building its own branch network in the Republic of Kazakhstan. Adding to its operations in Almaty and Akmola in 1999, the Bank opened branches in the cities of Karaganda and Ust-Kamenogorsk.

Alfa Bank Bashkortostan (established in 1997). Alfa Bank Novosibirsk (established in 1998) continued to show strong operational results based on expanding corporate banking relationships in their local markets.

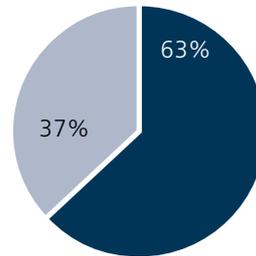
**Commercial loans in RR**

■ regional branches    ■ Moscow offices

as at the end of 1998



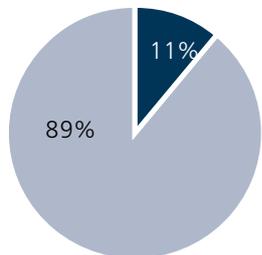
as at the end of 1999



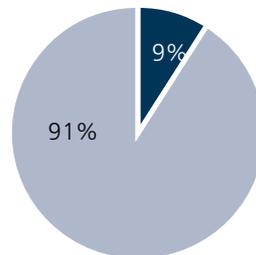
**Commercial loans in USD**

■ regional branches    ■ Moscow offices

as at the end of 1998



as at the end of 1999



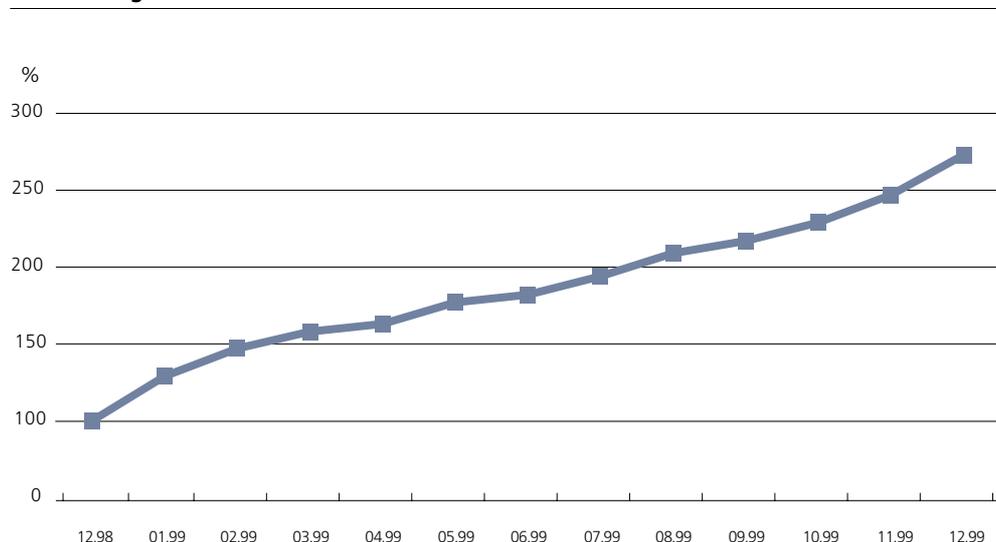
## BANKING CARDS

Competition in the banking card market sharpened considerably during 1999. Newcomers to the market were aggressively striving to position themselves against the intensified presence of the banks that managed to survive the turmoil of 1998. Nevertheless, Alfa Bank was able to strengthen its position as one of the three leading banks in terms of issuing and acquiring banking cards. The number of retailers accepting Alfa Bank cards increased twofold and by the end of the fourth quarter of 1999 amounted to 2,000. During the year the Bank increased the number of its ATMs and point-of-sale terminals (POS) to 65 and 960 respectively. Alfa Bank's aggregated card merchants' volume amounted to USD 272 million (compared to USD 141.5 million in 1998). In addition to agreements with Visa, Eurocard/MasterCard, Union Card and Golden Crown cards, Alfa Bank also began to represent American Express and Diners Club.

According to the results for the year under review, the number of cards issued by the Bank increased by 31%, while card accounts balances grew by 173%. Throughout the year Alfa Bank also introduced new unique products - Visa Platinum and Visa Alfamobil - and considerably broadened the list of services offered to cardholders. Issuance of Diners Club and American Express cards is scheduled for the year 2000.

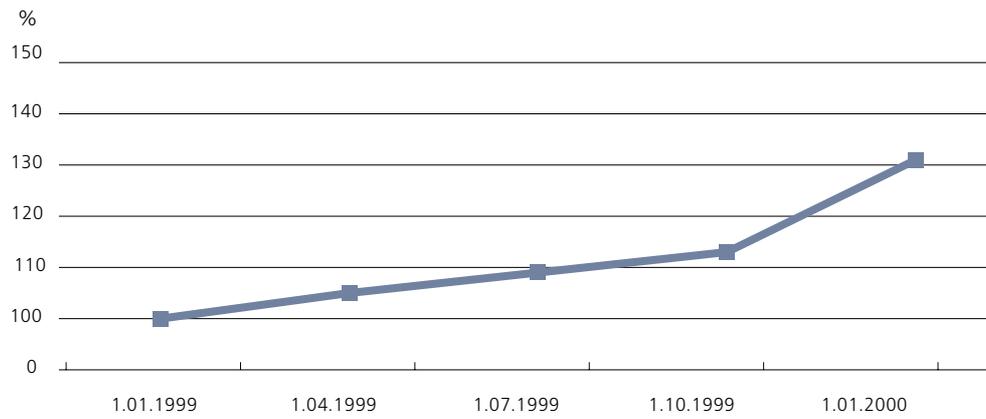
Sustained growth in volumes of issuance required a considerable modernization of the Bank's existing processing center. Preliminary steps were taken towards the creation of the new processing center on the basis of the Technique Plus II (TP II) software by IFS - one of the leading producers and suppliers of the scalable open solutions for banking card processing centers. Utilization of the TP II will not only enable the Bank to increase significantly the number of cards issued and expand their service infrastructure, but also to deliver a world-standard service to its card holders and retailers.

