1999–2003 Best Russian Domestic Bank
/Global Finance/

1997–2003 Russian company with the highest reputation throughout the period
/Expert/

2003 Most Improved Bank in Emerging Europe
/Emerging Markets Newspaper/

2004 Operational Risk Achievement Award for «Operational Risk Framework at a financial institution based in an emerging market»
/Operational Risk Magazine/
2003 Brand of the Year (in the ‘Banks’ category) — Brand of the Year /EFFIE

2001–2004 Best Trade Finance Bank in Russia /Global Finance/

2004 Best Foreign Exchange Bank in Russia /Global Finance/

2002 and 2003 Quality Recognition Award /JP Morgan Chase Bank/

2003 and 2004 Best M&A Advisor in Russia /Global Finance/

2004 Number one M&A Adviser League Table of Financial Advisers /RussiaDeal/

2004 Best Retail Bank in Russia /Global Finance/
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Dear Friends,

Once again we are pleased to recount the successes of the past year. The year was particularly successful for the Russian financial industry and the Russian economy as a whole. We are pleased to note that we were able fully to realize the opportunities presented to us by the favorable macroeconomic environment. Over the year, strong economic growth, increasing investment attractiveness of the Russian market and a rising standard of living for the Russian population, along with a favorable market outlook, inspire us with hope that the successes of 2003 will be carried forward into the future.

Against this backdrop, the financial industry grew at a record pace in order to meet the demands of the growing economy. Alfa Bank led the market, setting the tone for this process. The bank's total assets grew 43%; its loan portfolio grew 40%; and its deposit base by 28%. The bank's own capital reached $547 million. However, the most important thing for us is not so much the strong expansion of our business, so much as the positive structural changes that allow us to affirm with confidence that this is just the beginning.

One of the most important trends of the past year was the gradual increase in the relative proportion of midsized companies in the structure of the Russian economy. It is particularly pleasing for us to note that our new loan program for midsized companies promises to become a powerhouse of growth for this critically-important process for our country. The same goes for another revolutionary new product of the Bank. This year we successfully launched Alfa Bank Express, an innovative format for retail banking with no analogue in Russia, oriented primarily towards the growing middle class — the principal support of the new Russian economy. The initial results of this pilot program are already significant: turnover on credit cards issued rose 61% this year, with over 100% growth in our client base in the fourth quarter alone. Client deposits also rose by 100% over the same period. We are certain that this is just the beginning. We view investment in Alfa Bank Express as a strategic investment in our future.
Thus, Alfa Bank is diversifying its product range more and more, seizing the most promising segments of the market. This approach, along with our unwavering focus on leadership in every business we pursue, allows us not only to offer our clients the fullest range of competitive products and services, but also to be optimistic about our prospects for the future.

We have devoted great attention to perfecting the Bank’s technological base. In 2003, we became the first bank in Russia to install cutting-edge Equation banking technology, which allows us to provide maximum integration and concentration of all divisions of the Bank, and to supply management with reliable and timely information. In other words, we can with satisfaction say that we have not only made the most of our leadership position, but also done our utmost to maintain that position.

We are very pleased that our achievements have been clearly recognized by the international business community, reflected by Alfa Bank’s many prestigious awards this year.

Competition is increasing, and we feel it. We couldn’t honestly say we’re happy about this, but at any rate it keeps us moving. Among other things, growing competition in the financial industry is evidence that the economy is growing. We remain confident. After all, Alfa Bank’s success is no accident. We are not simply capitalizing on favorable market conditions. Our success is a result of unwavering faithfulness to our principles. We combine international standards of business and corporate management with our unique experience of work in the Russian market. Having once chosen universality as our principal business development strategy, today we are able to offer our clients a full spectrum of banking products and services. We continue to innovate, continually strengthening our professional team.

We never forget that hesitating to develop would mean to take a step backwards down the ladder to success. We will keep moving. Today we have taken a few more steps upwards on that long, long ladder. And we are happy to have taken those steps with you.

With warm regards,

Chairman of the Board of Directors
Mikhail Fridman

Chairman of the Executive Board
Rushan Khvesyuk
Board of Directors and Management

Mikhail Fridman
Chairman of the Board of Directors

In 1989, began formation of Alfa-Group, which has become one of Russia’s strongest and most authoritative financial-industrial institutions. 2003 Entrepreneur of the Year (Vedomosti). One of Europe’s top-25 leading managers, entrepreneurs, innovators and financiers (Business Week).

