TIME RUNS FROM THE PAST TO THE FUTURE, BUT ALL SHOULD LIVE TODAY.

KAZIMIR MALEVICH
## THE BANK’S ACHIEVEMENTS

### Financial highlights

<table>
<thead>
<tr>
<th>Description</th>
<th>USD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>4,118,190</td>
</tr>
<tr>
<td>Loans and advances to customers, USD '000*</td>
<td>2,399,266</td>
</tr>
<tr>
<td>Customer accounts, USD '000*</td>
<td>1,988,360</td>
</tr>
<tr>
<td>Equity, USD '000</td>
<td>431,186</td>
</tr>
<tr>
<td>Net profit, USD '000</td>
<td>104,590</td>
</tr>
</tbody>
</table>

### Clients

<table>
<thead>
<tr>
<th>Description</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of legal entities</td>
<td>50,000</td>
</tr>
<tr>
<td>Number of private individuals</td>
<td>450,000</td>
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</table>

### Branch network

<table>
<thead>
<tr>
<th>Description</th>
<th>Count</th>
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</thead>
<tbody>
<tr>
<td>Number of regional branches and supplementary offices</td>
<td>57</td>
</tr>
<tr>
<td>Number of supplementary offices in Moscow</td>
<td>26</td>
</tr>
<tr>
<td>Number of subsidiary banks and their branches</td>
<td>12</td>
</tr>
</tbody>
</table>

### E-business

<table>
<thead>
<tr>
<th>Description</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of issued plastic cards, '000</td>
<td>350</td>
</tr>
<tr>
<td>Number of acquiring companies</td>
<td>5,500</td>
</tr>
</tbody>
</table>

**SOURCE:** Published Accounts.
Dear colleagues, partners and employees of Alfa Bank!

Alfa Bank had another successful year in 2002 of growth and continued development of the bank’s business. Alfa Bank built on its reputation as a reliable partner and continued its development, reconfirming its position in the vanguard of the Russian banking sector.

A policy of offering the most up-to-date products and services allows our Russian and foreign customers to use their resources in the most efficient manner, blazing the path for our competitors to follow.

The Bank’s continued solid performance enhances confidence in its ability to service both domestic and international customers. Last year’s results led ratings agencies to name Alfa as one of Russia’s most dynamic banks as well as the best bank in Russia.

But for the managers and shareholders of Alfa Bank, our most valued asset is the growing trust among customers and partners. This trust assures us that we have chosen the right development priorities, which will lead to the creation of qualitatively higher standards of services. These standards will help our customers to continue to grow dynamically.

The Russian financial sector still faces many major challenges in the coming years if the economy is to maintain its strong growth of recent years and capitalize on its huge material and human potential. The fastest way our customers can achieve these goals is to stick with their decision to stay with the leader. To stay with Alfa Bank.

Thank you for your confidence in our continued cooperation.
Message to shareholders, customers and business partners

Mikhail Fridman
Chairman of the Board of Directors

Rushan Khvesyuk
Chairman of the Executive Board
Mikhail Fridman
Chairman
of the Board of Directors of Alfa Bank

Mikhail Fridman is a founder of Alfa Bank and Alfa Group. In June 2002 he was named “Best Manager in Russia” by the Russian Association of Managers and by the influential Kommersant publishing house. Fridman is a vice president of the Russian Union of Industrialists and Entrepreneurs, where he is head of the judicial reform working group, and he graduated from the Moscow Institute of Steel and Alloys.

Peter Aven
President of Alfa Bank

Peter Aven has been President of Alfa Bank since 1994. He is responsible for the Bank’s overall strategy and relations with business and government leaders in Russia and abroad. Prior to joining the Bank, Aven was Minister of Foreign Economic Relations of the Russian Federation. He also worked at the International Institute for Applied Systems Analysis (Austria). Aven is involved in developing the concept for Russia’s banking reform. A graduate of Moscow State University, he holds a PhD in Economics and has authored numerous scientific articles.

Rushan Khvesyuk
Chairman
of the Executive Board of Alfa Bank

Rushan Khvesyuk joined Alfa Bank in 1994 and is responsible for the Bank’s administrative and legal divisions. Khvesyuk represents the Bank in its dealings with the Russian Government and the Central Bank. He is Chairman of the Credit Committee and was previously the head of the Bank’s Legal Department. Khvesyuk graduated from Moscow State Academy of Law.

Alex Knaster
Chief Executive Officer of Alfa Bank

Alex Knaster joined Alfa Bank in 1998 and is responsible for the Bank’s general management and strategy. Before joining the Bank, Knaster was President and CEO of Credit Suisse First Boston in Moscow, Director of Deutsche Morgan Grenfell (Moscow), Managing Director of Bankers Trust Co. (New York, London), and Managing Director and Partner in Simmons & Co. International (Houston). A graduate of Carnegie-Mellon University, he holds an MBA from Harvard University and a PhD in Economics.
Oleg Sysuev
First Deputy Chairman
of the Board of Directors of Alfa Bank

Oleg Sysuev is responsible for the Bank’s regional branch network
and banking in the regions. Prior to joining the Bank in 1999,
he was First Deputy Head of the Presidential Administration, Vice-
Premier of the Federal Government, Minister of Labour and Social
Development and Mayor of Samara. He graduated from Aerospace
University of Samara.

Oleg Tumanov
Deputy Chief Executive Officer
of Alfa Bank

Oleg Tumanov joined Alfa Bank
in 2000 and is responsible
for Risk Management, Business
Processes and IT. Tumanov
is Chairman of the Bank’s Processes
and Technologies Committee,
Chairman of the Asset/Liability
Management Committee
and Chairman of the Bank’s Tariffs
Committee. Prior to joining the Bank, he held senior positions in NIKoil
Group, Banque Unexim (Switzerland),
Mosbusinessbank and Ladenburg
Thalmann International (USA).
A graduate of the Moscow Finance
Institute, Tumanov also completed
the financial management program
at Harvard University and holds
a PhD in Economics.

Andrei Kosogov
First Deputy Chairman
of the Executive Board of Alfa Bank

Andrei Kosogov joined Alfa
Bank in 1992 and is responsible
for the Bank’s investment business.
Kosogov is also Chairman
of the Bank’s Investment Committee.
Prior to joining the Bank, he was
General Director of Alfa Capital
and Alfa Capital Brok as well
as Chairman of the Board of Directors
of Alfa Capital Specialized Voucher
Investment Fund. Kosogov graduated
from the Moscow Power Energy
Institute.

Marina Savelyeva
Deputy Chairman
of the Executive Board of Alfa Bank

Marina Savelyeva joined the
Bank in 1993. She is responsible
for the Bank’s commercial business
and manages its branch network.
Savelyeva is Chairman of the Board
of Directors of Alfa Bank (Kiev)
and the Alfa Bank (Kazakhstan)
subsidiary as well as Deputy
Chairman of the Board of Directors
of Alfa Bank (Bashkortostan).
She was previously the head
of Alfa Bank’s branch control
department and director of regional
business development. Savelyeva
graduated from the Russian
Academy of Finance.
Pavel Gorbatevich
Deputy Chairman
of the Executive Board of Alfa Bank

Pavel Gorbatevich joined Alfa Bank in 1995. He is responsible for domestic and international payments, documentary transactions, relations with foreign partners, and the Bank’s foreign subsidiary network. Before joining the Bank, he held senior positions with BHF Bank (Germany) and Vnesheconombank. Gorbatevich graduated from the Moscow State Academy of Finance.

Alexander Lukanov
Deputy Chairman
of the Executive Board of Alfa Bank

Alexander Lukanov joined Alfa Bank in 1995. He is responsible for business relations with corporate customers in the Russian Federation, Ukraine, and Kazakhstan. Lukanov is a member of the board of directors of AlfaInsurance Group, Trade House Perekryostok, and a member of the supervisory board of Alfa Bank (Kiev). He graduated from the Moscow Power Energy Institute.

Ildar Karimov
Deputy Chairman
of the Executive Board of Alfa Bank

Ildar Karimov joined Alfa Bank in 1994. He is responsible for the Bank’s shareholding structure and relations with shareholders, including financial management of the Bank and the companies incorporated in Alfa Group Consortium. Karimov is a member of the Board of Directors of TNK and AlfaInsurance Group. Prior to joining the Bank, Karimov served as representative of Samara region in the federal government and Vice Governor of Samara region. He held senior positions in Abbott Laboratories (USA) and Elf-Sanofi (France). A graduate of the Kuibyshevsky Institute of Medicine, he holds a PhD in medical sciences.

Andrei Kalmykov
Deputy Chairman
of the Executive Board of Alfa Bank

Andrei Kalmykov joined Alfa Bank in 2000. He is responsible for coordinating government programs implemented by the Bank, including relations with the Russian government as well as federal executive, judicial and legislative authorities. Prior to joining the Bank, Kalmykov served as representative of Samara region in the federal government and Vice Governor of Samara region. He held senior positions in Abbott Laboratories (USA) and Elf-Sanofi (France). A graduate of the Kuibyshevsky Institute of Medicine, he holds a PhD in medical sciences.
Teijo Pankko  
Chief Financial Officer of Alfa Bank

Teijo Pankko joined Alfa Bank in 1997 and is Chairman of the Planning and Budgeting Committee, Chairman of the Tender Committee, and Deputy Chairman of the Asset/Liability Management Committee. Previously, Pankko was the Bank’s Head of Treasury and Chief Financial Officer of Alfa Capital. He graduated from Helsinki University with an MSc in Economics.

Alexander Tolchinsky  
Member of the Executive Board of Alfa Bank

Alexander Tolchinsky joined Alfa Bank in 1998 and is head of the Bank’s Corporate Finance Department. He is responsible for capital markets, M&A and advisory work for the Bank’s clients. Prior to joining the Bank, he was Director of CSFB (Moscow) and a partner at McKinsey & Company. Tolchinsky graduated from Moscow Civil Engineering Institute and holds an MBA from the University of Michigan.

Maciej Lebkowski  
Member of the Executive Board of Alfa Bank

Maciej Lebkowski joined Alfa Bank in 2001 and is responsible for developing the Bank’s retail business. Prior to joining the Bank, Lebkowski was Managing Director of Bank Handlowy (Handlobank), Warsaw. A graduate of Warsaw School of Economics, he holds a PhD in Economics and has authored numerous scientific works.

Igor Sogin  
Member of the Executive Board of Alfa Bank

Igor Sogin joined Alfa Bank in 1999 and is responsible for developing the Bank’s credit products. Until this appointment, he was Director of the Bank’s branch in Nizhny Novgorod. Sogin graduated from Nizhny Novgorod Polytechnic Institute and the All-Union Correspondence Financial and Economic Institute.
...LIFE GROWS,
AND ITS GROWTH
IS IN A NEW FORM.
THE NEW FORM
IS DISTINCT
FROM THE PAST.
KAZIMIR MALEVICH
CHANGE OF FORM. CONSTANT PROGRESS

International business environment

The Russian economy and financial markets are still very sensitive to changes in both the social and business environments as well as influenced by the effects of the global economy, especially the performance of global financial markets, the international investment climate and commodity prices.

GLOBAL ECONOMY  In 2002, the global economy was still in decline, and despite a few positive indicators, most countries ended the year in a worse position than at the end of the preceding year.

GDP growth in major world business areas, 2000 – 2002 (%)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>World economy</td>
<td>4.7</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td>US</td>
<td>3.8</td>
<td>0.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Europe</td>
<td>3.4</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>European emerging markets</td>
<td>6.3</td>
<td>1.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Japan</td>
<td>2.8</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>7.3</td>
<td>4.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.1</td>
<td>0.5</td>
<td>–0.5</td>
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SOURCES: ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD), ALFA BANK ESTIMATES.
INTERNATIONAL INVESTMENT CLIMATE  For three straight years, the leading international capital markets have been in a “bearish” phase. Investors have held back, preferring fixed-income instruments, such as US Treasury notes, to high-risk investments. Growth in most blue-chips, being heavily dependent on world economic trends, has been restrained by the insufficient inflow of portfolio investment.

General instability in the global economy, particularly in the US, has had a profound effect on emerging stock markets. The long-lasting impact on the normal business cycle led to the transfer of capital to NASDAQ in 1998, thus keeping developed markets “bearish” in 2000 — at a time when capital should have been channeled once again into emerging market assets. Consequently, emerging market stocks, particularly those in Asia, are now under-priced, and their share in international portfolios is insignificant.