**Banking cards accounts' balances** (December 1998 = 100%)

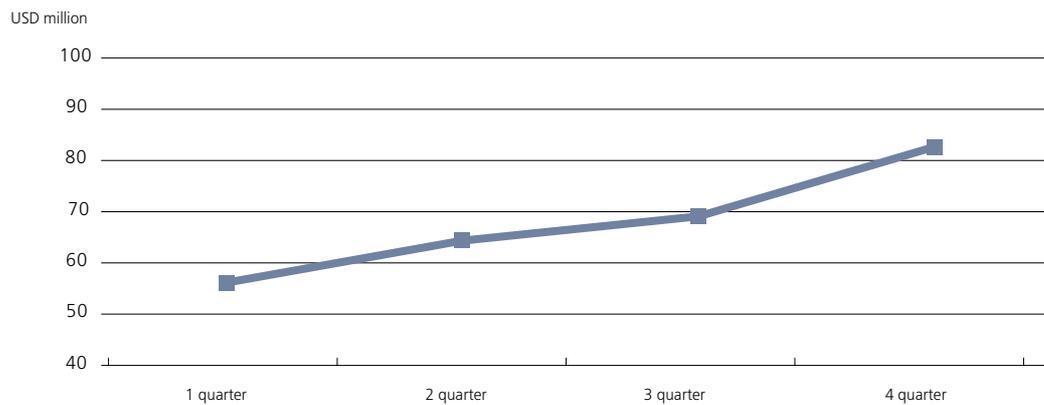


### Alfa Bank banking cards in circulation

VISA, Eurocard/Mastercard, Cirrus/Maestro (Desember 1998 = 100%)



### Cash withdrawal and acquiring turnover in 1999



# 17.06.1999

## Volgograd

...Alfa Bank executes more than half of all international payments through Western Union in Volgograd. Out of all Visa cards issued by the branch, more than 10% are privileged Visa Gold...



# 26.07.1999



## Omsk

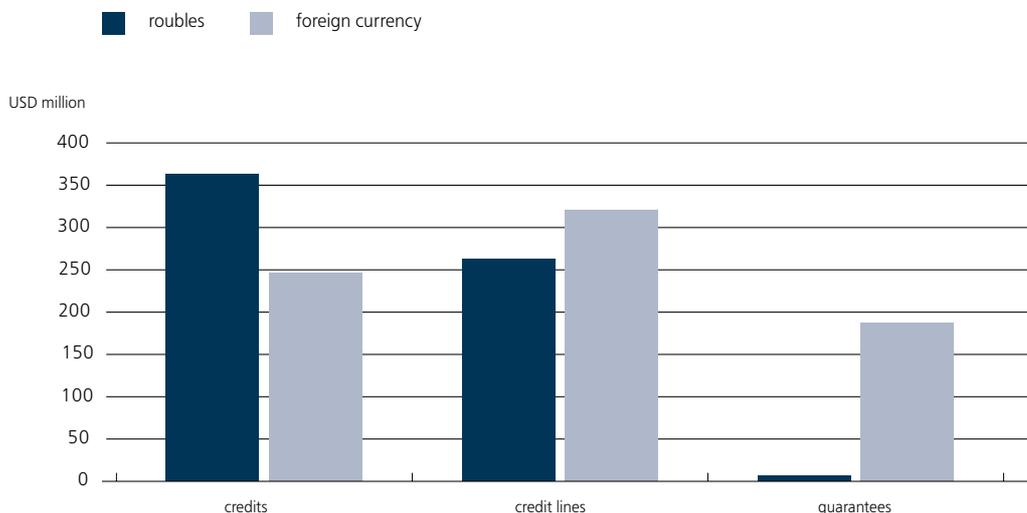
...During the first st half-year of operation in Omsk more than 3000 individual customers and 200 enterprises entrusted their saving and settlement accounts to the Alfa Bank's branch. According to Central Bank statistics Alfa's Omsk operations currently rank in 7th place among financial institutions in the region...

The corporate lending business proved to be one of the most important constituent parts of Alfa Bank's income base in 1999. While improving risk management and the quality of the loan portfolio, the Bank increased its lending activity by introducing new credit-based products and services and by issuing new loans through its countrywide branch network. During 1999 the loan portfolio increased by two and four times in hard currency and rubles respectively. The total volume of ruble loans issued over this period exceeded RR 10 billion (excluding loans under the federally funded agricultural program) while hard currency facilities totaled more than USD 500 million.

In light of the relative stabilization of the Russian financial markets and its own improved liquidity, the Bank was able to increase the share of loans with tenors between six and twelve months and cut back on providing facilities of up to three months, especially for loans in hard currency. Considerable growth was recorded for ruble loans with a three- to six-month maturity. The majority of short-term lending is concentrated in the commercial trading sectors while longer-term facilities were issued to industrial producers and real estate developers. Given the prevailing economic climate during the year, one of the priority areas for the Bank was the commodity and raw material market segments.

Backed by many years of experience, the Bank continues to issue loans collateralized by federal and municipal guarantees. At the same time more of the loan portfolio is collateralized by corporate guarantees issued by large transnational corporations with solid financial standing. Since 1997, Alfa Bank has been the key lender under the federally funded agricultural program, which was set up by the Ministry of Agriculture and Supply, and Ministry of Finance. In 1999 the Bank supported a well-diversified portfolio of agro-loans allowing successful agricultural enterprises to expand their activity while establishing a solid credit history with the Bank and program organizers. Over the year the Bank distributed more than RR 1.5 billion worth of loans to over 30 different regions of the Russian Federation. Alfa Bank's regional operations played an important role in monitoring the quality of the agricultural lending and were instrumental in the Bank maintaining its status as a large-scale lender under this program. Project finance loans to the construction and small enterprise sectors funded by the World Bank and the European Bank for Reconstruction and Development maintained their strategic importance for the Alfa Bank's corporate lending.

#### Rouble and hard currency loans, credit lines and guarantees granted in 1999



## DEVELOPMENT OF THE BRANCH LOAN PORTFOLIO

The expansion of the Bank's branch and subsidiary network has facilitated both a quantitative and qualitative change in the total loan portfolio and considerable adjustments in the strategy of the management of the Bank's lending business.

In the wake of the 1998 crisis, large retail banks were forced to give up on their regional aspirations. Nonetheless, Alfa Bank was able to capitalize on their considerable experience to develop its own regional lending strategy. By hiring highly qualified local staff with considerable credit experience, Alfa Bank's newly opened branches were able to market a wide range of credit products, which were offered by these branches before the crisis.

As a result of this customer-tailored credit process, the branch network was able to embark upon a phase of expansion in the customer base and prudent growth of the regional loan portfolio. Thus at the beginning of 1999, ruble loans issued by the branch network (including Moscow) amounted to 9% of the total ruble lending while at the year end the figure had grown to 63%.