Peter Aven
President

Responsible for strategic development; contacts with business and government leaders in Russia and abroad.

In September 2003, led the ratings for Business Leaders in the Financial Sector (Russian Managers’ Association).
Rushan Khvesyuk
Chief of the Executive Board

Responsible for organizational and legal aspects of the Bank’s operations. Represents the Bank in dealings with the Russian Government and Central Bank. Chairman of the Credit Committee.

Alexander Knaster
Chief Executive Officer

In 2003, responsible for the Bank’s operations overall.

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

Responsible for the Bank’s investment business. Chairman of the Bank’s Investment Committee.
Alexander Lukanov
Deputy Chairman
of the Executive Board

Responsible for relations with corporate clients in Russia, Ukraine and Kazakhstan. Heads up Alfa Bank’s affiliate network, including subsidiaries in Ukraine, Kazakhstan, Bashkortostan, Tatarstan and the Netherlands.

Chairman of the Supervisory Board of Alfa Bank (Ukraine), Alfa Bank (Kazakhstan), Alfa-Bank-Bashkortostan and Alfa-Bank Kazan.

Oleg Sysuev
First Deputy Chairman of the Board of Directors

Responsible for the Bank’s regional branch network and banking in Russia’s regions.

Oleg Tumanov
Deputy Chief Executive Officer

Responsible for Risk Management, Business Processes and IT. Chairman of the Bank’s Processes and Technologies Committee, Chairman of the Asset/Liability Management Committee, and Chairman of the Bank’s Tariff Committee.
Ildar Karimov  
Deputy Chairman  
of the Executive Board  

Responsible for the Bank’s  
shareholder structure and relations  
with shareholders, as well  
as for financial management  
of the Bank and the companies  
of the Alfa Group Consortium.

Andrei Sokolov  
Deputy Chairman  
of the Executive Board  

Responsible for relations with  
government bodies, federal  
executive, legislative and judicial  
branches of the government,  
and for Bank participation in federal  
programs.

Alexander Tolchinsky  
Member of the Executive Board  

Heads the Bank’s Corporate  
Finance Department.
Marina Savelieva
Deputy Chairman of the Executive Board

Responsible for the Bank’s commercial business; manages its branch network.

Andrei Kalmykov
Deputy Chairman of the Executive Board

Responsible for government relations in 2003.

Teijo Pankko
Chief Financial Officer, Deputy Chairman of the Executive Board
Chairman of the Planning and Budget Committee, Chairman of the Tender Committee, and Deputy Chairman of the Asset/Liability Management Committee.

In September 2003, led the rating for most professional financial director in the financial sector (Russian Managers’ Association).
Igor Sogin  
Member of the Executive Board  
Responsible for development of Credit Products.

Maciej Lebkowski  
Member of the Executive Board  
Responsible for the Bank’s retail business.

Pavel Gorbatsevich  
Deputy Chairman of the Executive Board  
Responsible for documentary transactions, domestic and international payments, relations with foreign partners, and the Bank’s foreign subsidiaries in 2003.

Total Assets $ 5.9 billion
Growth YoY 43%

Own Capital $ 547 million
Growth YoY 27%

Over the past year, the Bank not only maintained its position as leader of the Russian financial market, ranking among the top three companies in nearly every segment of the market, but also significantly strengthened its leadership. Alfa Bank today is not only the largest private bank in Russia, but also the technological leader, offering the most comprehensive range of products. It is specifically this embodiment of the Bank's strategy, directed at expanding the products we offer, diversifying business, and improving stability and effectiveness, that have made the Bank the most attractive and reliable partner for our clients and counter-parties. Over the past year, the Bank significantly expanded its client base both in our corporate and retail businesses. The number of physical person accounts grew from 510,000 to 900,000, while accounts of legal entities grew from 49 thousand to 61 thousand in 2003.

In the area of corporate banking, Alfa Bank is second only to Sberbank by size of operations and range of services, with 5% of the market for lending and fourth by deposits, with 4% of the market. Over the year, the Bank’s corporate deposit base rose some 46%. As a result of the rapid growth in Alfa Bank’s liabilities, our market share in corporate deposits has grown by 0.5%. Alfa Bank serves one-third of Russia’s large and midsized companies, and acts as creditor to a quarter.