Last year, the situation involving “non-risk assets” improved: the global recession facilitated an active transfer of capital from equities to debt instruments. The fixed-income market has been “bullish” for most of the past twenty years, and by 2002 was following the global trend of falling interest rates. After the US Federal Reserve’s interest rate cuts in 2002, interest rates are thought to have bottomed out.

OIL AND OTHER NATURAL RESOURCES  Last year, the average price of oil was above its cyclical norm, as growing war-fears resulted in the creation of long-term strategic reserves, which drove up demand. In the second half of the year, especially the fourth quarter of 2002, buyers were especially pessimistic about future supplies and were buying 2 – 3 mln barrels per day, leaving suppliers with a shortfall of reserves. Growing concerns about oil supply were increased by strikes in Venezuela at the end of the year.
In 2002, the average price of Urals crude oil was 23.5 US dollars per barrel, closer to the 2001 average. If the change in oil prices were in line with the normal business cycle, we would expect a drop in prices to far below their lowest annual average — 19 US dollars per barrel for Urals crude oil — at the start of the third quarter of 2001. However, the dynamics of supply and demand have changed since the events of September 2001. Recent developments in the Middle East were a signal for the end of the normal business cycle, which lasted eighteen months longer than usual and marked the beginning of a new cycle in which prices would be dictated by concerns over unstable supplies.

**Situation on the domestic financial market**

In order to gain a better understanding of the market situation in which the Bank was operating last year, it is necessary to take into consideration the peculiarities of domestic market development, along with external factors such as political stability, the pace of structural reforms, growth of liquidity, and the general level of trust that defines the dynamics of direct and portfolio investments.

**Political Stability**

One of the most important factors determining the development of capital markets is political stability. In 2002, the various political forces in Russia were balanced, as were the dynamics of the various governing authorities and leading business interests. Despite some political disagreements between the Kremlin and big business, the recognized authority of the President ensured growth in the value of Russian assets and encouraged trade and investment both domestically and abroad.

_The regions still display a Soviet-like mentality to borrowing, and so the local authorities are not regarded as reliable partners... Today, we are entering a new phase of development. The relations of Alfa Bank with regional authorities are being reconsidered, and it is likely that we will be financing budgets, including municipal budgets._

FAVORABLE INVESTMENT CLIMATE  The favorable investment climate in 2002 was created by a rapidly improving situation with the federal budget and the prospect of an improved Russian credit rating, which is expected to reach sought-after investment grade status in 2004. At the same time, Russia’s continued economic growth, the ongoing improvement of the President’s reputation abroad, and cooperation between Russia and the US in the energy sector were also contributing factors. Investors continue to regard oil prices as one of the driving forces of the Russian economy. If both direct and portfolio investment is to continue to climb, then economic and legal reforms need to continue, especially reform of the banking sector. The biggest failure of 2002 was the lack of progress in reforming the banking sector, and this has understandably created some concerns about Russia’s economic predictability, the timing of external debt payments, and the chances for repatriation of Russian capital.

ECONOMIC GROWTH  The Russian budget is seen as particularly vulnerable to fluctuations in natural resource prices, as it was in 1998. Nevertheless, the share of oil and gas exports in budget revenues is so high that it still dominates the country’s economic development. The Russian budget in 2002 assumed an oil price of 18.5 US dollars per barrel, whereas the actual average was closer to 25 US dollars per barrel: high oil prices led to a rapid and significant improvement in Russia’s economic situation. Additional revenue inflows from growing exports of natural resources were transformed into higher capital investments by large oil companies, giving rise to expectations of further increases in production and exports and providing for higher dividend yields. This has contributed to a strengthening of the Russian economy and swelled planned budget revenues, in particular GDP, as well as accrued profits. At the same time, excessive liquidity in 2002 stimulated the “gray” economy and impeded the development of the manufacturing sector, the existence of which is largely a guarantee of long-term, more predictable growth.

Macroeconomic indicators of the Russian economy

- GDP GROWTH IN 2002 was 1.4% higher than the official government prediction of 3.5% at the start of the year (the announced GDP growth was 4.3%; the difference in values was due to rounding or other minor adjustments).
- THE FEDERAL BUDGET SURPLUS was 5 bln US dollars (less the revenue from realization of the sale of government stakes in LUKoil and Slavneft), which is very close to estimated growth in state revenues of 1 bln US dollars per each dollar rise in the average price of a barrel of oil.
- THE INFLATION RATE was 15%, whereas the ruble rate to the dollar dropped by 5.6%.
- GROWING PRODUCTION COSTS, e.g. in terms of wages, totaled nearly 15% due to increased liquidity caused by high revenues from exported natural resources.
- THE MONEY SUPPLY by the end of 2002 grew to 17.6% of GDP, compared to 14.2% at the end of 2001. Central Bank reserves, which at the end of 2001 were 36.6 bln US dollars, swelled to 47.7 bln US dollars.
- THE BALANCE OF PAYMENTS SURPLUS was, as usual, driven by the export of hydrocarbons. At the same time, the trade balance in US dollars shrank due to growing imports, especially of consumer goods.
- INDUSTRIAL PRODUCTION GROWTH slowed from 4.9% in 2001 to 3.7% in 2002. This was partly because the 2001 indicator reflected continued recovery of the economy after the crisis, and partly in response to the strong ruble and growing costs, which impeded investment in the industrial sector: last year the growth rate of investment was 2.6%, whereas in 2001 it equaled 8.7%.
- CAPITAL MOVEMENT in connection with foreign loans remained at a level of 2.5 bln US dollars, or less than 1% of GDP. At the same time, domestic investment in the Russian economy grew thanks to the increased confidence of private and corporate investors in the Russian financial market.
MAJOR RISK STILL REMAINS IN OIL PRICES. DESPITE SOME LESSER DEPENDENCY OF THE RUSSIAN ECONOMY ON OIL PRICES CAUSED BY THE DEVELOPMENT OF NON-OIL SECTORS, THE RATE OF ECONOMIC GROWTH IS STILL INSUFFICIENT FOR INVESTORS TO FORGET ABOUT OIL PRICES. CHRISTOPHER WEAFER, ALFA BANK CHIEF EQUITY STRATEGIST. “INVESTMENT OPPORTUNITIES IN RUSSIA”, 17 DECEMBER 2002.

Russian equities and fixed-income instruments in 2002 again proved to be the most lucrative in the world: liquid emerging markets showed better performance only in Pakistan, while the aggregate profitability of Russian government debt instruments was nearly three times that of similar debt obligations issued in other emerging financial markets.

EQUITY MARKET IN 2002
Equity prices in the Russian market were defined mostly by domestic rather than international portfolio investors. This tendency is vividly illustrated by the Russian MSCI and RTS Indices. While MSCI Russia, which covers most liquid international blue chips, increased by only 14% in 2002, the RTS Index, defined by the combination of domestic funds targeting Russian portfolio assets, grew by 38.1%.

EQUITIES OF OIL COMPANIES
High average oil prices contributed to growth in the equities of most Russian oil companies. Increased turnover allowed Sibneft and Yukos to increase their production volumes. In December 2002, Sibneft together with TNK made a very profitable acquisition by purchasing a stake in Slavneft jointly owned by Russia and Belarus. LUKoil’s indicators declined after the company decided to slow its rate of production volume increases, as well as in response to investor concerns about the placement of LUKoil shares by the Russian Ministry of Property.

EQUITIES OF TELECOMMUNICATION COMPANIES
The telecommunications sector in 2002 produced mixed results. The profits of mobile communication operators grew steadily following increased consumer spending in Russia, which attracted more customers and allowed for an expansion of mobile coverage. However, this growth was somewhat restrained by the negative trends in global high technology markets and the general decline of the NASDAQ Index (which fell by 31.5% last year).

The restructuring of shareholders’ equity in local telecommunication companies was ongoing in 2002 and led to more consolidation amongst the telecommunication companies. Uralsvyazinform was the first to tackle its restructuring problems, thus ensuring the support of investors and increasing the value of its assets. Other companies, such as South Telecom and Center Telecom, joined the process later; their stocks began to show growth only by the end of the year.
EQUITIES OF THE UTILITIES SECTOR

In the utilities sector equity prices were volatile, first because of rumors of big business participation in the sector, and second due to the lack of clear-cut plans for its reform. Confusion over the future of the sector meant that equity prices were driven by market speculation.

For other sectors of the Russian economy, the year was not extraordinary — both on account of higher costs (especially labor) and because of the “strong” ruble, which boosted imports of consumer goods, lowered domestic companies’ competitiveness and reduced their market share. Concerns about strengthening of the ruble and growing costs led to lower stock prices in all other sectors of the Russian economy.

FIXED-INCOME INSTRUMENTS Despite the difficult financial situation in most emerging markets — especially in Latin America and Turkey — Russia is nevertheless attracting more and more capital invested in fixed-income instruments. In 2002, the Russian market was seen as a safe haven, thanks to sustained economic growth and political stability. Russia’s long-term Eurobonds combine high yields with predictability, something that Brazil’s debt lacks. Last year, Russian long-term debt instruments grew by 20 – 30%. Owing to improved macroeconomic indicators and higher prices for government debt obligations, Eurobonds absorbed more of Russia’s corporate debt.

Hundreds of millions of dollars of Eurobonds were floated during the year by a variety of companies, including Sibneft, Gazprom, TNK and MTS. By the fourth quarter of 2002, most corporate Eurobond prices had grown considerably due to a dramatic increase in oil prices and a market upsurge following the announcement of the TNK — BP deal, which earned Russia de facto investment grade status.
Concurrently with the improved macroeconomic situation in the country, the Russian banking sector witnessed significant changes as well. One of the most important was a gradual recovery of confidence in Russian banks — as evidenced by a considerable increase in private deposits (up 44% in USD terms). Growth in the deposit base of government banks was below the market average, which shows that public confidence in private banks is growing.

**GROWING COMPETITION** Stabilization of the economic situation and rising confidence among depositors have determined the nature of overall growth in the banking sector. In 2002, the number of Russian banks grew along with the development of all entities involved in the banking business. There were several new significant players operating in the emerging financial sector; by the middle of the year twenty banks had a capital of nearly 100 mln US dollars. Concentration of the banking business amongst a few players makes the domestic competitive environment more complicated. There were a number of banking mergers last year, the most important of which were NIKoil with Avtobank, and International Moscow Bank with Bank Austria Creditanstalt Russia.

**CUT IN MARGINS** In many cases, increasing competition led to a fall of 5% in the non-risk component of the margin between loans and deposits of the same maturity period. There was also a gap in the maturity of demand for funds and funding: the average maturity of deposits by the end of 2002 was no more than two calendar months, while the average maturity of loans was over six months. Therefore, the widening of the margin at the expense of short-term deposits and long-term loans was coupled with a growing discrepancy in maturities. Because of the maturity gap, lending became increasingly complex, and this led to a concentration of credit portfolios; the ratio of the ten largest borrowers to the entire portfolio in most Russian banks in 2002 remained too high.

**CHANGES IN THE STRUCTURE OF EARNINGS** The fall in margins due to the high level of competition was compensated by the increased number of banking operations targeting new customer segments as well as the creation of derivative financial instruments. As a number of leading Russian banks pursued a diversification strategy, a gradual increase in the share of medium-sized enterprises and retail customers in the total amount of borrowing and credit portfolios is expected. Diversification measures taken by leading players in the Russian banking market in 2002 included the development of retail networks, which makes existing branch networks work more efficiently, as well as a widening of banking services and product range.
The search for new products to underpin banking profits is closely tied to the development of marketing and tariff policies; it enables banks to have a clearer picture of their customers’ needs, and thus leads to greater efficiency.

Implementation of the banking sector reform strategy

The problem of efficiency, despite the favorable domestic economic situation, remains one of the most important for the Russian financial market. Too much regulation, a complicated licensing system, and the lack of a credit history system covering borrowers and customers are just a few aspects of this problem. At the same time, last year there were some positive changes in the reform process of the banking system that pave the way for potential growth.

- **Pension Reform** The economic fundamentals of pension reform hotly debated in 2002 make us confident of further growth in the market for direct investment. The decision not to pay pensions from the federal budget and the changeover to saving schemes will give rise to a new financial market initially worth an estimated 5 bln US dollars, rising to total pension funds of up to 50 bln US dollars after 10 – 15 years. Providing services to manage these assets creates huge potential for Russia’s financial institutions, and this now requires new instruments to work with central and regional pension funds, as well as new investment products.