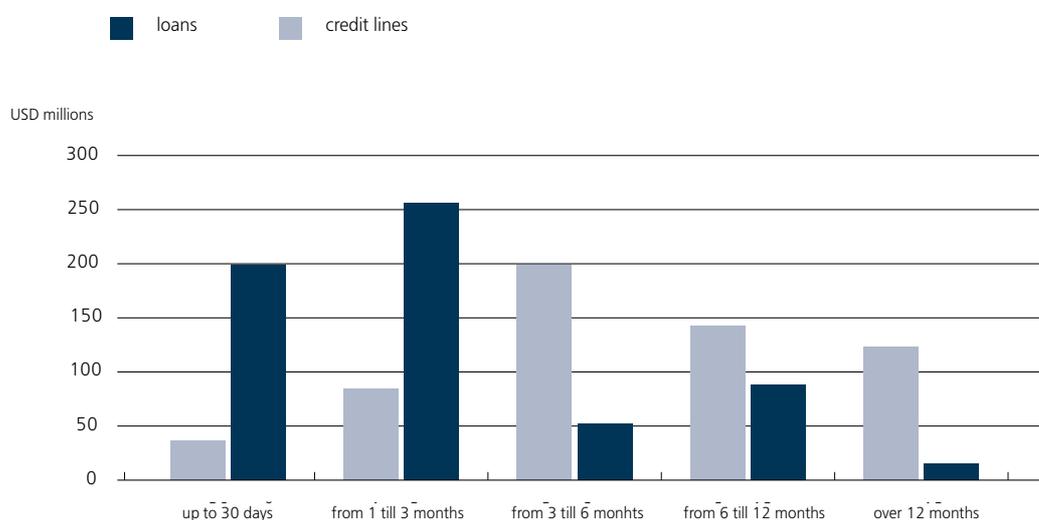
Strong growth in the regional loan portfolio was achieved with full accountability for all aspects of risk management, structure and asset quality parameters. In line with these principles, all branches have established individual credit committees, which are completely controlled by the centralized full credit review process.

## NEW CREDIT PRODUCTS AND SERVICES

Striving to stay ahead of the financial requirements dictated by domestic industrial recovery, the corporate loan department actively developed new credit-based products and services.

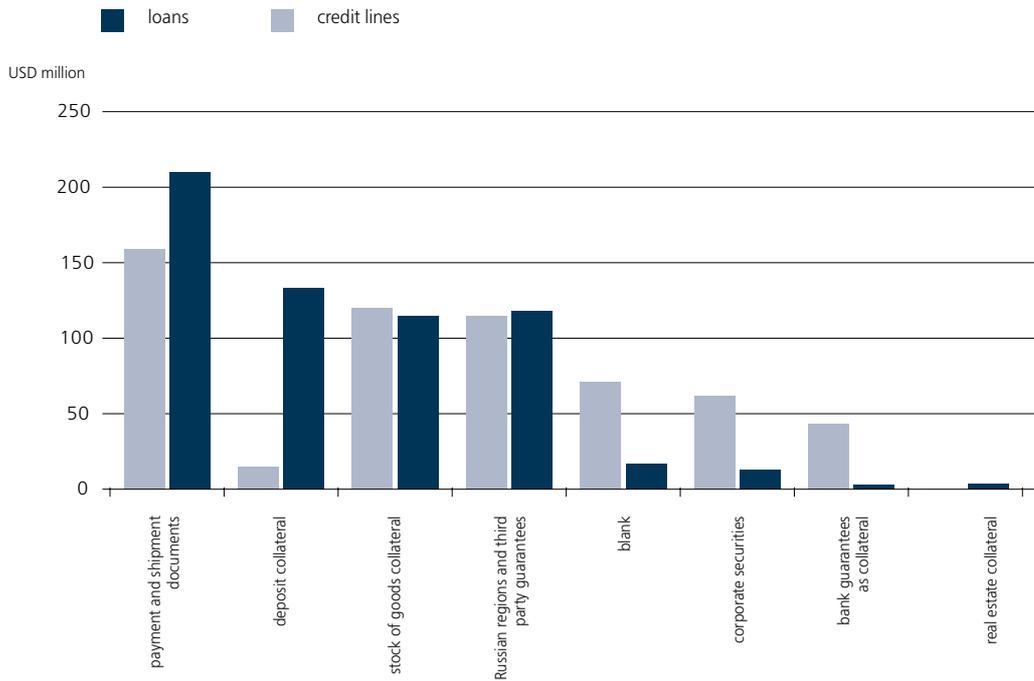
One of these new fields of credit activity was the establishment of a business unit dedicated to leasing capital equipment as well as co-ordinating the operations of one of the Bank's subsidiaries, Alfa Leasing. Initiatives in this area have enabled the Bank to take a more active role in providing corporate enterprises from the real economy sector of the economy with more flexible long-term credit solutions. A further new development for 1999 was the creation of a division within the credit area responsible for structuring the settlement of corporate and state domestic and international payment arrears. Future plans for this division include the development of debt and clearing currencies trading on the international markets. Other innovations for 1999 included expanded overdraft facilities, factoring and loan and credit lines secured by collections.