Alfa Bank has the largest credit portfolio of any of Russia’s private commercial banks. As at the end of 2003, the Bank’s corporate credit portfolio was $3.6 billion, up 40% year-on-year.
We have continued to diversify our client base. The share of loans held by our ten-largest borrowers fell to 39% of our total loan portfolio (compared with a Russian banking sector average of 48%). The share of loans to affiliated companies has also fallen (from 18% as at year-end 2002 to 3% in January 2004). The share of loans to medium-sized creditors is continually rising.

We are also pleased that our branch network, in which we have invested heavily in recent years, is bringing in good returns. We now boast over 123 branches, and the share of regional branches in the Bank’s overall operations is also growing continuously. Loan growth in the regions (+72%) overtook loan growth in Moscow (+35%) this year. Branches’ share of total loans rose to 50% (up 6% compared with 2002).

Development of our retail banking business is becoming more and more of a strategic priority. We are focused on establishing a cutting-edge retail network, which entered the Moscow market in 2003 under the brand name of Alfa Bank Express. Initial results are of strong client interest in the services of this network, which offers ‘twenty-four-seven’ banking service. Clients may use any one of the Bank’s branch offices, regardless of where the account was opened. By the end of 2003, we had opened 20 such branches in Moscow. We plan to convert all of our ‘old-format’ branches into the new type in 2005. Products focusing on the new Russian middle class are in huge demand. Retail deposit volumes grew 51% in 2003. We also began to offer credit services to individuals, particularly consumer credit.

The past year also saw strong growth in investment banking activities. We confirmed our status as the leader among Russian banks by securities markets transaction volumes, often as market-maker. Alfa Bank’s trading volume with Russian clients on the securities markets, including transactions via our Internet broker Alfa-Direct, was $6.3 billion, up 59% compared with 2002. International transactions in the securities markets rose 221%, to $4.5 billion. Moreover, client business also continued to rise as a proportion of overall trading volume. Client transactions reached $7.1 billion, twice as high as in 2002.

Alfa Bank is a leader in arranging bond issues for Russian companies, too. In 2003, the Bank participated in organizing and placing 10 bond issues worth a total of RUR13.4 billion.

In 2003, Alfa Bank was ranked as the leading financial consultant on the Russian market by the independent agency RussiaDeal. Its annual overview, lists 25 companies that advised on deals involving Russian assets. The overall volume of deals in which Alfa Bank participated was $8.9 billion, more than $0.5 billion higher than its closest competitors.

We also place great hopes on the active development of our fund management efforts. Last year we offered customers a large number of mutual funds reflecting a whole spectrum of investment possibilities in the Russian market.

“The Bank must react to changing conditions in conducting banking business in Russia. Increasing competition, including from foreign banks, is reducing margins, while financial market volatility continues. Our clients continue to demand a wider range of products and higher quality of service… In these conditions, we are focusing our efforts on raising the Bank’s efficiency, diversifying, and offering new products both for retail and corporate clients. Alfa Bank’s potential, its specialists, installed technology, the reliability of its financial position, its recognized brand, are all yet to be realized in full.”

Oleg Tumanov Deputy Chief Executive Officer.
We are optimistic about the future, and believe the Bank is well-positioned for future growth in both the Russian economy as a whole, and of the financial sector in particular.

Alfa Bank continues to realize its strategy of developing a modern, universal bank, represented among the principal segments of the financial and banking market, including retail business, corporate commercial and investment businesses. The Bank maintains its dynamic growth. We plan to grow our business by at least 25–30% in 2004.

In the area of retail operations, the Bank aims to continue building a retail network of the new type we first introduced last year under the brand name Alfa Bank Express. This year, the main goals of our retail banking business are to ensure aggressive growth, beating the market, optimizing the technology we have introduced, and to make servicing the client as quick and comfortable as possible. We propose to focus on the development of credit products for the retail sector, including consumer credit. The Bank sees great potential in this opportunity, considering the huge lack of credit products available in Russia compared even with Eastern Europe.

In the area of commercial banking and services for corporate clients, we intend for the Bank to become a more attractive source of loans to midsized companies, alongside continuing support of our large corporate clientele. The Bank has steadily diversified both its business and its credit portfolio. We hope to continue this trend. The Bank also plans to redouble its efforts in the sphere of commercial banking, especially in services that have not yet developed sufficiently in Russia, such as leasing and project finance.

In the area of investment banking and fund management, the Bank plans to develop new products, such as the mutual funds we began offering last year, as well as securities market brokerage services for our clients.