- **Deposit Insurance** The proposed deposit insurance scheme is an extremely important part of Russia’s banking reform. The goal is to overcome Russian depositors’ main fear: that of losing their money in the collapse of a private bank. The scheme can be regarded as safe when the state takes on the role of guarantor. The draft law for the individual deposit insurance scheme, which was amended many times over the past year, was finally submitted for review by the Duma at the start of 2003.

> DEPOSIT INSURANCE IS A VERY GOOD IDEA, AS IT IS ONE OF THE FUNDAMENTALS OF STABLE BANKING SECTOR DEVELOPMENT. BUT IT WILL MAKE SENSE ONLY IF SBERBANK IS PUT ON EQUAL FOOTING WITH ALL OTHER BANKS, AND IN THE SHORTEST TIME POSSIBLE. SBERBANK MUST GIVE UP ITS PRIVILEGE — GUARANTEES FOR DEPOSITS AT THE EXPENSE OF THE STATE BUDGET. PETER AVEN, PRESIDENT OF ALFA BANK. MAGAZINE “DENGI”, 6 MAY 2003

- **The Quality of Banking Capital** During 2002, the Central Bank of Russia put forward legislation that would allow the quality of banking capital to be checked and bring capital adequacy in line with a bank’s actual capitalization. Today, many banks in the Russian financial market are operating, but not all of them can meet the requisite quality standards. This affects the whole banking system. For customers, it is very important to have information on the reliability of banks. Tougher controls over the financial market will speed up the work of high-quality and stable banks, thus attracting new customers more efficiently.
Joining the World Trade Organization will open the Russian financial market to international financial institutions. In 2002, a number of large foreign banks targeted Russia’s capital markets and showed sincere interest in increasing their business in Russia. Some foreign banks have already set up offices in Moscow and St. Petersburg. After WTO accession, this trend will continue, and competition on the part of foreign banks will serve to increase confidence among depositors in the banking system as well as provide for further development of the quality of service. The integration of Russia’s banks into the global economy will allow us to bring our commercial and lending products nearer to the standards of the developed financial markets of North America and Europe.
I SET THE LAW, THE PLAN AND THE SYSTEM, MAKING IT POSSIBLE TO CHANGE SUBJECTIVE INTO OBJECTIVE.

KAZIMIR MALEVICH
ONE SHOULD KNOW WHERE TO THE WINDS OF CHANGE BLOW — TO TAME THEIR ENERGY ON THE PATH OF NEW EXPLOITS. HE WHO IS FOLLOWING THIS PATH WITH A STORE OFKNOWLEDGE WILL EASILY LEAVE BEHIND THE IDLE. THE LAW OF TRUST, THE PLAN OF LEADERSHIP, AND THE SYSTEM OF RELIABILITY WILL BRING THE DYNAMICS AND SHOW THE PATH OF GROWTH.

THE LAW OF TRUST. THE PLAN OF LEADERSHIP. THE SYSTEM OF RELIABILITY

Trust is Alfa Bank’s most valuable asset

Alfa Bank’s history is a relatively short one, compared to the hundreds of years that foreign banks have taken to develop. However, over the last twelve years, management and staff have put in the painstaking labor and careful strategic planning that has allowed the Bank to win the trust of the global financial community together with tens of thousands of private and corporate customers. Trust is the determining factor in relations between the bank and its partners. It was the confidence of our first customers that made it possible for Alfa Bank to develop along with the country, overcoming difficulties, comprehending success and capitalizing on it, in order to create its own strategy of growth that has finally turned our Bank into one of the largest financial institutions in Russia.

1990 – 1994
CREATING THE BANK’S BUSINESS INFRASTRUCTURE
- Alfa Bank is founded as a commercial bank: a banking license is obtained from the Central Bank of Russia.
- Alfa Bank obtains from the Central Bank of Russia domestic and expanded foreign exchange licenses.
- First accounts are opened with six foreign banks.
- First Alfa Bank subsidiary office is opened in Moscow.
- Alfa Bank’s license grows into a General banking license.
- Alfa Bank is the first Russian bank to open a subsidiary bank in Alma Aty (Kazakhstan).

GAINING FIRST CUSTOMERS AND PARTNERS
- First corporate account opened in Alfa Bank.
- Alfa Bank is a member of the Moscow Inter-Bank Currency Exchange (MICEX).
- Alfa Bank is a member of the international payment system MasterCard/Europay.
- Alfa Bank is a member of the international payments messaging system S.W.I.F.T.
1995 – 1996

**Increasing the Bank’s Stability**

- Owing to the Bank’s well thought-out financial policy and prudent approach to asset management, the inter-bank crisis (August 1995) had no effect on the Bank.
- Alfa Bank participates in the Financial Institutions Development Project (FIDP) sponsored by the World Bank and the European Bank for Reconstruction and Development.

**Winning Authority with Russian and Foreign Partners**

- Alfa Bank is authorized to participate in the GSM–102 program launched by the US Department of Agriculture. The European Bank for Reconstruction and Development grants a long-term loan to Alfa Group for 42 mln US dollars to develop the Perekryostok trading chain. Visa International’s Board of Directors accepts Alfa Bank as a full member of its international payment system.
- Germany’s state credit export agency Hermes is ready to guarantee German banks’ export credits made through Alfa Bank.
- Alfa Bank is one of the three Russian banks to place Eurobonds of the Russian Federation, issued for the first time since 1917.
- The American Investment Bank Merrill Lynch names Alfa Bank one of the most prospective banks in Russia.

**Developing the Bank’s Branch Network**

- Alfa Bank sets up a representative office in London.
- Alfa Bank sets up a new branch in Nizhny Novgorod.

1997 – 1998

**Strengthening the Bank and Relations with Partners**

- With the assistance of the American investment bank Morgan Stanley, Alfa Bank obtains a syndicated loan for 40 mln US dollars (representing the first performance of the Bank in foreign capital markets).
- Alfa Bank is appointed an authorized bank to place the first Eurobonds issued by the Russian Federation, denominated in DM.
- The Bank is rated B1 by Moody’s, B by Standard & Poor’s, and BB by IBCA.
- Alfa Bank is the first private Russian bank to issue Eurobonds.
- Alfa Bank opens new branches in St. Petersburg and Samara.
- Alfa Bank obtains brokerage and dealership licenses as well as a license for trust holding of securities and depository operations.
- Investment company Alfa Capital merges with Alfa Bank to create a “financial supermarket” in order to provide its customers with a full range of banking and investment services.

**Withstanding the Crisis**

- During the acute economic crisis Alfa Bank, unlike many other competitors, meets its obligations on time and makes its payments flawlessly.
- No delays in salaries and payments demonstrate the suitability of the Bank’s strategy, thus winning new corporate customers.
1999 – 2000

EXPANDING THE BANK’S BUSINESS

- The number of trade and service companies cooperating with Alfa Bank in the acceptance of plastic cards for payment passes the 1,200 mark.
- Launch of Visa-Alfamobile — the first payment facility to combine the advantages of international Visa cards with the possibility to obtain discounts and more services for car owners.
- Alfa Bank pays back its Eurobonds in full and on time on the maturity date of 28 July 2000.
- Global Finance awards Alfa Bank the title of “Best Russian Bank in 1999”.
- Magazine Central European names Alfa Bank “Best Bank in Russia” for the third year in a row.
- Rating agency Fitch upgrades Alfa Bank’s long-term rating from CCC– to CCC+ based on performance results in 1999 audited according to international standards.
- Alfa Bank sets up its subsidiary brokerage company Alfa Securities with the related license obtained.
- Alfa Bank provides its customers with new financial instruments: the virtual card EuroCard/MasterCard for payments through the Internet, and the foreign exchange note “Treasurer” allowing clients to secure ruble funds against inflation and currency risks.

DEVELOPING THE BANK’S REGIONAL NETWORK

- Together with the Agency for Restructuring of Credit Organizations (ARCO), Alfa Bank works out a Program for developing its branch network. ARCO’s Board of Directors grants a loan to Alfa Bank to open new branches in more than ten regions in the Russian Federation.
- Alfa Bank acquires a 76% stake in Kievinvestbank and receives the related approval of Kievinvestbank’s shareholders.
- Alfa Bank signs cooperation agreements with the authorities of Kurgan and Rostov regions, Primorye and Krasnodar territories, Krasnodar city administration and Rostov-on-Don city administration. Alfa Bank branches local to these regions implement the agreements.

2001 – 2002

BUSINESS DIVERSIFICATION

- Alfa Group announces the debut of AlfaInsurance in the Russian insurance market.

DEVELOPING IN RUSSIA AND INTERNATIONALLY

- Alfa Bank signs cooperation agreements with the authorities of Tomsk region, Khabarovsk territory, Khabarovsk city administration, Kaliningrad region, Kaliningrad city administration, Chelyabinsk region, Chelyabinsk city administration, Krasnoyarsk territory and Krasnoyarsk city administration. Alfa Bank’s branches local to these regions implement the agreements.
- Alfa Bank opens a branch in St. Petersburg. The Bank opens a branch in Murmansk.
- Alfa Bank opens a subsidiary company in New York — Alfa Capital Markets, specializing in brokerage and investment services.
- Alfa Bank acquires a 100% stake in Amsterdam Trade Bank N.V.
- Alfa Bank becomes the first Russian private company to sign an official agreement with the Overseas Private Investment Corporation (OPIC), a US government agency.
International rating agencies upgrade Alfa Bank’s long-term credit rating: Standard & Poor’s from CCC+ to B–, Fitch from B– to B, and Moody’s from B3 to B1.

**Further Improving the Bank’s Customer Relations**

- Alfa Bank takes part in the ARCO program to buy back private depositors’ demand rights regarding SBS Agro.
- Alfa Bank commissions the first part of its plastic cards call center. The call center allows the Bank’s customers to automatically receive on-line information regarding the status of their card accounts, as well as information on all kinds of services regarding the plastic cards issued by the Bank.
- Alfa Bank together with Merrill Lynch wins a tender by RAO UES to advise on the financial and investment aspects of reform of the power and energy sector. Gazprom and Alfa Bank sign a strategic cooperation agreement.
- At the end of 2002 the magazine Global Finance named Alfa Bank “Best Bank in Russia” for the fourth consecutive year.

**Leadership in the financial market**

Last year Alfa Bank strengthened its positions in the Russian financial market. In 2002, Alfa Bank demonstrated significant performance results:

- **Second Russian Bank**—by the size of private deposits, and the first among private banks.
- **Second Place**—by the size of its corporate credit portfolio, which grew by two-thirds over the year.
- **Fourth Place**—by the number of branches (over 90 territorial offices).
- **One of the Five Leaders**—by the development pace of the investment business in Russia.
- **Leading Positions**—by the volume of transactions through the use of plastic cards.

According to the top rating agencies, in 2002 Alfa Bank remained the leader among Russian private banks by the size of assets, lending and customer borrowing. Last year, the Bank’s business development pace was far above that of the Russian banking system in general.

An assessment of Alfa Bank’s operations in the financial markets shows that the Bank maintained its lead in 2002 as well. Last year, Alfa Bank was among the three leaders in terms of investment products and services and one of the five largest in terms of equity trade turnover. With the development of electronic trading, we plan to strengthen our positions further in all product segments.

*I think that all the investment banks taken together did not match Alfa Bank in terms of the total size of strategic deals that we arranged.* ALEX KNASTER, CHIEF EXECUTIVE OFFICER OF ALFA BANK. *MAGAZINE “ECONOMY OF RUSSIA: XXI CENTURY”, MAY 2002.

By the end of 2002, Alfa Bank had over 80 regional offices. Today, the Bank is one of the leaders amongst Russia’s private banks in terms of the size of its branch network. In 2003, Alfa Bank will expand its branch network significantly by opening new retail outlets, first in Moscow, and then in St. Petersburg. The Bank will also expand its branch network territorially and increase the number of branches serving corporate business.
Business ratings of the leading Russian banks in 2002

<table>
<thead>
<tr>
<th></th>
<th>Sberbank of Russia</th>
<th>Alfa Bank</th>
<th>Vnesh-torgbank</th>
<th>Gazprombank</th>
<th>International Industrial Bank</th>
<th>Bank of Moscow</th>
<th>International Moscow Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Place by loans</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Place by assets</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Place by private deposits</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>—</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Place by size of customer funds</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>14</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

SOURCE: ALFA BANK ESTIMATES BASED ON DATA FROM THE CENTRAL BANK OF RUSSIA AND THE RATINGS OF EXPERT MAGAZINE.