### 1999 Loans and credit lines maturity distribution in 1999

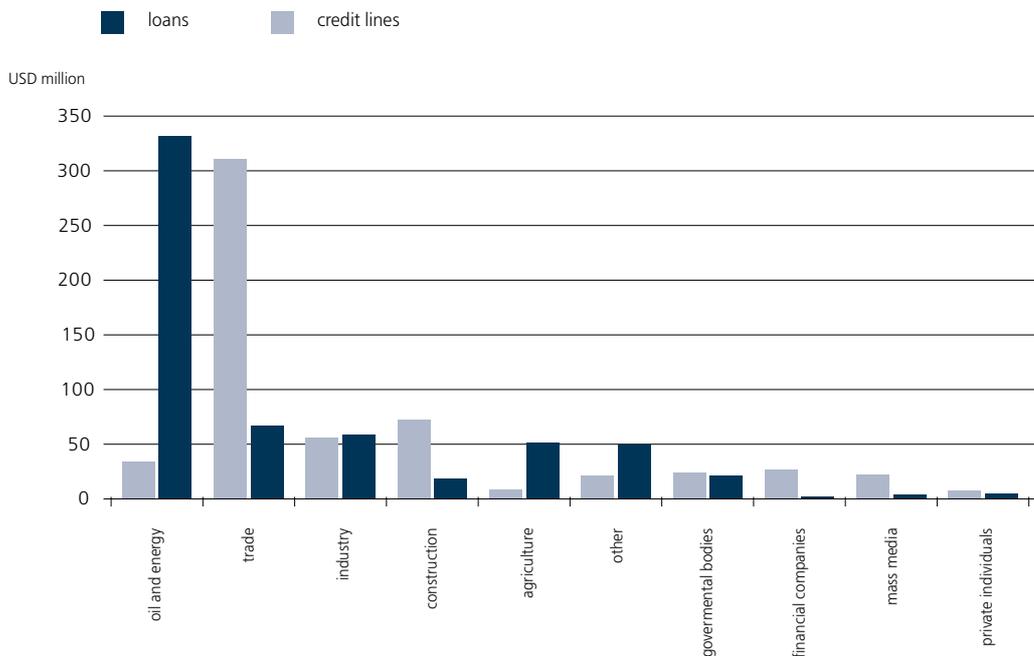


The corporate lending business has proved to be a major factor behind Alfa Bank's most impressive development in the post-crisis Russian financial sector. Considerable growth of the loan book in 1999 has resulted in a portfolio of credit facilities made available to some of Russia's most successful corporates. These facilities are well balanced, not only in terms of sectoral risk diversification and maturity, but also by the type of collateral.

### Loans and credit lines distribution by collateral



### Loans and credit lines distribution by industry



### MONEY MARKETS AND FOREIGN EXCHANGE

In 1999 trade turnover on the domestic currency market rose sharply. This occurred as a result of steady growth in the volume of client deals as well as the rise of proprietary banking operations on the interbank market and on MICEX.

Average daily turnover involving RR/USD deals rose by more than 450% (from USD 19.6 million in January to USD 92.2 million in December). Client trade turnover involving buying/selling of dollars also rose by 450% during the unified trading session on MICEX (from USD 1.5 million in January to USD 7.1 million in December).

During 1999 the volume of correspondent banking operations increased steadily. The attraction of new banks to the market occurred mainly as the result of favorable conversion conditions presented by the Bank to its clients. This became possible as Alfa Bank strengthened its position as a market-maker in 1999 on the MICEX domestic currency market. In both November and December 1999 Alfa Bank was the largest participant in the MICEX currency segment. At the end of 1999, more than 300 correspondent banking contracts were concluded on the domestic currency market. Daily turnover involving RR/USD deals with correspondent banks rose for the year by more than 500% (from USD 1.6 million in January to USD 8.2 million in December).

Over the course of 1999, the Bank's position on the CIS currency market strengthened. New clients appeared using limited-convertible currency accounts for payment of contracts through Alfa Bank. The overall volume of operations involving limited-convertible currencies (OKVs) increased. The Bank occupies a solid position on the list of OKV market leaders, offering its clients and correspondent banks a full array of services related to this market. Alfa bank is one of the five main operators on the OKV market, from which the CBR determines its CIS currency exchange rates. This facilitation of CIS currency operations, qualified consultation and the offering of market-based quotes helped Alfa Bank attract account-settlement business from CIS banks.

Due to the Bank's proactive policy, a flexible approach to client needs and the ability to offer a wide range of services, Alfa Bank succeeded in expanding its client base, both in terms of corporate clients and correspondent banks. Average daily turnover rose to RR 400-500 million. As a result of clear planning, the Bank's current liquidity always remained at a high level.

### FIXED INCOME TRADING

As in previous year, Alfa Bank paid a great deal of attention to operations involving currency-and RR-denominated debt instruments. By working with domestic government bonds denominated in hard currency (OGVGZ), Russian sovereign Eurobonds, Russian corporate and regional Eurobonds and London Club debt, the Bank managed to retain its position as a leading market participant. Most of the Bank's counterparties, with whom the above-mentioned transactions are conducted, are large European, American, and CIS commercial and investment banks.

Alfa Bank conducted proprietary operations with these assets and offered various services to clients. The Bank's client base on the currency-denominated debt markets predominantly comprises Western investment funds, Russian banks and financial institutions. The Bank's package of services includes not only the fulfillment of orders, but also instruction, consultation and the provision of information. The result of this policy is illustrated in the tripling of the size of our client base in the corresponding period. The Bank's turnover involving government debt obligations totaled USD 3 billion, and turnover involving client operations amounted to about USD 2 billion.

Alfa Bank is an active participant on the RR-denominated debt market involving both government (OFZ) and corporate securities as well as promissory notes. These debt instruments present interesting possibilities for non-residents and residents, including predominantly medium- and small-sized Russian banking and industrial trade companies. Through its network of branches and outlets, the Bank also services individual clients. In total the share of ruble-denominated securities amounted to approximately 30% of the proprietary portfolio.

In 1999 the Bank managed to improve the quality of the business infrastructure in fixed-income securities: to develop the base of operations with promissory notes, to make fundamental changes in the procedures governing risk management and to reorganize the back office. Together, these changes allowed Alfa Bank to enter into a new stage of development in 2000. During this stage there are plans to introduce new instruments, create structured products, expand our analytical market coverage and further increase the client share of the Bank's investment portfolio and therefore increase income from client services.

#### EQUITY TRADING

Despite Russia's difficult economic and political situation last year, Alfa Bank not only managed to maintain, but also strengthen its position. This is shown by the following:

- The Bank occupies a leading position on the corporate bond market, and is one of the ten largest companies on RTS in terms of turnover;
- the Bank is represented on all leading exchanges, in all trading systems and on all brokerage floors that trade Russian securities: on the Moscow Stock Exchange, the Moscow Interbank Currency Exchange, the Nizhny Novgorod Exchange Market, the St. Petersburg Currency Exchange, the Samara Interbank Currency Exchange, the Russian Trading System, Instinet and Liberty;
- Alfa Bank representatives are members of the Board of Directors of NAUFOR, PAUFOR, MFB and other committees regulating trading relations and the development of the Russian corporate bond market;
- the Bank is one of the first in Russia to develop and, at the end of 2000, issue products allowing trading operations involving corporate securities to be conducted via the Internet; and,
- the Bank has significantly expanded its Russian client base and increased the number of services offered to clients on the corporate securities market.

Alfa Bank's turnover on RTS alone amounted in 1999 to USD 195 million, or 5% of the annual turnover. This was the eighth-largest amount among more than 200 active market participants.