Last year, Alfa Bank introduced the Equation electronic banking system. This was a signal event not only for us, but for the Russian banking sector as a whole. Introducing new technologies will remain a focus for us, creating a base for the Bank’s continuing development. The Bank will focus in particular on developing cutting-edge service channels. We intend to strengthen our leadership in developing electronic banking and brokerage operations. Although 80% of sales will still be conducted through our banking personnel, over time we intend for 80% of service to be replaced through distance technology, including on-line and telephone banking.

Management will also focus on increasing the Bank’s efficiency, optimizing structure and staffing to meet the growing competition, including from foreign banks. In connection with this, we have decided on an organizational restructuring within the bank intended to group management around our core businesses, and to divide the commercial bank into corporate and retail, as well as consolidation of a number of support functions. We believe this should lead to a clearer management structure, better cooperation between the Bank’s divisions, and to better products and services for our clients.
Global Economy

Overall, 2003 was notable for the appearance of a number of trends in the world economy, each of which turned out to be beneficial to Russia. First of all, improvements in the economic climate in the United States emerged rather more slowly than many had predicted. In an attempt to jump-start growth, the Fed continued to cut interest rates. By June 2003, the Federal Reserve rate had reached a record low of 1%, leading to interest rate cuts around the world, leading to lower external borrowing costs for Russian companies. Access to cheap financial resources abroad in turn led to a fall in interest rates within Russia.
A second important factor was the weakening of the US dollar and the concomitant strengthening of the euro. Paradoxically, the general instability on the foreign exchange markets led to a larger scale growth in demand than expected, as the population attempted to hedge itself from currency risk by getting rid of dollar savings. Moreover, a rising euro led to higher import prices, in turn leading to more demand for domestic production, giving new impetus to development of Russian industry.

Finally, a third positive factor was the significant growth in raw materials costs worldwide. The war in Iraq and instability in the Persian Gulf, as well as significant expenditures on reestablishing order and infrastructure in the region, led to an annual average crude oil price of $29/barrel, far exceeding expectations. This factor turned out to be critically important for the growth of Russian GDP, which is still to a large degree dependent on export of oil and gas.

**Russian Economic Indicators**

Trends in the world economy had a beneficial effect on the Russian economy. Gross Domestic Product grew 7.3% in 2003. The oil and gas sector remains the country’s main growth engine, with high oil prices and a 12% increase in oil export volumes driving GDP. However, certain positive structural changes also boosted economic growth last year.

First of all, we noticed an important change in the area of individual savings. High US dollar volatility led to a shift in savings from dollars to rubles. Ruble deposits grew by 60% over the year. As a result, Russian banks were able significantly to expand their credit activity. We see growing confidence in the ruble as the first step towards ‘de-dollarization’ of the Russian economy — a trend that the Russian Central Bank should certainly support. This process has a number of important side-effects. For instance, currency volatility stimulated demand for alternative forms of investment, including real estate. Real estate prices rose over 40% in 2003, while the real estate market is undergoing palpable growth. This cannot fail to have a positive effect on the economy as a whole.

Second, after a period of decreased investment activity and slower growth in 2001–2, productivity rose by some 8% last year, comparable with that in 1999, which suggests to us
that the economy is sturdy enough to withstand the negative effects of a stronger ruble. Investment volumes grew 12%, also demonstrating that the Russian economy is steadily gathering strength.

Nevertheless, many structural problems remain. Administrative reform, cutting social obligations and continuing to cut the tax burden remain among the new government’s primary tasks. Small and medium-sized enterprises (SMEs) still contribute far too small a share of GDP. And, most importantly, the pace of economic growth is still in large part dependent on the oil price, making Russia’s future economic perspectives uncertain.

**Financial Market**

For the Russian financial market, 8 October 2003 will remain a landmark — the day Moody's Investors Service upgraded Russia's sovereign credit rating to investment grade. The upgrade was an important acknowledgement of Russia's achievements throughout the years of reform, and of a significant reduction in the country's macroeconomic risk. The rating supported a high price for Russian assets, which rose in connection with the significant increase in internal liquidity. But despite this rise, the Russian market is still quite limited — it still has significant growth potential.