Business growth rate of Alfa Bank and the banking system in general, 2002

<table>
<thead>
<tr>
<th>Segment</th>
<th>Business growth rate of Alfa Bank (%)</th>
<th>Business growth rate of the banking system (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal entities</td>
<td>56</td>
<td>25</td>
</tr>
<tr>
<td>Individuals</td>
<td>59</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>26</td>
</tr>
<tr>
<td>Borrowing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal entities</td>
<td>47</td>
<td>12</td>
</tr>
<tr>
<td>Individuals</td>
<td>117</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>23</td>
</tr>
</tbody>
</table>

SOURCE: ALFA BANK ESTIMATES BASED ON DATA FROM THE CENTRAL BANK OF RUSSIA

Share of Alfa Bank’s operations in the financial markets as of 01/01/2003

<table>
<thead>
<tr>
<th>Segment</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>3.5</td>
</tr>
<tr>
<td>Fixed-income instruments</td>
<td></td>
</tr>
<tr>
<td>Ruble bonds</td>
<td>5</td>
</tr>
<tr>
<td>Foreign currency bonds</td>
<td>20 – 30</td>
</tr>
<tr>
<td>Foreign exchange operations</td>
<td>10</td>
</tr>
</tbody>
</table>

SOURCE: ALFA BANK ESTIMATES
Reliability of the Bank will continue to improve

What is the reason for Alfa Bank's success in the Russian financial market? One of the answers is the consistency of the Bank's strategy in creating a universal banking operation: its leadership is underpinned by a full range of banking services available to our customers. The Bank's reliability during periods of market instability and macroeconomic uncertainty is ensured not only by its leadership position in key business areas, but also by its stability, which became much stronger over the reported period. This is indicated by:

- Growth of its equity capital in line with the business development rate.
- High quality of its credit portfolio and adequacy of reserves.
- Well-balanced structure of assets and high share of their liquid part.
- Stable funding secured by the diversification of business and the structure of earnings.
- Comprehensive management of credit, market and operational risks.

**HIGH CAPITAL ADEQUACY** In 2002, Alfa Bank's capital growth was in line with its high business growth rate. According to international standards, equity capital should be no less than 8% of the Bank's risk-bearing assets. Adjusted to suit Russian realities, Alfa Bank has set itself a higher level of capital adequacy of no less than 10%. By the end of 2002, this was up to 10.1%: over the year the Bank's equity capital grew by 154 mln US dollars* to 432 mln US dollars. This capitalization is in compliance with the Bank's business development model and in accordance with Alfa Bank's strategy, which is designed to protect its customers' interests.

**WELL-BALANCED STRUCTURE OF ASSETS** The efficient management of resources is the key factor in Alfa Bank's reliability. By changing the structure of its assets in 2002, the Bank made noticeable progress in improving the quality of both its assets and liquidity. As the credit portion in the structure of assets grew over 2002, the quality of the Bank's credit portfolio also grew considerably. New standards for lending and the assessment of credit risks were put in place, which reduced the share of overdue debt to less than 1% of all the loans granted.

*Here and subsequently, data is according to International Accounting Standards (IAS).*
Owing to the increased quality of assets in 2002, the Bank managed to decrease the rate of reserves growth considerably — their annual growth in 2002 was 40%, while in 2001 it was up to 43%. At the same time, the Bank’s reserves in 2002 were 5.5% of the credit portfolio, which in light of its high quality is a good guarantee against potential loan losses.

**STABLE FUNDING**  As of December 2002, Alfa Bank’s external funds were in excess of 2.6 bln US dollars. The stable inflow of customer funds led to significant growth in the Bank’s credit portfolio, which by the end of the reported period amounted to 2.4 bln US dollars.
Alfa Bank’s strong business reputation and international credit ratings make it possible for the Bank to raise funds on both domestic and international financial markets. In June 2002, using an Alfa Bank guarantee, Alfa Finance floated its first ruble bond of 1 bln US dollars with a five-year maturity. In June 2002, the Bank prolonged a syndicated loan with the permission of the foreign creditors, and this loan was fully repaid in accordance with the agreement last year.

■ **EXTENSIVE DIVERSIFICATION OF SERVICES** Expansion of the Bank’s product range — both traditional and new — allowed our customers to satisfy their requirements in full measure, and for the Bank to diversify its sources of revenue. Continuing this strategy in 2002, new “retail” products were introduced, including an entire range of settlement and lending products. Alfa Bank’s strategic business priority in 2002 continued to be aimed at maintaining its leadership amongst corporate clients and increasing its market share in rendering services to private individuals. In 2002, the number of the Bank’s corporate customers grew by 13% to nearly 50,000 large, medium-sized and small businesses. Private deposits over the same period swelled 63%. The share of private depositors in the total amount of external funds in 2002 was over 30%, while the number of our customers grew by 93% to more than 500,000 individuals.

■ **WELL-BALANCED STRUCTURE OF EARNINGS** The Bank’s structure of earnings in 2002 illustrates the balance of Alfa Bank’s core businesses — commercial and investment. This is clear evidence of the reliability and stability of the Bank’s business. The structure of net income from banking operations clearly shows growth in the share of regular income (above all — commission income) and an increase in interest income. With growing competition and the general fall in interest rates, the Bank’s business standing is indicated by the stability of its interest income, and by the lesser share in this income from speculative operations.

**OUR STRATEGIC OBJECTIVE IS TO MAKE AN EFFICIENT AND UNIVERSAL BANKING STRUCTURE, WHICH WILL NOT DEPEND ON A SINGLE OR SEVERAL CUSTOMERS. BY NOW, ALFA BANK IS ALREADY A “WIDE-RANGE” BANK BY ITS PRODUCTS. IN THIS REGARD, WE ARE NOT FAR AWAY FROM LARGE FOREIGN BANKS.** OLEG TUMANOV, DEPUTY CEO OF ALFA BANK. MAGAZINE “RUSSKY FOKUS”, 17 MARCH 2003.

■ **FLEXIBLE RISK MANAGEMENT** For a universal bank operating in many financial markets, it is important to ensure qualified and effective risk management, which is a sine qua non condition for long-term and reliable growth. In this regard, Alfa Bank was quick to establish itself: in 2001 Alfa Bank experts completed the development of a risk monitoring methodology, and in 2002 the Bank began to implement a comprehensive risk management system:

- Credit risk management is becoming increasingly important due to the significant growth of the Bank’s credit portfolio. Monitoring of a borrower’s standing together with structural analyses allow credit risks to be minimized and credit portfolio exposure to be reduced.

- The major objective in the management of market risks is to prevent crisis situations caused by any changes occurring in the financial markets. In assessing market risks, in 2002 Alfa Bank put into place a “value at risk” technology that allows the Bank to measure potential risks when adverse prices affect the Bank’s portfolio.

- Minimization of operational risks is particularly vital for the Bank in the context of the implementation of new banking technologies. In 2002, Bank experts worked out a methodology to identify operational risks as well as an integrated plan envisaging operational audit and further minimization of potential risks.

The Bank set up a middle-office last year — a department to monitor operations performed in the most significant financial areas. Alfa Bank’s specially designed information system provides an early warning of deviations from the set limits, thus protecting the Bank and its customers from ill-considered and risky decisions.
The law of trust.
The plan of leadership.
The system of reliability

Alfa Bank’s core businesses in total earnings, 2001 – 2002 (%)
- Investment Bank
- Commercial Bank

Alfa Bank’s structure of earnings 2000 – 2002 (%)
- Net interest margin
- Profit/loss in financial operations
- Other earnings
- Commission income
- Investment income
- Cash income
CREATIVE THINKING HAS LONG BEEN TRYING TO ESCAPE FROM THE COBWEBS OF ATTRACTIVE PATTERNS AND EMBELLISHMENTS, AND MOVE TOWARDS THE MOST ECONOMICAL EXPRESSION.

KAZIMIR MALEVICH
EXTERNAL OPENNESS AND AN ACCOMPLISHED INNER LIFE ARE THE TWO POLES THAT GIVE BIRTH TO UNDERSTANDING. BECOMING RENEWED, WHILE REMAINING OPEN TO THOSE AROUND — THIS IS THE OBJECTIVE OF COGNITION AND EXPERIENCE THAT ALLOWS THINGS TODAY TO IMPROVE IN THE BEST POSSIBLE WAY, HELPING TO MAINTAIN THE HARMONY OF NATURE FACING THE WORLD.

OPEN KNOWLEDGE. ACCOMPLISHED WORLD

Commercial Bank

SERVICES TO CORPORATE CUSTOMERS

LEADERSHIP IN THE CORPORATE MARKET

In 2002, Alfa Bank strengthened its positions in the market of corporate banking services, which grew at twice the rate of the development of this business for the banking sector as a whole. As a result, Alfa Bank’s share in all key segments of the corporate market grew significantly, making the Bank an absolute leader among private commercial banks.

Alfa Bank’s share in key segments of the corporate market, 2002

<table>
<thead>
<tr>
<th>Segment</th>
<th>Volume (USD mln)</th>
<th>Market share (%)</th>
<th>Market share growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to companies</td>
<td>2,396</td>
<td>5.1</td>
<td>1</td>
</tr>
<tr>
<td>Borrowings from companies</td>
<td>1,341</td>
<td>3.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>


Growth rate of borrowing and lending, 2002 (%)

- Market
- Alfa Bank
In the segment of credit products that traditionally form the basis of banking profits, Alfa Bank took second place after Sberbank. In the market of corporate borrowing, Alfa Bank maintains a stable position among the five leaders in terms of rubles, and in 2002 the Bank held third place in this category. During the last year Alfa Bank’s share in the sector of fixed-term borrowing grew steadily, showing growing confidence amongst its corporate customers.

In 2002, Alfa Bank was the second largest Russian bank in terms of operations with precious metals, slightly behind Nomos Bank. Alfa Bank’s share in this segment was 17%. At the start of 2003, the Bank was in third place in terms of the volume of issued proprietary notes in circulation, following the state-owned banks Sberbank and Gazprombank.

### Corporate market key segment, 2002

<table>
<thead>
<tr>
<th>Segment</th>
<th>Bank</th>
<th>Market share (%)</th>
<th>Market share growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to companies</td>
<td>Sberbank</td>
<td>28.9</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Alfa Bank</td>
<td>5.1</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Vneshtorgbank</td>
<td>4.7</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>Gazprombank</td>
<td>4.3</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>The Bank of Moscow</td>
<td>2.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Borrowings from companies</td>
<td>Sberbank</td>
<td>12.4</td>
<td>−0.1</td>
</tr>
<tr>
<td></td>
<td>Gazprombank</td>
<td>5.5</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>MMB</td>
<td>5.0</td>
<td>−0.8</td>
</tr>
<tr>
<td></td>
<td>Rosbank</td>
<td>3.5</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>Alfa Bank</td>
<td>3.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>


Over the reported period Alfa Bank’s corporate customer base grew 20% — by the end of last year the Bank was servicing 18,422 large and medium-sized companies. Based on data from the State Statistics Committee of the Russian Federation, Alfa Bank’s share of servicing the needs of large- and medium-sized Russian companies was 27%. According to the analysts of Expert magazine, the Bank ranks third in terms of the number of Russia’s largest companies served, as listed in Expert-200. This was possible due to, among other factors, development of the Bank’s regional network: Alfa Bank currently trails only Sberbank, Rosselkhozbank and Uralsib in terms of the number of branches.
LENDING IS A DRIVING FORCE OF THE BANK’S BUSINESS AND AN INSTRUMENT WITH WHICH TO IMPLEMENT OUR STRATEGY IN THE MARKET OF CORPORATE BANKING SERVICES.