Alfa Bank assigns great importance to the expansion of regional business involving securities operations. This is related to the revival of the market, the reduction in the number of potential com-

petitors and the shift of clients from the latter to our Bank. As a result, the Bank began to provide clients from the regional divisions with packages of services related to the placement of temporary free funds in various financial instruments and products, including at present the following:

- Russian issuer stocks;
- Foreign issuer stocks;
- Securities denominated in hard-currency;
- Eurobonds;
- Shares in mutual funds;
- Derivatives and swaps;
- Government and corporate RR-denominated securities;
- Corporate promissory notes;
- Other financial products.

Alfa Bank's branches, acting as conduits for the Central Office's investment policy, offer the following types of services to regional clients:

- Full broker services to branch clients on Moscow equity exchanges (MICEX, MSE, RTS) as well as foreign markets;
- dissemination of securities and financial products or shares issued by the Central Office; and,
- informational services and branch-client consulting.

In addition, upon instruction by the Central Office, branches fulfil the following tasks:

- Purchases of regional securities;
- collection of information related to regional issuers; and,
- regional market analysis of services and products.

1999 was not the best year for investment banking in Russia. The market was exceptionally weak following the August 1998 financial crisis, which effectively shut down Russian corporate access to capital markets and greatly reduced Western strategic and financial investor interest in Russia. As a result, capital markets and M&A activity virtually dried up leaving very few opportunities for investment banks other than debt restructuring and local M&A.

Nevertheless, significant opportunities presented themselves for local players such as Alfa Bank. First of all, while the market for investment banking products had shrunk, the competitive environment had undergone even more significant changes: most Western investment banks lost interest in Russia and either left the country or reduced their teams to provide little more than token coverage. Russian players went through a period of dramatic downsizing. At the same time the more sophisticated Russian and Western companies make efforts to position themselves strategically for the future by either restructuring assets (including M&A) or making internal preparations for capital market deals in anticipation of improved market conditions. This supply/demand misbalance presented some opportunities to local investment banks - with professional teams on the ground and possessing appropriate expertise (mainly in M&A and advisory capacities).

Alfa Bank anticipated this opportunity and started building up its investment banking capability. By the end of 1998, Alfa Bank's investment banking team had been significantly strengthened by the hiring of a number of investment banking professionals from leading western investment banks (including Alex Tolchinsky, formerly a Director at CSFB). In 1999 Alfa Bank's corporate finance strategy was to finish building the team and create a pipeline of transactions and clients for the future as well as to take advantage of immediate opportunities. Alfa Bank's corporate finance team worked with several clients on a variety of assignments including M&A, restructuring, corporate advisory, capital markets. Among our clients were Russian and Western companies, including large 'blue chip' clients such as RAO UES, Svyazinvest, and Tyumen Oil Company, as well as an array of smaller and less well known, yet still very promising, companies such as Golden Telecom, Wimm Bill Dann, and others.

In the area of asset restructuring/M&A, Alfa Bank's corporate finance closed several transactions in the food and telecommunication industries, and was also retained to conduct acquisition target searches on behalf of both Western and Russian clients in a number of industries (food and beverage, consumer goods, telecom, media). Alfa Bank's corporate finance credentials in both telecom and M&A were recognized by Svyazinvest and, as a result, Alfa Bank was selected to be an advisor for the merger of two large telecom companies (Novosibirsk City Telecom and Novosibirsk Region Telecom), creating the fifth-largest telecom company in Russia.

In capital markets Alfa Bank worked and continued working with a number of companies advising them on strategies to access international and Russian financial markets. Among the clients were companies in a number of industries: oil and gas, chemical, media and entertainment, and food and beverage.

By the end of 1999, Alfa Bank's corporate finance department had with one of the most experienced, professional and profitable investment banking teams in Russia today. Consisting of 10 professionals, the team has built excellent M&A and corporate advisory capabilities (becoming the leading M&A and advisory specialist in Russia). The team currently has an excellent pipeline of deals. Alfa Bank's corporate finance department is well positioned for the expected improvement in market conditions during 2000, and looks set to retain its leadership position in M&A corporate advisory and local capital markets.

# 01.09.1999

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## Orenburg

...Alfa Bank branch integrated well into the regional financial system with the relative weight of its assets representing 25% of the total assets of all banks operating in the Orenburg region...



# 01.09.1999

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## Perm

...Alfa Bank is a participating bank in the federal lending program to the agricultural enterprises of Perm region. Among branch clients are the largest enterprises from the household chemical, transportation and communication sectors. At the beginning of 2000, the size of the branch's loan portfolio was already more than USD 5 million...

Alfa Bank's correspondent banking business in 1999 underwent rapid post-crisis recovery and began to capitalize on opportunities presented by the fall-out from August 1998. Early in the year the Bank was successful in proving to the market the strength of its survival strategies, which became a major factor in promoting new partnerships with Russian, CIS and international financial institutions.

The Interbank business division, which manages Alfa Bank's domestic and CIS correspondent network, put in place a solid mechanism which allowed Alfa's client banks to overcome barriers hindering their operations in a volatile economic environment. This strategy focused on:

- The establishment of new correspondent relationships using the Bank's extensive crisis proof products;
- an increase in the quality of products and services offered to correspondents;
- the development of new technological products and services for customer banks;
- the development of individually tailored structures, which were necessary to accommodate increased operational and counterparty risk; and,
- an active expansion of the Bank's correspondent banking business into the regions and other CIS countries.

Having developed an extensive active portfolio of more than 300 Russian, CIS and Baltic correspondent banks prior to the crisis, Alfa Bank was able to achieve an 8% quarterly growth in the number of new active accounts. Consequently, during the whole of 1999 the number of active correspondents increased by 24% which in turn supported a substantial increase in the volume of transactions and had a positive effect on LORO account balances. At the same time, a number of Alfa Bank's Interbank market counterparties witnessed considerable expansion and resulted in 78% and 48% growth in the number of FX and term deposit transactions, respectively.

In line with its stated strategy, the Bank allocated considerable time to the development of new correspondent banking products and services. Efficient account maintenance technologies and the use of multi-channel payment processing eliminated the need for clients to provide advance payment for settlement operations with elements of risk. The introduction of a night shift has facilitated timely execution of incoming and outgoing US dollar account payments.