The Federal budget surplus and the launch in 2004 of a stabilization fund have reduced the significance of the sovereign debt market in Russia's economic development. External debt volumes fell following paying off of interest and part of the debt principal. As for domestic debt, two-thirds of it is controlled by government companies. The liquidity of these instruments is low, although turnover volume grew 45% in 2003.

The issue volume of ruble corporate debt increased to $4 billion, but that segment still remains relatively insignificant in the economy as a whole. For comparison, Russian companies and banks borrowed $16 billion from abroad in the first three quarters of 2003 alone.

Despite the fact that the RTS Index, Russia's main index of business activity, grew 58% in 2003, certain 'blue chips' showed relatively restrained growth. The year saw two notable initial public offerings — the pharmaceutical chain Apteka 36.6, and Trans-Siberian Gold. There had been only six IPO's since the beginning of 2000, but 2003 saw a huge rise in interest in the equity markets.

**Banking Sector**

In 2003, the banking sector developed extraordinarily quickly. Total assets rose to 42% of GDP, while volume of lending activity reached 18% of GDP. However, this was a very intense period — due to new opportunities, competition grew rapidly, and margins were falling.

A key factor in development of the banking sector last year was the significant growth in the volume of money mass. High oil prices played an important role in this process: they led to a rise in Russian Central Bank reserves and strengthening of the ruble, which meant higher internal dollar-denominated interest rates. Considering the long fall in international interest rates, it is no wonder that large Russian companies cut ruble-denominated debt and borrowed abroad.

Increasing competition undoubtedly influenced profits and forced Russian banks to focus on the most profitable segments of the market. Thus retail credit began to develop for the first time in 2003. Overall retail credit volumes more than doubled over the year. Nevertheless, the potential for further growth is still enormous. Suffice it to say that total retail credit per
capita in Russia is $60. This is 1.5 times higher than two years ago, but 3–4 times less than in Eastern Europe. Russian consumer credit per capita is some 50 times lower than the same figure in Western Europe or the United States.

Another result of growing competition in the financial industry was an increasing number of mergers and acquisitions. As they grow, Russian financial institutions are beginning to participate in the Russian economy’s growing ‘appetite’. In 2003, Rosbank acquired a branch network of 350 regional affiliates from OVK Bank. Later in the year, Moscow NIKoil acquired over 75% of UralSib Bank. Consolidation of the domestic banking sector not only helps to improve efficiency and increase the client base, but also helps to limit the aggressive expansion of foreign banks. In the second half of 2003, several foreign banks, such as Raiffeisen and Citibank, announced plans for large-scale development of their Russian businesses. France’s Societe Generale Vostok also announced an ambitious plan for entering the Russian market.

Banking reform was another headline event of the past year. After a decade of debate, Russia finally enacted a deposit insurance law, canceling government deposit guarantees from 2007. The new law promises to strengthen the financial industry as a whole. After all, today the level of monopolization of this market surpasses all rational limits — 64% of all deposits are still held by Sberbank, while the second-largest retail bank holds only 3% of individual deposits.

**Investment Climate**

Last year, Alfa Bank began to calculate an ‘investor confidence’ index, the AB-ICI, to reflect the attitude of domestic and foreign investors towards the Russian investment climate. In 2003 an inflow of foreign direct investment and a fall in capital flight had a positive effect on this index.

Foreign direct investment in Russia was $6.8 billion last year — the highest it’s been since 1997. This primarily indicates a return of flight capital — Cyprus was the second-largest source of FDI after the US as at the end of 2003. European countries, for their part, apparently prefer to offer credit to Russia rather than taking on the complex risks that come with direct investment. Foreign direct investment was 1.6% of GDP last year, compared with some two or three times more in both Eastern Europe and China.

Capital flight fell from $8 billion in 2002 to $3 billion in 2003. But most importantly, the character of this flight changed. While in previous years, Russian enterprises primarily transferred money to offshore companies, in 2003 they acquired foreign assets worth some $2.6 billion. In other words, Russian businesspeople have used the favorable domestic investment climate to integrate into the global economy.
WTO Accession

In 2006, Russia will take its turn as head of the Big Eight, signifying an important change in its status. Russia has already met most initial agreements with WTO members in relation to low domestic tariffs. This issue is no longer an obstacle, as domestic prices for electricity and gas are already approaching international levels, and liberalization of the banking system has, de facto, already occurred. Russian banks today are more competitive than anyone could have imagined even two or three years ago. Several disagreements remain in relation to the conditions for liberalizing the telecoms, insurance and agricultural sectors, but by 2006 compromise solutions will certainly have been found. Some increase in tension was notable between Russia and Europe in 2003 in relation to expansion of the European Union, but this is primarily tactical and clearly will not become an obstacle to Russia joining WTO.
results
Commercial Bank

Services for Corporate Clients and Banks

Market Share — Loans to Companies 5%
Market Share — Customer Deposits 4%
Overdue Loans 0.9%
Corporate Loan Portfolio $3.6 bn
Midsized Companies as % of Total Loan Portfolio 27% (+4% YoY)

Alfa Bank continues to increase its client base, while simultaneously raising the share of profitable clients.