CREDIT PORTFOLIO STRUCTURE

According to data from the Central Bank of the Russian Federation, the share of Alfa Bank’s lending in all industrial sectors in 2002 was 14%. The expansion seen in all sectors is in line with a well-thought out lending policy that allows the Bank to attract new customers in such strategically important sectors as the nuclear industry, machine building, metallurgy and metalworking. The structure of Alfa Bank’s credit portfolio in 2002 was formed in accordance with plans to increase liquidity and minimize related risks. Last year, the Bank diversified its customer base: based on performance results over the reported period, the share of the ten largest borrowers was nearly 40% of the credit portfolio, which is considerably below the average market figure of 51%. There was a significant drop in the share of lending to the Bank’s affiliated companies — from 18% to 8%. Professional market research and an in-depth analysis of our customers’ financial standing made it possible to maintain high quality of the credit portfolio while volumes increased significantly. The share of overdue loans fell three-fold compared to 2001, from 1.3% to 0.4%. The Bank’s reserves for bad debts fell from 6.4% to 5.5% by the end of the reporting period. Some 60% of Alfa Bank’s fixed-term credit portfolio was made up of loans lasting from three months to one year, against an average of 50% in the Russian banking system. The shares of short-term and long-term lending grew by 13% and 2%, respectively, compared to 2001; the segment of loans to medium-sized customers increased by 5% to 23% of the total loan portfolio. The share of branches in the Bank’s aggregate lending business expanded to 44.7%, up 5% from the levels of 2001, while lending in the regions grew 99%, which is 1.5 times greater than the rate in Moscow (up 61%).

DEVELOPMENT OF SERVICES TO CORPORATE CUSTOMERS

Alfa Bank continued the process of introducing new products and modernizing existing products for customers. Many services were improved by making their execution automatic. For instance, cash-and-settlement services can now be quickly executed with funds transferred to the settlement account: customer funds are credited on the day of their receipt in the Bank’s correspondent account, and the customer may have immediate access to these funds.

We maintain a flexible approach to our corporate customers while taking into account the specific requirements of companies. Alfa Bank began to grant loans secured by the right to call export revenues in 2002. The Bank’s customers also have the option to purchase special insurance products offered by AlfaInsurance, which was incorporated into Alfa Group. These up-to-date services are aimed at optimizing exchange risks, structuring financial and cash flows, and developing companies’ capital investments. They are also provided by a professional team, well-developed infrastructure and advanced technologies.

INTERNATIONAL BANKING

Most international financial institutions regard Alfa Bank as one of the most reliable Russian partners and one that always meets its obligations. First-class financial performance and a flawless reputation enabled Alfa to be the first Russian bank to return to international capital markets and successfully act in November 2002 as an underwriter of a three-year Eurobond issue for 175 mln US dollars, arranged by Merrill Lynch and UBS. In January 2003, Alfa Bank signed a 364-day syndicated loan for 50 mln US dollars, with the possibility of an extension. This facility was used by the Bank to finance foreign trade contracts. A range of new products, and the issuance of promissory notes, are used by the Bank for similar purposes.
The existing credit lines allow the Bank to maintain its customers’ business elsewhere in the world. High volumes or prolonged deal duration do not represent a problem for the Bank — more than 150 mln US dollars of the credit lines were for trade-related financing. With the cooperation of export credit agencies of the related country, financing for medium- and long-term deals is simple to arrange. The Bank has continuously increased the volume of its banknote deals and foreign exchange operations as well as transactions with checks, plastic cards and precious metals.

The volume of business of the Bank’s subsidiary in the Netherlands — Amsterdam Trade Bank — grew significantly in 2002. Banking services and the support of Russian business abroad, project finance, and the financing of trade between the EU and CIS countries allowed for a tripling of asset value while the credit portfolio doubled. At the end of 2002 the Bank worked out an ATB mid-term development program that calls for a further increase in capital and aggressive growth of the bank’s investment and credit portfolios.

SERVICES TO BANKS
In 2002, Alfa Bank continued to develop its correspondent relations with Russian and foreign banks. We beneficially cooperated with more than 800 banks in Russia and the CIS in all major areas of inter-bank business; as of the reporting date, over 660 correspondent banks had around 1,800 Loro accounts with Alfa Bank in rubles or other currencies. In keeping with the Bank’s strategy, there was a considerable increase in the volume of transactions performed by correspondent banks through their accounts on the inter-bank market: daily average balances in Loro accounts over the year grew by 1.6 times (from 408.5 mln to 669 mln US dollars). Alfa Bank also significantly increased the number of its FOREX and DEPO partners on the inter-bank market. Over the reported period there were 120 new counteragents, who now total 740 in all.

Well-founded partnerships make it possible for the Bank to not only carry out all types of banking operations efficiently and promptly, but also to perform in the capacity of a guarantor ensuring the uninterrupted foreign-economic operations of its corporate customers.
RETAIL BUSINESS

GROWING DEMAND FOR HIGH-QUALITY BANKING SERVICES

During the year, demand for high-quality retail services grew considerably. Alfa Bank has developed its retail business by widening the range of services as well as their geography, thus helping the Bank to strengthen its positions in most retail business segments.

By the start of 2003, Alfa Bank was servicing more than 450,000 private individuals. Based on the results of 2002, the total volume of retail funds held by the Bank was over 938 mln US dollars, which exceeds last year’s figure by 77%. One of the reasons for this growth was the Bank’s regional expansion — Alfa Bank has 26 retail offices in Moscow, and 55 in other cities of Russia and the CIS.

As of the reporting date, Alfa Bank issued a total of just under 350,000 plastic cards, and the Bank serves 242 of its own ATMs. The issuance of new cards was up 60% over the year, and the number of prepaid cards issued jumped by 37% on a year-on-year basis.

The number of trading and servicing companies to have signed Alfa Bank payment agreements through the use of its plastic cards grew 25% to 5,500, compared to the previous year. Alfa Bank’s acquiring business in 2002 totaled 166 mln US dollars, which is 33% more than in the previous year. The Bank implemented a number of salary projects making use of plastic cards in 2002, the largest of which was cooperation with the Orsk-Khalil metallurgical plant (NOSTA), where the Bank issued over 20,000 cards.

In 2002, Alfa Bank offered its customers a number of new plastic card products.

- **FIRST IN THE RUSSIAN MARKET** Alfa Bank issued Visa Business Electron corporate cards.
- **IN SPRING 2002** Alfa Bank jointly with VimpelCom announced the launch of a new product that allows the Bank’s customers, the holders of Visa Electron, Cirrus/Maestro and MasterCard Virtual, to make on-line payments for BEE LINE mobile communication services with funds credited to the subscriber’s account at the time of transaction.
- **IN JUNE 2002** Alfa Bank issued custom cards used for identification of payers involved in foreign trade in which payments are charged by customs authorities.
- **FROM JULY 2002** Alfa Bank, in line with a global trend to improve the quality of services, began to issue international cards with a two-year term of validity.
- **EARLY IN SEPTEMBER** the Bank was certified by the Visa international payment system for acquiring the chip cards Visa Smart Debit/Credit and standard EMV (Europay-MasterCard-Visa).
- **IN AUTUMN 2002** Alfa Bank began the distribution of a new product of the company Travelex — the international prepaid card Visa TravelMoney Cash Passport, in which the Bank’s share at year’s end was 31%.

In 2002, the Bank commissioned its new Internet resource www.alfacard.ru, which is entirely dedicated to servicing Alfa Bank’s plastic cards.

PREPARATION OF THE “ALFA BANK EXPRESS” PROJECT

During the year, Alfa Bank worked hard to prepare the launch of its new retail business project “Alfa Bank Express”. The purpose of this project is to build a new, up-to-date model for servicing private customers as well as small- and medium-sized enterprises (SMEs), who will be able to enjoy banking services in convenient locations any time: the new retail outlets and their related sales channels operate 24 hours a day, 7 days a week.

The new retail business concept is a unique combination of modern banking products and a new approach to customer servicing.
THE NEW RANGE OF PRODUCTS is aimed at serving the interests and goals of private depositors and SMEs.

NEW SERVICING TECHNOLOGIES make it possible to implement customer-friendly and efficient servicing standards in the Bank’s retail outlets.

REMOTE SALES AND SERVICING CHANNELS allow potential customers to make banking transactions through any office of the Bank, its ATM network, the Internet, or a phone call-center.

THE NEW FORMAT OF RETAIL OUTLETS is marked by its attractive open-plan design, which in addition to the customer area has a 24-hour servicing zone.

Implementation of this concept will make Alfa the first Russian retail bank to service middle-class clients, who will be able to make easy use of banking services as part of their daily routine. One of the project’s priorities is to develop the Alfa Bank Express network, beginning with Moscow and later moving into the regions, thereby ensuring Alfa Bank’s weight in the private deposit and plastic card segments.

ALL OVER THE WORLD, WORK WITH PRIVATE INDIVIDUALS IS ONE OF THE FUNDAMENTALS IN BANKING. ALONG WITH WESTERN BANKS, WE ARE BRINGING TO THE MARKET A FULL-FLEDGED RETAIL PROJECT. ALFA BANK EXPRESS COVERS ALL PRODUCTS AND SERVICES, FOR EXAMPLE 24-HOUR AND REMOTE MANAGEMENT OF ACCOUNTS REQUIRED BY OUR CUSTOMERS: PRIVATE INDIVIDUALS AND SME BUSINESSES.


With its new retail project Alfa Bank will also enter the market of consumer lending. The Bank’s experts have designed and put into place new models for the assessment of a borrower’s creditworthiness. The first Alfa Bank Express retail outlets were opened last December to test the sales system. In January 2003 several new outlets began to serve customers. By the end of 2003 the Bank’s retail outlet network will have grown to 25 offices located in most of the busiest areas in downtown Moscow.

To fully enjoy the advantages of services based on the world’s most advanced technologies, Alfa’s customers can transfer their accounts from the Bank’s current retail sector to the new Alfa Bank Express outlets.

Investment Bank

LAST YEAR WAS SUCCESSFUL FOR THE RUSSIAN STOCK MARKET IN GENERAL. FOR THE FIRST TIME SINCE THE 1998 CRISIS RUSSIAN COMPANIES VENTURED BACK INTO INTERNATIONAL MARKETS AND MADE INITIAL PUBLIC OFFERINGS IN RUSSIA. THE STOCK MARKET HAS FINALLY STARTED TO PLAY THE ROLE ASSIGNED TO IT AS AN INTEGRAL PART OF THE DEVELOPED ECONOMY.


BROKERAGE AND TRADING In addition to the traditional investment and banking services rendered to Russian and international investors, last year the Bank’s equity department offered a full range of financial products to ensure the inclusion of equity market transactions into the general range of banking services rendered by Alfa Bank.

The Bank was a co-manager for the initial distribution of shares by the Russian companies Wimm-Bill-Dann and RosBusiness-Consulting (RBC) in 2002, including an IPO on the New York Stock Exchange. New analytical products, such as the 2003 Equity
Guide, were designed and marketed by the Bank’s analytical research team on the basis of results obtained from monitoring and research of the equity market, sectors of the Russian economy, and the financial results of leading Russian companies. According to official ratings compiled by the Federal Securities Commission, in 2002 Alfa Bank confirmed its leadership among Russian banks in terms of the trading volume of securities on MICEX. The Bank significantly strengthened its positions on the Russian Trading System (RTS) and ADR (American Depository Receipt) trading floors: in terms of the aggregate volume of transactions in these markets, Alfa Bank was ranked one of the top three among other professional players. The total volume of Alfa Bank’s transactions in the equity market was 5 bln US dollars.

Alfa Bank’s underwriting operations grew as well: last year the Bank arranged 19 issues of domestic and international bonds, it was the first in Russia to issue structured foreign-currency credit-linked notes (CLNs), and it was the first to float ruble bonds involving several guarantors. Moreover, drawing on the expertise of its Moscow office, the Bank developed underwriting operations in the Ukrainian financial market.

Alongside a three-fold increase in the volume of transactions in the securities market, spending by the Bank’s equity department changed very little owing to the improved structure of business and, in particular, the funding and management reporting system. This allowed the Bank to offer new services while increasing the appeal of existing products: income on margin trading and REPO operations for customers grew ten-fold over the year, from 436,000 US dollars to 4,940,000 US dollars. Compared to 2001, the investment bank customer base jumped 116%; in the reported period we acquired 865 new customers, 25 of whom were foreign investment funds. Last year very important steps were also made to ensure further development of the customer base, domestically and abroad. The Bank’s New York arm obtained all the required licenses in 2002, and the subsidiary company Alfa Securities Limited (London) continued to actively develop: last year the number of customers served by Alfa Securities Limited doubled, and the total volume of its transactions tripled.

CORPORATE FINANCE

In 2002, Alfa Bank’s corporate finance department performed as an advisor on deals amounting to over 1.4 bln US dollars. The department further strengthened the Bank’s position as an unrivalled leader in the Russian sector of mergers and acquisitions. This status was confirmed last year by the magazine Global Finance, which named Alfa Bank “Best Russian Advisory Bank in Mergers and Acquisitions”.