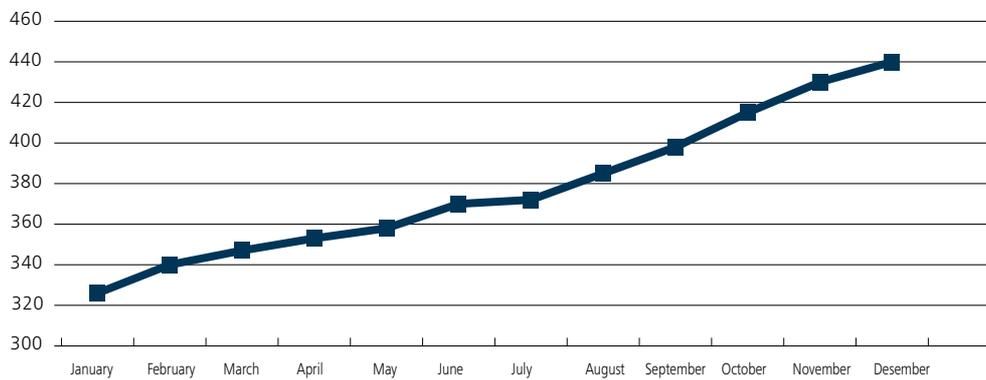
The development of Alfa Bank's international correspondent network in 1999 was primarily driven by the steady expansion in the number of corporate clients requiring diverse financing solutions for their international operations.

Despite the residual effects of the 1998 financial crisis, the international banking department was able to advance business relationships with Western European and North American financial institutions by successfully building on the blemish-free reputation established during that difficult period. Through the year the Bank's international correspondents provided strong support for Alfa Bank's expanding countywide operations and were able to restore considerable credit facilities for commercial operations in the areas of trade finance and foreign exchange. This confidence on the part of foreign partners solidified new corporate relationships and in turn served to establish Alfa Bank as one of Russia's leading dollar payment centers. As a result, the volume of international settlements at year-end had increased by more than 150% compared with that of the previous year.

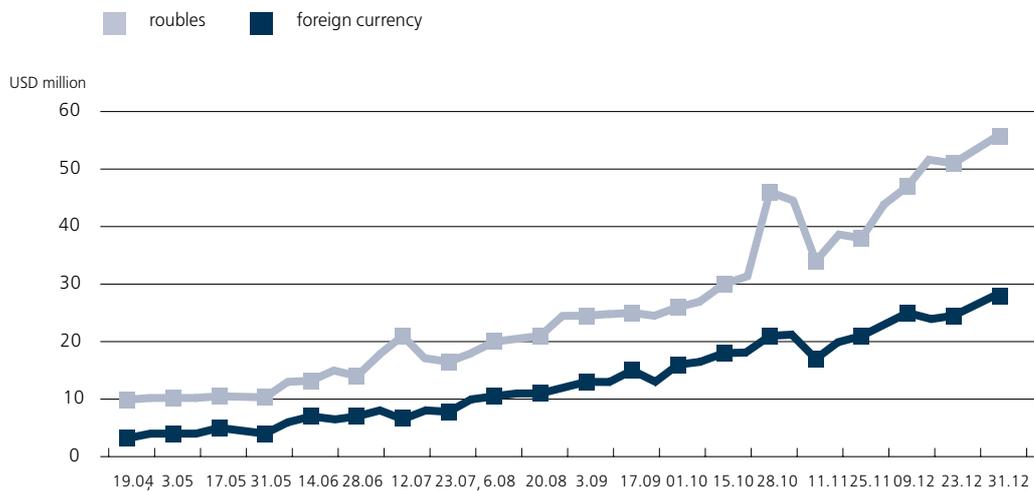
Stimulated by the growing interest of clients in new export markets, significant steps were taken to strengthen Alfa Bank's positions with institutions in Central and Eastern Europe, India

and China. In line with these initiatives, the Bank's immediate plans include the development of partnerships with banks in Asia, Middle East, North Africa and leading banks in Latin America. The Bank's longer-term trade and project finance initiatives have been met with enthusiastic support on the part of leading European and Asian export credit agencies.

### Growth in the number of «LORO» correspondent accounts in 1999



### Growth of «LORO» correspondent accounts' balances in 1999



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## ALFA BANK'S MAJOR FOREIGN CORRESPONDENTS

### **Austria**

BANK AUSTRIA  
ING-BANK  
RAIFFEISEN ZENTRALBANK

### **Italy**

BANCA NAZIONALE DEL LAVORO

### **Turkey**

DISBANK

### **India**

CANARA BANK

### **Sweden**

SVENSKA HANDELSBANKEN

### **Denmark**

DEN DANSKE BANK

### **Japan**

BANK OF TOKYO-MITSUBISHI

### **Great Britain**

HSBC  
MOSCOW NARODNY BANK  
NATIONAL WESTMINSTER BANK

### **Canada**

ROYAL BANK OF CANADA

### **USA**

BANK OF NEW YORK  
BANK OF AMERICA  
REPUBLIC NATIONAL BANK OF NEW YORK  
FIRST UNION BANK INTERNATIONAL

### **Germany**

COMMERZBANK AG  
DRESDNER BANK AG

### **Norway**

DEN NORSKE BANK

### **Finland**

MERITA-BANK

### **France**

BANQUE NATIONALE DE PARIS  
B.C.E.N.EUROBANK

### **Switzerland**

BANK JULIUS BAER  
UBS

### **Belgium**

GENERALE BANK

### **Spain**

BANCO CENTRAL HISPANOAMERICANO

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## THE MAJOR CORRESPONDENTS OF ALFA BANK IN THE C.I.S. AND BALTIC STATES

### **Armenia**

Central Bank of Armenia, Yerevan  
Konversbank, Yerevan

### **Belarus**

Belarusbank, Minsk  
Belbiznesbank, Minsk  
Belvnesheconombank, Minsk

### **Georgia**

National Bank of Georgia, Tbilisi  
TbilComBank, Tbilisi

### **Kazakhstan**

Kazkommerzbank, Almaty  
People's Savings Bank of Kazakhstan, Almaty  
Turanalem, Almaty  
Centr-Kredit Bank, Almaty  
Export-import Bank, Almaty

### **Kyrgyzstan**

Kurulushbank, Bishkek  
Mercuriy, Bishkek

### **Latvia**

The Baltic Trans Bank, Riga  
Pareks Bank, Riga  
Saules Bank, Riga  
Riga Commercial Bank, Riga

### **Lithuania**

Vilnius Bank, Vilnius  
State Commercial Bank of Lithuania, Vilnius  
Bank of Lithuania, Vilnius

### **Moldova**

Mobiasbank, Chisinau

### **Turkmenistan**

Central Bank of Turkmenistan, Ashghabad  
State Bank of Foreign Economic Activity, Ashghabad  
Investbank, Ashghabad

### **Uzbekistan**

National Bank of Foreign Economic Activity of  
Uzbekistan Republic, Tashkent  
Uzprombank, Tashkent

### **Ukraine**

Aval, Kiev  
First Ukrainian International Bank, Donetsk  
Privatbank, Dnepropetrovsk  
Bank Ukraine, Kiev  
Ukreximbank, Kiev

### **Estonia**

Hansa Bank, Tallinn

In 1999 Alfa Bank's Information Technology division continued the migration of the Bank's information systems to a new technological platform based on the INFORMIX database system and the HP V-2200 mainframe. Currently data processing for corporate headquarters takes place on this platform.