This year, Alfa Bank strengthened its leadership in financial services to corporate clients even further. In Russia, only Sberbank can compete with us in scale of operations and universality of service.

In terms of attracting assets of private enterprises, the Bank's business grew much faster than the Russian banking sector as a whole. As a result, our market share increased. The Bank's lending operations grew by 40% year-on-year, in line with the market.

However, the quality of our credit portfolio and management of credit risk are also significant factors. According to most experts, the sharp rise in credit volume in the Russian banking sector (+38%) was due principally to excess liquidity resulting from the rising inflow of petrodollars. This growth in a number of cases was accompanied by noticeably lower credit requirements. Thus, Standard & Poor’s rating agency identified some 50–75% of Russian credit as of potentially ‘poor’ quality. To make matters worse, many borrowers' creditworthiness has significant potential to weaken in a weakening macroeconomic environment. According to Central Bank statistics, some 40% of credits in the real economy were loans to exporters. However, if the oil price were to fall over a long period against the backdrop of a strengthening ruble, many banks could be unpleasantly surprised by the rise in ‘problem’ credits.
In building its credit risk management system, Alfa Bank considers all aspects of the current economic situation. We strive to follow a balanced credit policy, in order to strengthen stability, sustain the high quality of the credit portfolio and minimize risk.

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<tr>
<th>Segment</th>
<th>Annual Volume, ($ mn)</th>
<th>Market Share, %</th>
<th>Growth in Market Share, %</th>
<th>Year-on-Year Growth, %</th>
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<tr>
<td>Corporate Loans</td>
<td>3567</td>
<td>4.74%</td>
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<td>39%</td>
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<td>Corporate Deposits</td>
<td>2702</td>
<td>5.0%</td>
<td>0.64%</td>
<td>46%</td>
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Note: 'Corporate Deposits' include deposits, assets on account, promissory notes and other company deposits.
Source: Audited financial statements

Alfa Bank’s loan products are its main and most profitable type of transaction. We have maintained our number two position behind Sberbank in this area. Moreover, the gap in market share between the two banks is continuously narrowing. Alfa Bank has risen to fourth place by Corporate Deposits, up from fifth place a year ago, with 3.9% of the market, overtaking MMB Bank and Rosbank. Moreover, the share of short-term deposits — including deposits and deposit balances — is also growing, attesting to our clients’ loyalty.

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<th>Corporate Deposits, 2003</th>
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Alfa Bank took third place by volume of own promissory notes in circulation, after Sberbank and Gazprombank.

The past year was notable for our continuing targeted expansion, aimed at deepening our presence in priority regions. We opened a subsidiary bank in Kazan, and began work in eight new structural divisions in other regions.

An even more significant step in the Bank’s expansion this year was our presence in key industry sectors and service areas. According to the Central Bank, Alfa Bank’s share in credits to all industry sectors was 7.6% in 2003. Alfa Bank’s most noticeable presence was in the transport and communications sectors, at 8.3%. The Bank’s share in total credit volumes to the construction sector rose from 1.8% at the beginning of 2003 to 5.8% by the end of the...
year. This growth was particularly important given the rapid growth of the construction industry and its huge continuing growth potential.

As a whole, our base of large and medium-sized corporate clients rose to 23,912, up 13% on the year. We also continued to diversify our client base, decreasing the concentration of our credit portfolio. The share of the 10 largest borrowers fell to 39% of our total credit portfolio. For the Russian banking sector as a whole, this indicator fell by only 4%, to 48%, so we continue to beat the market. The share of affiliated companies in our total loan portfolio also fell, from 18% at the end of 2002 to 3% by January 2004.

Our credit portfolio is influenced by demand in the market, as well as the requirements of maximizing liquidity and minimizing risk.