The success of Alfa Bank’s corporate finance strategy lay in the rich international expertise of our employees and the Bank’s extensive branch network, which allowed for the establishment of relationships with regional enterprises. This approach guarantees the successful closure of deals that are unprecedented for Russia in terms of their complexity and scale. In 2002, the Bank’s major business areas in the segment of corporate finance were telecommunications, oil and gas, the food industry, and electric power.

RUSSIA’S TELECOMMUNICATIONS MARKET continued to grow rapidly in 2002. The Bank’s deals in this sector proved to be most profitable. It is worth noting our cooperation with Svyazinvest, VimpelCom and Golden Telecom, where the corporate finance department performed as a consultant; our work with regional companies, both in mergers and acquisitions; and the restructuring and integration of newly-acquired assets. A fine example of the Bank’s regional activity was our advisory service rendered to Chelyabinskstroyazinprom in the acquisition of a controlling stake in one of the largest cellular communications operators in the Urals — South Urals Cellular Phone.
- **THE OIL AND GAS SECTOR** last year continued to attract the attention of foreign investors. Alfa Bank experts advised TNK and SIDANKO on the sale of a 15% stake to British Petroleum (BP), as well as on the TNK-BP alliance.

- **THE FOOD INDUSTRY** in 2002 showed a significant upsurge following Russia's general economic growth. Alfa Bank's corporate finance department carried out consulting services for Wimm-Bill-Dann — one of the country's largest and best-known food companies. These consultations covered both the acquisition of a number of dairy factories in Russia and Ukraine as well as certain aspects related to the strategic development of Wimm-Bill-Dann. This included the private placement of company shares and their sale to the consortium Capital International, as well as an initial public offering on the New York Stock Exchange (NYSE), where the Bank was a co-manager. In doing so, with the Bank's support Wimm-Bill-Dann became the first Russian consumer company to offer its shares on a foreign financial market.

- **UTILITIES** Alfa Bank won a tender to provide advisory services to Russia's power monopolist RAO United Energy Systems (UES) as part of the company's structural reform. The Bank's experts analyzed UES' complex business structure so as to differentiate between its monopolistic and competitive components with the ultimate goals of liberalizing the market for electric power and making the sector more appealing to foreign investors. Choosing Alfa Bank as a financial advisor in reforming the electric power sector reflects both the high level of confidence on the part of UES' foreign shareholders and recognition of the professionalism of Alfa's team in its work with Russian and foreign investors.

In 2003, the Bank continued to strengthen its leading position in the corporate finance market. The customer base was widened by attracting new foreign investors to financial markets in Russia and the CIS, as well as by consolidating services to industrial sectors, one of the Bank's most lucrative priorities.

- **ASSET MANAGEMENT** Alfa's asset management services are traditionally provided by the Bank's subsidiary Alfa Capital. Drawing on its expertise and making use of the Bank's branch network, Alfa Capital remains independent in its relations with customers and in taking investment decisions.

The investment business requires huge material resources, professionalism and prompt decisions. Alfa Capital operates in the capacity of a manager, making it possible for private investors to reduce their expenditures — in particular, those for brokerage and depositary services — and efficiently diversify market risks, which ensures professional management of their assets.

With a ten-year track record in the Russian equity market, Alfa Capital today is one of the leaders by volume of assets under management — over 60 mln US dollars. Based on the performance results in 2002, the company ranks first in Russia in terms of the number of stakeholders (nearly 1,100,000 individuals).

- **OPERATIONS WITH CORPORATE AND FOREIGN INVESTMENT**

In 2002, Russia witnessed growth in the volume of domestic capital destined for investment. This accumulation of funds is explained by the improved economic situation and reforms in key sectors of the financial market, which requires employers to allocate investment funds with the purpose of meeting their obligations in insurance policies, savings programs and pension schemes. The notion of long-term investment is becoming essential in the Russian investment climate.

In order to assist corporate investment specialists and trust managers to decide on an investment strategy, the management company Alfa Capital has enhanced its professional team and is now able to work in close contact with key specialists of investment companies. Alfa facilitates a more clear-cut definition of the financial objectives required to design individual investment strategies. Last year, in its work with corporate customers, Alfa Capital made use of a variety of financial instruments:

- management of monetary funds;
- management of accounts invested in shares and fixed-income instruments;
collective investment instruments;

- custom-tailored schemes, including strategic planning.

The basic elements in Alfa Capital’s marketing strategy for working with foreign investors were the creation of high-yield products that can provide a lucrative return for those wishing to invest in Russia, the CIS and Eastern Europe, as well as the search for Western partners to bring funds to the domestic market.

WE ARE NOW ON THE VERGE OF SERIOUS DEVELOPMENT OF A MARKET THAT IS ORIENTED TOWARDS ORDINARY PEOPLE, WHO SHOULD UNDERSTAND WHERE AND HOW TO INVEST THEIR MONEY. THIS IS EXTREMELY IMPORTANT TODAY, IN LIGHT OF THE NEW BANKING LEGISLATION AND GENERAL ECONOMIC SITUATION. BERNARD SUCHER, CHAIRMAN OF THE BOARD OF DIRECTORS OF ALFA CAPITAL. MAGAZINE “ALFA NAVIGATOR”, 12 JULY 2002.

MANAGEMENT OF PRIVATE INVESTORS’ FUNDS

Alfa Capital experts see it as their responsibility to make the Russian market accessible for private investors. We are confident that in the future the Russian economy will enjoy years of stable growth, and therefore Russia’s competitive companies look very attractive today from an investor’s point of view.

For private investors, the growing number of mutual funds under Alfa Capital’s management offers an excellent opportunity to realize this potential through the use of all the advantages of collective investment: first of all, this refers to professional management of the investment portfolio, high liquidity and diversification. It also speaks of convenience and legal support, guaranteed by one of the market leaders.

Regardless of the status or volume of investment, Russian and foreign customers of Alfa Capital can always be sure they have entrusted their funds to a reliable manager who uses the best investment instruments to achieve stable and high results.

Our partners

ALFAINSURANCE GROUP  
AlfaInsurance is one of the largest Russian insurance companies with a universal portfolio of services. The Group’s reputation is based on strictly fulfilling its obligations to customers. This is ensured by the company’s financial stability: in 2002, aggregate capital of the company amounted to 1.95 bln rubles, thus making AlfaInsurance one of the leaders in the market in terms of its own funds.

Based on the performance results of 2002, AlfaInsurance is among the five leading insurance companies operating in Russia and Ukraine. In 2002, the company’s already strong business grew by over 60%, and 7 new branches and 34 offices were opened in Moscow region, Cheboksary, Ufa, Kurgan and Nizhnevartovsk. The Group is now rendering services in 52 Russian regions.

SERVICES TO CORPORATE CUSTOMERS

In 2002, AlfaInsurance gained the following new corporate customers:

- OIL AND GAS COMPANIES—SIDANKO, Transnefteproduct, Udmurtneft;
- TELECOMMUNICATION COMPANIES AND SYSTEMS INTEGRATORS—Golden Telecom, VimpelCom, IBS Group Holding Ltd;
- TRADE AND SERVICING COMPANIES—Petrovsky Passazh shopping mall, Trading house TsUM, the retail chains Dikaya Orkhideya, Partiya, Technosila, and ICN pharmacies;
RUSSIAN REPRESENTATIVE OFFICES of the companies IBM, Beiersdorf, Samsung Electronics Co. Ltd., Daimler Chrysler AG, as well as the Russian Federation Emergencies Ministry, airport Pulkovo-2, automobile plant VAZ, confectionary Udarnitsa, RTS Stock Exchange, and many others.


The Group can assume the highest reinsurance risks of corporate customers owing to its reliable reinsurance program aimed at protecting the portfolio: the basic criteria for choosing partners are reliability, good financial standing, and a high level of professionalism. The long-standing and reliable partners of the Group include some of Russia’s largest companies as well as leading international companies such as Munich Re, Swiss Re, SCOR, Hanover Re, and the corporation Lloyd’s of London.

The Group’s priority over the next two years is to elaborate a new comprehensive risk management program for industrial enterprises (Umbrella coverage) and prepare business protection schemes for individual customers. Last year, a new generation of insurance programs was offered to TNK, Volga, Aeroflot, the stores chain Bosco di Ciliegi, and certain other long-standing Group customers.

INSURANCE PRODUCTS FOR PRIVATE CUSTOMERS

New insurance products for private customers offered by the Group in 2002 provided a superior level of comfort and can be arranged in just a few minutes. These include Al-Universal (a comprehensive property insurance program), some new products to insure against accidents, and the policy U-dachi, which is specially designed for the summer season. The Group’s up-to-date approach to its customer needs is also shown by the fact that AlfaInsurance offers a variety of its insurance products at locations convenient for the consumer:

- AT TNK GAS FILLING STATIONS In autumn 2002 a new project was introduced to sell civil liability insurance to car owners.
- WHEN BUYING A CAR at a number of large car dealers, customers may now acquire car insurance services offered by AlfaInsurance at the same time.
- WHEN ISSUING PLASTIC CARDS Alfa Bank customers are offered a privileged policy against the loss of cards and non-authorized use of funds, against accidents when traveling abroad, as well as insurance under the Alfamobile program.

INCORPORATING BUSINESS EFFICIENCY

In order to maintain the highest standards of customer service, considerable funds have been invested in the automation of all business processes, infrastructure and formation of a unified information system for the company. Greater work efficiency was facilitated in 2002 by newly installed data verification systems of voluntary medical insurance (AVIS) and life insurance (LifeOffice). Modern 24-hour call-centers were set up for those insured under voluntary medical and car insurance programs. Last year, experts of the Group began designing a specialized system under the program of mandatory civil liability insurance for car owners, which is due to be introduced in 2003 and will be a serious test of quality for all large insurance companies.

VLADIMIR SKVORTSOV, GENERAL DIRECTOR OF ALFAINSURANCE.
The rapidly growing insurance market will make greater demands on the professionals engaged in this business. In 2002, AlfaInsurance’s headcount grew thanks to a number of specialists invited from other leading insurance companies and banks, as well as professionals from Western companies in adjacent sectors.

A well-balanced personnel policy makes it possible not only to attract the best specialists, but also to continue building the existing team. Thus, in 2002, experts from PricewaterhouseCoopers designed and implemented a bonus scheme for both in-house employees as well as outsourced advisers and brokers. Concurrently, there was a full-scale appraisal of the Group’s personnel performance, which gave a clearer picture of the available human potential and defined the most promising directions for development. An approved investment program through the year 2006 backs AlfaInsurance’s long-term development plans. The strategy of business development envisages active expansion, optimization of business processes, and strengthening of the sales business, including cross-selling through Alfa Bank and other companies of the Alfa Group Consortium.
Today's technology continues its relentless advance. This is why we highly value those who keep pace with the times.

Kazimir Malevich
TO MAKE THE DIFFICULT COMPREHENSIBLE IS TO TURN KNOWLEDGE TO NEW ADVANTAGE. COLLECTIVE SYSTEMS GIVE BIRTH TO INDIVIDUAL INDEPENDENCE: IT IS THE SUM OF THE EFFORTS OF PEOPLE WHO ARE KEEPING UP WITH THEIR TIME. KNOWLEDGE COMES WITH DOZENS OF CAREFUL HANDS AND HUNDREDS OF IMPORTANT DECISIONS, THUS ENSURING HARMONY IN A MULTILATERAL WORLD OF INDIVIDUALITY.

COLLECTIVE SYSTEM. INDIVIDUAL INDEPENDENCE

Easy access to financial services

- DEVELOPMENT OF ALFA BANK’S SALES NETWORK In 2002, development of the Bank’s sales network continued both in Russia and internationally, and 13 new branches were added to Alfa Bank’s retail network.

- NEW BRANCHES in Murmansk, Ulyanovsk, Kemerov.

- NEW SUPPLEMENTARY OFFICES in Lebedyan, Zheleznogorsk, Nizhny Novgorod, Novosibirsk, Buzuluk, Novokuznetsk, Glazov, Tuapse, and Kamensk-Uralsk.

- A NEW SUBSIDIARY BANK WAS REGISTERED in Kazan.

WE DO NOT OPEN NEW BRANCHES JUST TO DEMONSTRATE OUR PRESENCE IN THE REGIONS. THIS PROCESS GOES ALONG WITH THE BANK’S REGIONAL DEVELOPMENT STRATEGY.