The global information computer network was integrated in line with the requirements of the expanding regional branch network. New standards for network telecommunication equipment (Cisco Systems) were introduced, doubling channel traffic capacity between the Moscow and regional operations.

In light of the potential Y2K problem, all vital bank software was tested and modified and over 500 PCs and network telecommunication equipment were replaced. Careful planning and preparation ensured a smooth transition when the clocks moved forward into the new millennium.

To support expanding client servers, new control systems were introduced allowing remote configuration of client-operated workstations and monitoring/administration of network loads and server-based processes.

Alfa Bank co-operated with Andersen Consulting in analyzing and selecting complex integrated solutions to automate bank operations. Regional branches began offering a newly developed Internet web-service for users of the Bank's information resources. Technology for scanning and recognition was developed for hard copy client documents used for transactions.

The annual IT budget including IT infrastructure for new branches was USD 7.4 million.

## HUMAN RESOURCES

The growth rate of Alfa Bank in 1999 considerably surpassed that of previous years. This is attributed to the development and expansion of the branch network. The dynamic growth in personnel was also accompanied by an increase in professional standards. The number of employees increased by 52% in 1999.

In 1999 Alfa Bank's development trend changed the requirements in selecting personnel. A candidate's education plays a major role and Alfa Bank selects graduates from leading Russian post-secondary institutions. Close to 35% of staff have college degrees in business and 15% of those are graduates of the State Finance Academy of the Russian Federation government. Others are graduates of colleges, such as the Academy of Plekhanov, the All-Russian Correspondence Institute of Finance and Economics, S. Ordzhonikidze State Academy of Management, and the Moscow Institute of Economics and Statistics. Of the total staff numbers, 29% have a technical education. Many employees have also received two college degrees and an education abroad in western countries.

Work experience is valued the most. Candidates who have worked in Russian banks with large regional branch networks are selected for commercial banking divisions. Candidates with experience in western investment banks and financial institutions have priority in Alfa Bank's investment banking departments. The professional qualifications held by Alfa Bank employees match the standards seen at Western financial institutions.

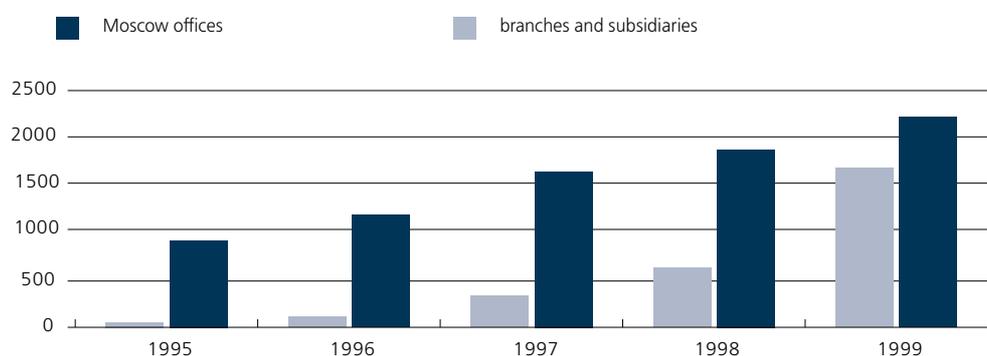
In 1999 Alfa Bank's human resource department received three times the number of job applications than in 1998. Throughout the year more than 12,000 resumes were sent in response to job advertisements in leading financial journals and periodicals, such as the Kommersant, the Moscow Times and Vedomosti. Job vacancies were posted on Alfa Bank's web site in the 'We Need Professionals' section, which accounted for more than 12% of all resumes received.

Over 100 students from leading post-secondary institutions intern at the Bank in conjunction with Alfa Bank's 'Chance' professional training program. Alfa Bank participated in Career Day 99 and Career Forum organized by the city of Moscow as well as in events organized by Russian recruitment companies.

In-house training programs are developing rapidly and include courses on adaptation, professional growth and self-realization. Professional training courses based on Russian and international standards for financial institution focus on leading financial and information technologies. Specialized certificate programs in finance and management are also available. Updated databases on seminars, conferences, round tables and professional training courses provided by universities have been created.

Alfa Bank employees study foreign languages under highly qualified Russian and foreign teachers. Exchange programs for regional and subsidiary offices are organized as internships, and round table discussions with bank consultants are held at corporate offices and branches in Moscow.

### Personnel growth from 1995-1999



# 05.10.1999

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## Vladivostok

....The Far East Sea Shipping Company, the sea Port of Vladivostok and many other important city enterprises became clients of the Bank's Vladivostok branch. Having solidified its position on the regional financial market, Alfa Bank has already expanded its operation by opening 2 additional offices; the "Egersheld" branch for VIP clients and the "Nahodkinsky" branch in the port city of Nahodka.....



# 01.09.1999

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## Angarsk

....2000 residents of Angarsk are holders of banking cards issued by Alfa Bank. Today, the Bank's Angarsk branch leads the city with a number of operating ATMs and has «acquiring» agreements with more than 40 of the city's trade and service enterprises.....

Profit is the bottom line for most financial institutions. At the same time financial businesses can only successfully grow in a country with an infrastructure that supports business development. Investment in projects that support and develop the nation's culture nurtures good community citizenship, which creates a friendlier business environment and enriches the fabric of our lives.

The support of Russia's national culture is a priority for Alfa Bank. Despite a short history of nine years, the Bank supports large projects that revive and develop Russia's culture, preserve the arts and historical treasures, and initiate programs for young talent.

Supported by Alfa Bank, the Marinsky Theater ballet group and the Imperial Russian Ballet by Gedeminas Tarandi performed in regions of Russia in 1999. The people of Irkutsk, Novosibirsk, Omsk, Kurgan, Ekaterinburg, Perm, Orenburg and Volgograd had the opportunity to see Russia's famous ballet dancers. Money raised was spent on charity in cities where artists performed.