Three-month to one-year credit remains the largest part of Alfa Bank’s short-term loan portfolio, though in 2003 we noted a drop in this type of credit from 60% to 55%. The Russian banking sector saw a similar dynamic, with this type of credit falling from 50% to 44%. Compared with 2002, Alfa Bank’s short-term credit portfolio shifted towards longer-term loans (loans with maturity of one year or more), from 20% to 31%.

The share of loans to midsized companies continues to grow. In 2003, loans to medium-sized businesses made up 27% of our total credit portfolio, up from 23% in 2002.

Another trend that defines the formation of the Bank’s credit portfolio is growth in the relative weight of regional branches. Credit growth in the regions (+72%) overtook credit growth in Moscow (+35%). The share of regional branches in our total credit portfolio grew to 50% (up 6% year-on-year).

Careful research of the market and a thorough analysis of our clients’ financial situation allowed us to maintain the quality of our credit portfolio while expanding its volume. The share of overdue credits fell from 2.6% in 2002 to 0.4% in 2003.

**Trade Finance**

The past year saw huge achievements in Trade Financing. The Bank now conducts confirmation and post-financing of letters of credit, various types of trade guarantees, issuing reimbursement notes and preparation of more complex instruments, specially created on request of our clients for beneficiaries in practically any country in the world. Our trade finance products were used by the largest Russian companies in nearly every industry sector. The volume of trade finance products, forex, forward and cash operations drawn on the Bank with financial institutions of the US and Western Europe were worth over $500 million. Italian and French banks’ confidence in the Russian banking sector is growing steadily. Banks in these countries had formerly taken a very conservative view of the sector in Russia. Eastern European and Asian banks also completed a record number of trade finance deals with us.

A rise in cash flows both in dollars and in euros allows us to negotiate more favorable conditions for servicing correspondent accounts and minimizing the cost to our clients.

“Taking the lead in the market is difficult, but maintaining that lead is even tougher, especially in an environment of growing competition. The most important thing for us is to stay a step ahead of our competitors, while maintaining the quality of our credit portfolio and, of course, our most important capital — our long-term relationships with clients.”

Alexander Lukanov Deputy Chairman of the Executive Board
Last year, the Bank’s overall trade finance volumes reached $286 million, including:

- in January and November 2003 — two syndicated loans worth $50 million and $82 million, respectively, with 1-year maturity with the option to extend;
- one-year-maturity trade finance deals worth a total of $97 million;
- over $52.8 million worth of deals over 1 year maturity through EGA (export-guarantee agencies); and
- a pilot promissory note program worth $5 million.

The Bank significantly strengthened its position on the international financial markets over the past year.

We made great strides in export credit, too. The Bank is now the leader by number of successful transactions completed through the German export-guarantee agency Euler Hermes. We also continue working with Dutch credit management company Atradius (formerly Gerling NCM). Alfa Bank was the first Russian bank to transact deals with this company following the 1998 Russian financial crisis. In November 2003 we began offering export credit under a Cooperation Agreement with the Hungarian Export-Import Bank with a guarantee from the export-guarantee agency MEHIB. In December 2003 we signed an agreement with the Export-Import Bank of Korea to finance Russian purchases of Korean equipment worth over $50 million over 10 years.

**Subsidiary Banks**

**Alfa Bank (Kazakhstan)**

Our subsidiary Alfa Bank (Kazakhstan) was founded in December 1994. Its head office is in Almaty, with branches in Astana, Karaganda and Ust-Kamenogorsk, and a representative office in Ekibastuz.

**2003 Results**

Alfa Bank (Kazakhstan) is among the top-20 banks in the Republic of Kazakhstan by total assets, and among the top-10 by net profit. The credit portfolio grew 56% year-on-year, while the number of clients rose 53%. Net profit more than doubled year-on-year.

**Alfa Bank (Kazakhstan): Year-End Indicators, 2003**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$66.3 mn</td>
</tr>
<tr>
<td>Loan Portfolio</td>
<td>$47.4 mn</td>
</tr>
<tr>
<td>Client Deposits</td>
<td>$41.6 mn</td>
</tr>
<tr>
<td>Own Capital</td>
<td>$16.3 mn</td>
</tr>
<tr>
<td>Including Charter Capital</td>
<td>$6.9 mn</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$3.3 mn</td>
</tr>
</tbody>
</table>

*Note: calculated on the basis of an exchange rate of KZT 144.22 per $1.*

*Source: According to our auditors, PricewaterhouseCoopers.*
As of 20 June 2003, Moody’s Investor Service gave Alfa Bank (Kazakhstan) a long-term credit rating for foreign currency deposits of B1, and a financial stability rating of E+, with Stable outlook for all our ratings. Moody’s raised the bank’s long-term credit rating for foreign currency deposits to Ba3 on 26 January 2004.