Alfa Bank extended its presence in Ukraine in 2002: new branches were opened in Donetsk, Kharkov, Dnepropetrovsk and Nikolaev, as well as new representative offices in Lvov and Zaporozhye and a branch in Kiev. The Bank continued to increase its international customer base abroad — both by the use of electronic sales channels and through its subsidiary investment companies Alfa Capital Markets (USA), Alfa Securities Ltd. (Great Britain) and Amsterdam Trade Bank (the Netherlands).

By the end of 2002, the number of Alfa Bank’s regional offices reached 95, including:

- BRANCHES — 31;
- REGIONAL SUPPLEMENTARY OFFICES — 26 (including five in St. Petersburg);
- MOSCOW SUPPLEMENTARY OFFICES — 26;
- SUBSIDIARY BANKS — 4 (exclusive of Amsterdam Trade Bank);
- BRANCHES AND OFFICES OF THE SUBSIDIARY BANKS — 8 (three in Kazakhstan, five in Ukraine).

Alfa Bank intends to continue its regional development in 2003. Presently, a network of branches is being set up in Tula; supplementary offices in Bishkek, Zelenogorsk, Irkutsk, Tyumen; and a representative office in Simferopol (Ukraine). More than ten branches and supplementary offices are under construction in Russia and Ukraine.

- DEVELOPMENT OF AN ELECTRONIC SALES SYSTEM Last year, Alfa Bank strengthened its leadership through the introduction of modern technologies. To a great extent, customer operations on the stock market were supported by new electronic support systems: in 2002 the Alfa Direct system, commissioned over two years ago, became an important component in Alfa Bank’s package of services.
By year’s end, the monthly turnover of customer funds channeled through the Alfa Direct system reached 9 bln rubles. More than 1,000 investment accounts were opened last year. The Bank’s remote servicing package includes integrated stock market instruments; standard and customer-tailored consultations provided by brokers via the internet; presentation of analytical data; banking and depositary services; and the Signal support system for mobile users.

The interaction between Alfa Bank and its customers was brought to a new level of quality through the implementation of a remote control facility, Alfa Direct. The convenience of operations and functional coverage, combined with professional analytical and brokerage support, make the system attractive to both private stock market players and strategic investors. At the end of 2002 Alfa Bank’s internet contest “Best Trader” was aimed at familiarizing investors with the potential of the Alfa Direct system. More than two thousand people took part in this virtual asset management contest. In 2003 the Bank will continue to acquaint investors with its electronic services. At the same time, it plans to intensify the integration of remote stock market services into the Bank’s general servicing system and put in place a range of new electronic services.

INTEGRATION OF SALES CHANNELS  We are convinced that to make our investors’ life easier and more convenient, it is necessary to design a truly useful and simple model of the banking business. We must provide for access to financial services that makes it as easy as shopping in a supermarket: banking services should be integrated into the natural everyday rhythms of life — this is the reference point from which the Bank’s retail strategy is built. The concept is based on the principles of convenient banking, available at any time of the day or night.

In the course of preparing to implement this idea, Alfa Bank experts designed an integrated services and sales system open to all customers of the Bank’s new retail business: we provide offices working 24 hours a day, 7 days a week: PhoneBank, InternetBank, and a chain of specialized ATMs with a wider range of functions.

An integrated retail system will allow our existing and potential customers to make use of their funds more easily, without wasting time by visiting Alfa Bank’s branches and without the need to learn complex banking technologies.

Our expertise for the benefit of customers

The bank has been growing dynamically and keeping pace with the increasing wealth of our customers. This dynamic growth is heavily dependent on the knowledge, skills and expertise of Alfa Bank’s employees. That is why building up the Bank’s professional team remained one of the major long-term priorities for Alfa Bank’s personnel department in 2002.

BUILDING UP A PROFESSIONAL TEAM  Alfa Bank made a series of important appointments in 2002. Rushan Khvesyuk became Chairman of the Executive Board of the Bank. Teijo Pankko joined the Executive Board and was appointed Chief Financial Officer of Alfa Bank. Igor Sogin, a new member of the Executive Board, is now Director of the Bank’s Credit Products Development. Before this appointment, he was head of one of the Bank’s most successful branches — Nizhegorodsky. His appointment is a vivid example of the working strategy aimed at promoting talent, making it possible for our employees to build a career that climbs from the rank and file into top management.

Our personnel policy is aimed at building up a team of professionals who will strengthen our competitive advantage — not just in Russia, but also internationally. We welcome those who want and are able to work. Marina Malykhina, Alfa Bank’s Head of Human Relations, Wages and Labor Relations. Interview for a documentary about Alfa Bank, August 2002.
Marina Savelyeva is responsible for the Bank’s commercial business. Christopher Weafer is Alfa Bank’s chief strategist, who defines and coordinates investment potential for customers of the Bank. Bernard Sucher heads Alfa Capital. The Bank also has a program of rotating top managers to ensure they have an intimate understanding of all parts of the Bank’s business, and this resulted in some changes at the level of top management and their deputies in 2002.

- **Unified Training Standards** The ongoing training of personnel allows the Bank to not only maintain high skills among all employees, but also to take into account the Bank’s internal peculiarities and development prospects. Training programs are constantly being adapted to meet the needs of customers and clients as well as the Bank’s business objectives. A system of graded training for all employees was put in place in 2002, and this also applied to top management. Basic training programs reflect the standard of quality of the Bank’s work and services offered by all employees of Alfa Bank’s branches — from rank and file, through specialists to top managers. Extra training is offered to employees to enhance their individual level of skills.

- **Fostering Talents** Alfa Bank’s strategic objective is to build up the Bank’s intellectual potential, as it is professionalism that wins the long-term trust of customers and repute on the part of business partners. Therefore, the work of motivating those who are ready to share their success with us is ongoing continuously.

The Alfa Chance program is aimed at young and prospective specialists, who in a decade will represent Russia’s financial community. Those leaving school were invited to take part in this program in 2002, and 19 candidates were selected to receive grants to support their studies at the best institutions of higher education in Moscow and St. Petersburg, with subsequent training provided within Alfa Bank.

The Bank’s personnel department designed a new adaptation-training program last year to make it easier for new employees to fit in with the existing team. One part of this program is an orientation film about Alfa Bank’s history — a handshake before starting work in a big and welcoming team.

Alfa Bank’s cooperation with the leading educational institutions specializing in training offers hands-on work experience within the Bank to encourage the development of the best candidates and eventually enhance the bank’s own team. For example, amongst the best-trained specialists, many had experience in the Bank’s retail business. The programs designed and delivered by the Bank’s personnel lead to the training of competent banking specialists, who receive the full scope of practical knowledge before their first encounter with customers. Last year, more than 2,500 Alfa Bank employees received training, at a cost of nearly 900,000 US dollars.

**Standards of International business organization**

- **Up-to-date System of Management and Control**

- **Internal Control.** Starting from 2002, control over the compliance of transactions with Russian and international financial regulations (compliance control) is being put in place in all of Alfa Bank’s business areas and is obligatory for all of the Bank’s offices — both in Russia and abroad.

- **The Financial Control Mechanism** has been improved: in addition to general control over the Bank’s efficiency, key performance indicators in certain sectors, products and sales channels are monitored.

- **Cost Control** in 2002 made it possible to optimize internal business processes, minimizing the duplicated functions and increasing the output of each of Alfa Bank’s business units and branches. Changing the Bank’s organizational structure and improving the system of costs planning are important priorities of the Bank’s ongoing optimization process.
OPERATIONAL RISK CONTROL, related to the implementation of new banking technologies, is effected by a specialized department responsible for development of the system to monitor and prevent risky situations. Today, Alfa Bank’s control system, as required by international standards, combines the personal responsibility of each manager with effective collegial work so that key decisions are correctly executed. In line with these standards, last year the Bank continued to improve its control system, including: credit committees, an asset-liability management committee, and a committee for banking products and technologies. The work of the tariffs committee was optimized in accordance with the new principals of setting tariffs, based on Alfa Bank’s long-term development strategy. Also, the Bank’s branch tariff committees were reformed, thus allowing prompt decisions to be taken on the pricing of financial products and services.

ADVANCED BANKING TECHNOLOGIES In 2002, the Bank continued to implement its approved strategy of comprehensive technological re-equipment, at the heart of which is the OMEGA program that enables the Bank to ensure highly automated business. The OMEGA program reduces the amount of time needed to execute cash-and-settlement operations and lays the basis for selling all types of financial products in a single, most convenient location for our customers. Last year, within the OMEGA program, the Bank changed over to a unified customer database using the Equation operating system. This change was an important phase of the project, as in the future this will make it possible to serve each of our customers at any Alfa Bank territorial outlet, regardless of the office where their accounts were opened.

At the end of 2002 the Bank completed a major project to automate the investment business. The new technology not only allows deals to be executed electronically, but also to exercise control over their actual yield. The introduction of these technologies to the investment business allowed a doubling of the efficiency of transactions in the money market, and also decreased operational risks significantly.

The “customer” part of Alfa Bank’s commercial business automation was the Sales Logic system, which enables the Bank to monitor retail sales and respond promptly to any changes in customer requirements and desires.

In the reported period the Bank’s Settlement System was prepared for large-scale implementation, which will noticeably speed up payments between branches of the Bank and make it possible to exercise current liquidity control.

This system is one of the core processes in the retail business, based on comprehensive automation principles. New retail outlets — a model that is now being tested in Moscow — will be opened in most Russian regions at a later date. As the Bank is on the verge of launching new technologies on a large scale, its specialists have placed a great deal of emphasis on matters related to information security. A new information security concept was designed and made ready for implementation as well as updated to take account of practical problems.

NEW BUSINESS PROCESSES AND ORGANIZATIONAL LAYOUT New technologies can only be implemented successfully if they are accompanied by business processes of similar technological effectiveness. Bearing this in mind, new process models were designed and tested within the OMEGA program, which in combination with up-to-date technologies will bring new value to the Russian banking business.

Improvement of the Bank’s organizational layout and its adaptation to new business processes in 2002 were mostly in relation to the Bank’s commercial business. The result was that the Bank’s corporate, retail and product structure became more “transparent”, with all the overlapping functions eliminated, and personnel costs decreased.
Marketing functions that were earlier dispersed among a number of the Bank’s business units were consolidated into a single department. It is worth noting that the branch network control process was optimized by bringing it directly under Alfa Bank’s head office. In view of the anticipated implementation of advanced technologies, the Bank has elaborated a new model of business interaction between its head office and branches. The centralization of a variety of banking functions made it possible to optimize the Bank’s branch network and reduce personnel costs. It also benefited our customers, who can make use of Alfa Bank’s international quality services at any of its branches.

BUSINESS AND FINANCIAL INFORMATION TRANSPARENCY

Over the past nine years, Alfa Bank has prepared its accounts in accordance with International Accounting Standards (IAS), making it possible for customers and shareholders to assess the Bank’s performance in line with international experience. It also allows Alfa’s team to maintain the Bank’s development and judge its progress against a global yardstick.

ONE SHOULD NEVER DWELL ON ACHIEVED RESULTS. THIS EVERLASTING URGE FORWARD MAKES US SET NEW TARGETS. OUR YEAR-END OBJECTIVE IS TO TEACH ALFA BANK’S SYSTEM TO BECOME ORIENTED ON FINANCIAL RESULTS, MAKING IT POSSIBLE TO SECURE SUCCESS. AS THE DESIRED RESULTS ARE ACHIEVED, NEW TARGETS WILL BE SET.

TELJO PANKKO, CHIEF FINANCIAL OFFICER OF ALFA BANK. MAGAZINE “KARYERA”, MAY 2003.

Based on the Key Performance Indicators approved by the Bank’s Board of Directors, we can now compare our performance results with those of foreign and certain Russian colleagues. These indicators of financial standing ensure the fine-tuning of the Bank’s internal controls, bringing Alfa Bank closer to the best international standards.

Specific proposals were made in 2002 to provide for further development of the Bank’s management information system. This system serves in the making of suitable business decisions, allowing the retrieval of adequate information regarding the status of any banking business unit from the Bank’s centralized data resources.

From successful business projects to a uniform and strong brand

ALFA BANK’S NEW BRAND STRUCTURE

The sum of the Bank’s dynamically developing businesses is the most accurate characteristic of the present development stage of Alfa Bank, which provides its private and corporate customers with a full range of financial products and services. That is why one of the Bank’s priorities was to develop a new structure for Alfa Bank’s brand. A number of marketing steps were taken in 2002, starting with preparation for the launch of the Bank’s new retail project Alfa Bank Express. This project targets private customers and SMEs and is in line with the Bank’s leadership strategy aimed at increasing the quality and efficiency of Alfa Bank’s services.