Alfa Bank also supported an international theatre project, where the famous artists Lia Akhedzkakia (Russia) and Bogdan Stupka (Ukraine) performed. Valeri Fokin directed Starosvetsky Lyubov based on Gogol's Starosvetsky Pomeschiki.

Nonna Mordiyukova, Mikhail Ulyanov and Yuri Yakovlov became the prizewinner of the Russian business community award, Kumir, in the 'For Great Support of the Arts' nominations. Alfa Bank felt compelled to pay tribute to their artistic talent and to recognize their contribution to developing the national arts.

In 1999 Alfa Bank was awarded the National Golden Mask award for its support of the theatre, an honor only previously received by the Soros Fund. «Alfa Bank is without doubt the winner. Others could not be compared to Alfa Bank's contribution to theatre. The decision of the theatre representative secretariat was unanimous», stated Konstantin Reikin, Chairman of the Golden Mask jury. The Golden Mask is the most famous and prestigious festival in Russia, and has been responsible for uniting the theatre arts.

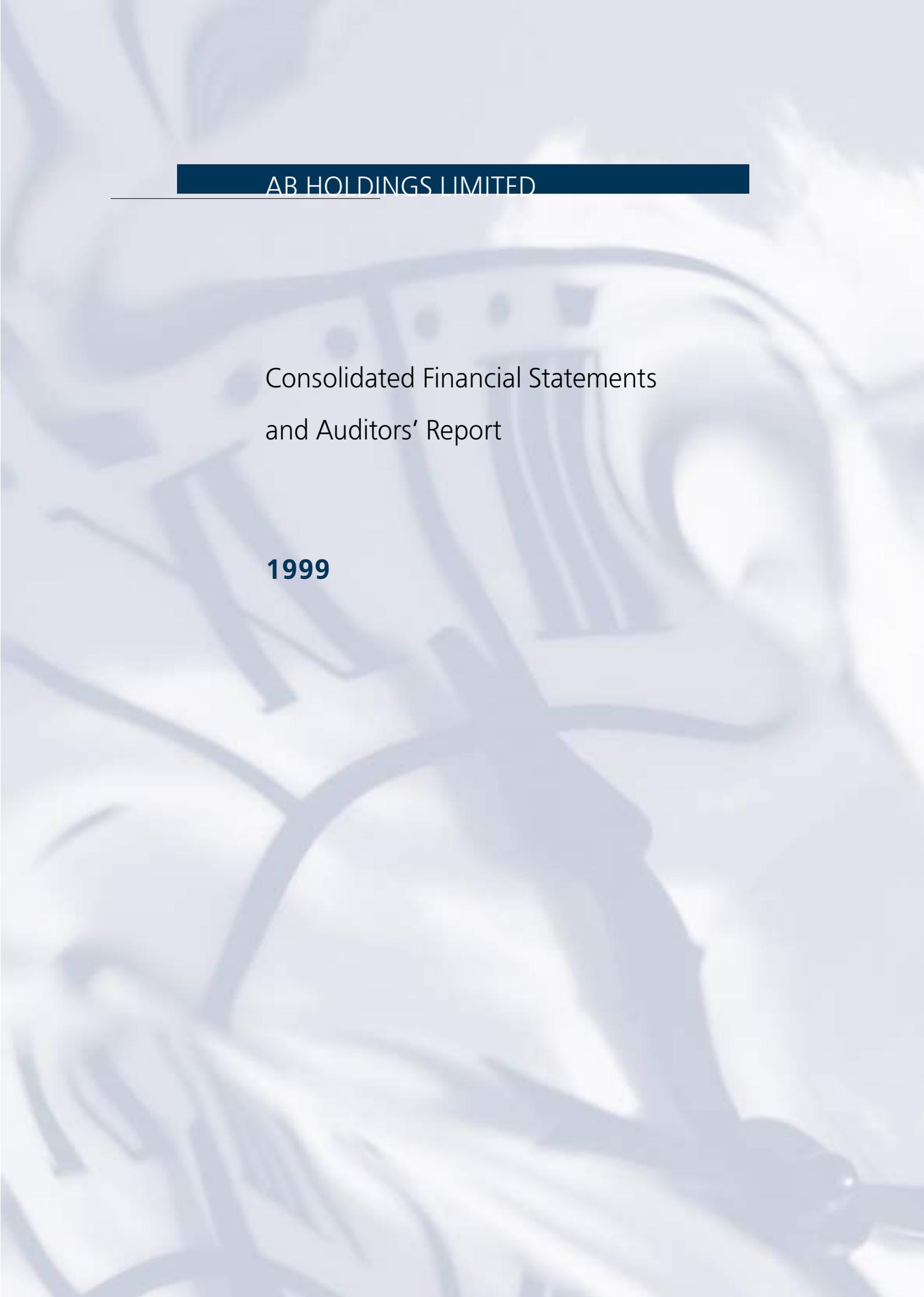
For the fourth consecutive year Alfa Bank supported the No. 6 children's shelter in Moscow for abandoned children. For many years Alfa Bank and the Parish Assembly of Moscow's Saint George Neokesarisky Cathedral, have worked together to establish a shelter for poor elderly people.

Moscow Businessmen and Police Program is a non-profit municipal organization established by Alfa Bank and the Mayor's office to provide support to families of Moscow policemen who have died in the line of duty.

Alfa Bank is not indifferent to tragic events that occur in the country. Beginning in 1997, Alfa Bank helped finance homes constructed by the City of Moscow for servicemen in Budennyovskiy. In September 1999 Alfa Bank donated USD 200 000 thousand to the Moscow Department of Finance for families that suffered from bomb explosions in Moscow, and gave USD 200 000 thousand to the Ministry of Internal Affairs for servicemen who were wounded in the summer of 1999 in Dagestan.

The Bank participates in regional charity programs such as the project to reconstruct historical buildings at St. Petersburg State University. The Bank launched several Western cultural projects with the symphony orchestra Moscow Virtuosi conducted by Vladimir Spivakov. On February 18, 2000 the orchestra performed in London in the Barbican Concert Hall while on April 16, Moscow Virtuosi performed to standing ovations at the Alte Oper in Frankfurt.

We are doing everything in our power to help preserve and develop Russia's art and historic treasures. Alfa Bank's nine-year history of support can testify to that.



AB HOLDINGS LIMITED

Consolidated Financial Statements  
and Auditors' Report

**1999**