The promotion and development of Alfa Bank’s retail sub-brand is the core perspective target for the Bank’s public relations department, but not the only one: we consider it imperative that banking businesses will eventually develop as independent units, and plan to shape an optimal structure for Alfa Bank’s sub-brands. Last year was a period of change in the Bank’s communications policy. For the first time in over five years, Alfa Bank waged its own television campaign: the audience could see a new (from a creative standpoint) advertising campaign showing the Bank in an unusual light. The advertisements marked the launch of the large-scale retail project Alfa Bank Express, which allowed the Bank to demonstrate to consumers the openness and friendliness of its banking system via the slogan “We find common language with each of our customers!”.
A majority of marketing experts said Alfa Bank’s new campaign was “a bright and unusual campaign” and “a breakthrough in banking commercials”. Apart from this public recognition, the Bank’s commercials won first prize at the Moscow Festival of Commercial Films as well as the National Competition “Best Advertising Campaign in The Field of Financial Services in 2001–2002”.

SERVING OUR COMMUNITIES  Concurrent with working on development of the Bank’s brand strategy and public relations policy, Alfa Bank continued to actively support charities and culture.

IN JANUARY 2002, Alfa Bank took first place in the annual press rating, leaving Sberbank far behind. This rating was drawn up for the newspaper “Izvestia” by the National Reputation Research Institute, and reflects the rate of references to banks made in the national and regional press.

IN MARCH 2002, Alfa Bank and the Committee on Town Planning and Architecture of St. Petersburg announced the launch of an international contest to erect a monument to Joseph Brodsky. Alfa Bank contributed 26,000 US dollars to the pool. The Bank was also a general sponsor of an exhibition of Peter Konchalovsky’s paintings “Unknown Konchalovsky”, which displayed 82 paintings from private collections for the first time ever, mostly from the artist’s family collection.

IN APRIL 2002, as in previous years, Alfa Bank supported the “Golden Mask” festival. The international part of the festival featured a specialized program entitled “Russian Case”, addressed to foreign producers, festival directors and critics, which included a variety of theatrical performances from a number of Russian cities. Vladimir Spivakov’s symphonic orchestra “Moscow Virtuosi” performed in London with support of Alfa Bank.

IN MAY 2002, a monument to the women who perished during the blockade was erected in St. Petersburg with the cooperation of Alfa Bank and the Committee on Town Planning and Architecture of St. Petersburg.

IN JUNE 2002, the magazine ELLE jointly with Alfa Bank and Montblanc announced a literary contest entitled “My Petersburg” devoted to the 300th anniversary of St. Petersburg. Alfa Bank supported a poetical soiree in St. Petersburg to commemorate Joseph Brodsky’s departure from the USSR, with a premiere of the animated feature film “Cat and a Half” directed by Andrei Khrzhanovsky, and written by Yuri Arabov and Andrei Khrzhanovsky.

IN JULY 2002, Alfa Bank sponsored a theatrical tour of the Moscow theater “Modern Play School” in Siberia and the Far East region. At the same time, with the support of Alfa Bank, the Bolshoi Theater closed its 226th season with the opera “Boris Godunov”, the performance of which was organized “in live scenery” at the walls of the Svyatogorsky monastery in Pskov region. Alfa Bank also provided financial support for the construction of a building for the management faculty of St. Petersburg State University, and was a general sponsor of the Russian President’s Cup for Horse Riding.

IN AUGUST 2002, with the financial support of Alfa Bank and the Embassy of the Netherlands, an exhibition entitled “XVI – XX c. Netherlands Painting From Siberian Museums” was organized in Tomsk, Novosibirsk and Omsk. Equally, Alfa Bank sponsored the tour of the Bolshoi in Tyumen, Nizhnevartovsk and Vladivostok.

IN SEPTEMBER 2002, with Alfa Bank’s support, the “Chess Tournament of the Century” took place between the best Russian and foreign chess players. Alfa Bank sponsored the preparation and participation of twelve year-old Jan Nepomnyashchyy — twice champion of Europe from the city of Bryansk — in world junior chess tournaments. Under the program for supporting young talent, a meeting was held with the Bank’s management and the winners of the “Alfa Chance” educational program, which enabled young
people from different parts of the country to receive higher education in the best higher educational establishments and obtain grants from Alfa Bank. Alfa Bank gave significant support to restoration of the cathedral of “Blessed Virgin Nativity” in the village of Upirvichi, Tver region. In Moscow, Alfa Bank sponsored a guest performance by Italy’s most renowned theater company — Rome’s Teatro dell’Opera — whose soloists, choir and orchestra performed one of the world’s greatest operas, Puccini’s “Tosca”.

In October 2002, Alfa Bank was one of the sponsors of the Scorpions’ rock tour, which went to Perm, Vladivostok, Novosibirsk, Volgograd, Nizhny Novgorod and Rostov-on-Don.

In November 2002, Alfa Bank transferred 2 mln rubles to the Support Fund for victims of the hostage crisis at the Dubrovka Theater. Alfa Bank also set up a charitable fund for the victims of the Nord-Ost tragedy.

In December 2002, Alfa Bank was one of the founders of the public organization “Club for the Protection of Consumers from Misleading Mass Media Information”. Just prior to this, Alfa Bank won first prize at the XII Moscow Festival of Commercials. Alfa Bank sponsored the music festival of Svyatoslav Richter’s December Soirees held at the Pushkin Museum of Fine Arts. The Bank also provided financial support for a New Year’s Eve performance by the rock group Mashina Vremeni.
Today, you can transform anything — yourself, dwellings and cities, and proceed to the new, with a new form.

Kazimir Malevich
THE PATH IS REVEALED. HAVING INVESTIGATED THE NATURE OF FINANCES, WE LEARN TO CONTROL THEIR LAWS, STRIVING FOR NEW HORIZONS. HAVING ACQUIRED KNOWLEDGE, WE KEEP IT INTACT, SIMPLE AND CLEAN. THAT IS WHY WE HAVE WITH US ALL THOSE WHO ARE READY TO GO TO THE NEW WORLD: WHERE THE FORM GAINS PRESENT-DAY EXPRESSION, AND THE CONTENT BECOMES BRIGHTER AND RICHER.

STAY WITH THE LEADER. STAY WITH ALFA BANK

The Bank’s basic business strategies

WE SEE OUR DEVELOPMENT PRIORITIES IN THE DIVERSIFICATION OF BUSINESS AND THE BROADENING OF SERVICES TO SMALL AND MEDIUM-SIZED ENTERPRISES, AS WELL AS RETAIL CUSTOMERS; GROWING SALES THROUGH THE BRANCH NETWORK AND NEW TECHNOLOGICAL SALES CHANNELS; AND INCREASING THE EFFICIENCY OF BUSINESS TO SECURE GROWTH WITH ADEQUATE COST CONTROL AND IMPROVED CONTROL MECHANISMS PUT IN PLACE. ALFA BANK HAS EVERY GOOD REASON NOT ONLY TO STRENGTHEN, BUT ALSO TO EXPAND ITS MARKET POSITION IN RUSSIA AND OTHER COUNTRIES WHERE WE OPERATE. OLEG TUMANOV, DEPUTY CHIEF EXECUTIVE OFFICER OF ALFA BANK. SPEAKING AT THE FOURTH CONFERENCE FOR TOP MANAGEMENT OF ALFA BANK, 22 NOVEMBER 2002.

FURTHER DEVELOPMENT OF THE BANK’S BUSINESS Within the next several years Alfa Bank’s management and shareholders intend to increase the Bank’s market shares consistently in all strategic business areas — both in Russia and the financial markets of Ukraine and Kazakhstan.

The period of 2003–2005 will be characterized by continued growth in assets: according to the plan for 2003, Alfa Bank’s assets will be increased by a third against their volume as of last December, while the share of operating assets in 2003 should reach more than 85% of the Bank’s aggregate figures.

Lending will remain the most significant part of the Bank’s assets. The credit portfolio’s rate of growth in 2004–2005 is forecasted to exceed 30%, with the Bank’s total loans-to-assets ratio passing 60%. We expect stable growth in customer borrowing; in 2003 forecast growth will be at least 30%.

The increasing share of retail banking revenues and the rising efficiency of the Bank’s branch network — thanks to the development of electronic sales channels — are the most promising profit centers for the future. It is assumed that the Bank’s operating income in 2003 will grow by over 20%, commission income by 70%, and interest income by nearly 30%.

In the majority of developed markets the rate of return on equity is 10–15%, but Alfa Bank plans to reach a level of 29% in 2003 in terms of its average annual equity, and 2.9% in terms of average annual assets. The plan is to also reduce costs and spending to a significant degree. Implementation of the Bank’s strategic objectives will be monitored by the Key Performance Indicators approved by Alfa Bank’s Board of Directors in 2002.
Diversification of the bank’s product range

Over the next few years Alfa Bank hopes to further expand the range of its financial products and services. Improving the quality of existing services and developing new products in line with segmentation of the financial market, as well as elaborating an innovative “banking supermarket” approach, are among Alfa Bank’s priorities for product range development.

The immediate challenges to be met in order to significantly increase the volume and quality of the Bank’s services are the creation of new retail business payment and lending products; the development of mutual investment funds; the elaboration of products for pension funds; and the development of derivative investment instruments.
DIVERSIFICATION OF THE BANK’S CUSTOMER BASE

Further development of the Bank’s customer relations requires a thorough study of all customer segments—in order to satisfy the needs of each of our potential customers. To do so, the Bank’s experts plan to examine the consumer preferences and trends existing in the financial market. The result of this research will form the basis of the Bank’s long-term customer policy.

One of the fundamental principles is the establishment of partnership relations and mutual benefits for the Bank and its clients. The instruments of this relationship will be development of the Bank’s fee policy and implementation of a program for incentives and sales support. These measures are aimed at enhancing the team of customer relationship managers as well as improving their skills and motivation.

For targeted work with SME businesses and private depositors, Alfa Bank will roll out a specialized retail business program through which in 2003 the Bank will make wide use of a number of new technological solutions: private customers of the Bank will have easy access to services rendered by the Bank’s offices selling new banking products (including lending), to the Internet Bank, and to a multi-functional phone call-center.

The changeover to new servicing technologies will be implemented based on the automated facilities of retail outlets. In 2003 we expect these outlets to provide services to nearly 110,000 customers of the Bank (including 40,000 new ones) and over 1,000 SME businesses. In doing so, the share of Alfa Bank’s “retail” customers in the future will be at least two-thirds of total deposits taken by the Bank.

DEVELOPMENT OF BANKING PRODUCT DELIVERY CHANNELS

To bring financial services closer to each customer is to make them more accessible. That is why the development of banking product delivery channels is among the Bank’s top priorities. Alfa Bank’s branch network will be broadened in 2003 in the Bank’s traditional regions. New branches in Tula and supplementary offices in Biisk, Irkutsk, Tyumen, and Zelenogorsk will be opened. A representative office of Alfa Bank’s subsidiary bank (Ukraine) in Simferopol is planned, as is a branch in Kiev. There are also projects to open a representative office in Minsk, branches in Belgorod, Arkhangelsk, Syktyvkar, Kirov, Astrakhan and Stavropol. The Bank is currently studying the possibility of opening new branches in Ukraine—Lvov and Zaporozhye—as well as representative offices in Odessa and Lugansk. New retail outlets will be set up in both Moscow and St. Petersburg, where three new outlets are to be opened before year’s end.

The Bank plans to further develop the Alfa Direct Internet trading system targeting both Russian and foreign customers. The investment companies Alfa Capital Markets, New York (USA), Alfa Securities Ltd., London (Great Britain), and subsidiary banks in the Netherlands, Ukraine and Kazakhstan will continue to render services in their respective markets.

FURTHER INCREASING THE BANK’S EFFICIENCY

In 2003, the Bank will take another important step towards implementation of its new technological solutions, first in Moscow, and then in all its branches. These solutions are primarily intended for the Bank’s new retail business, but are also included in the model of information-flow servicing in all of Alfa Bank’s branches and supplementary offices. As for investment banking, it is planned to complete the automation and installation of these solutions as part of the business process.

The Bank’s business model will continue to improve: a new phase envisages the need to strengthen and widen business product delivery channels based on the existing branch network; “arteries” will be used for transportation purposes only. Centralization of back-office and branch auxiliary functions will be a priority so as to increase efficiency and cut down on general costs.