Alfa Bank Ukraine

Alfa Bank Ukraine was registered in January 2001. Its network includes branches in Donetsk, Kharkov, Dnepropetrovsk, Nikolaev, two Kiev branches, and rep offices in Zaporozhye, Lvov and Simferopol.

From its founding, the bank has developed in Ukraine as a universal financial institution, offering clients the widest-possible range of banking products and services.

At an exchange rate of UAH 5.32/ $1:
as at 1 January 2004

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>562.9 UAH mn</td>
</tr>
<tr>
<td>Client Loans</td>
<td>371.5 UAH mn</td>
</tr>
<tr>
<td>Total Capital</td>
<td>147.8 UAH mn</td>
</tr>
<tr>
<td>Physical Person Deposits</td>
<td>92.6 UAH mn</td>
</tr>
<tr>
<td>Legal Entities Deposits</td>
<td>101.9 UAH mn</td>
</tr>
</tbody>
</table>

Source: Company data

Post-tax profit was UAH 560 million, up nearly 200% on the previous year. Own capital increased 152%, to UAH 112.1 million.

Alfa Bank Ukraine’s AGM on 23 January 2004 approved a share capital increase of UAH 54 million in 2004. The bank plans to expand its investment and loan portfolio to UAH 800 million, as well as to become an affiliated member of MasterCard International, to allow servicing of MasterCard credit cards.

Amsterdam Trade Bank N.V.

In 2001, Amsterdam Trade Bank (ATB) became part of Alfa Bank. ATB’s main business activity is trade financing of companies involved in trade between Russia, the CIS and the European Union. The bank’s credit products include: factoring, shipping finance, financing secured by guarantees from export credit agencies, credits secured by both assets being acquired, and by clients’ industrial and investment assets abroad.

ATB is currently the only Russian-owned banking institution on the territory of the European Union.

As a member of SWIFT, TARGET and the retail payment system Interpay, ATB services EuroCard and MasterCard credit cards. Since 2002, ATB has been Alfa Bank’s main correspondent for euro-denominated clearing services.
ATB has grown rapidly over the past three years, and continues to show further strong growth potential.

Compared with 2001, ATB’s loan portfolio increased by 677% in 2003, to €244 million. The number of completed payment transactions also grew: if in the first quarter of 2002 the bank made 3,327 payment transactions, in the last quarter of 2003 ATB completed 17,870 payments.

The bank’s net profit grew from €300,000 in 2002 to €1.3 million in 2003. In the third quarter, ATB launched a successful campaign to attract deposits and savings deposits from physical persons resident in the Netherlands. Over three months, the bank attracted €58 million, opening over 3,000 physical person accounts.

Alfa Bank increased ATB’s own capital from €14 million to €40 million in 2003.

### Amsterdam Trade Bank: Leading Indicators and Annual Growth, 2001–03

<table>
<thead>
<tr>
<th>€mn</th>
<th>2003 Annual Growth (%)</th>
<th>2002 Annual Growth (%)</th>
<th>2001 Annual Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>276 952.0</td>
<td>280 345.4</td>
<td>100 123.4</td>
</tr>
<tr>
<td>Client Deposits</td>
<td>233 591.1</td>
<td>851 253.9</td>
<td>100 29.9</td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>307 243.6</td>
<td>221 79.3</td>
<td>100 35.9</td>
</tr>
<tr>
<td>Own Capital</td>
<td>314 40.1</td>
<td>103 12.8</td>
<td>100 12.4</td>
</tr>
</tbody>
</table>

Source: ATB data

**Corporate Business: Development Strategy for 2004**

In 2003, large companies continued to contribute a disproportionately large share of banking sector profits, at 60% of total sector revenues. However, in the medium-term we expect to see a gradual increase in the share contributed by midsized companies. The Bank is already working with the majority of large companies in the Russian market.

As for larger enterprises, the Bank intends to shift focus from actively attracting new clients, towards increasing the loyalty of our current clients by offering them new products and services.
It is clear to us that strong progress in the midsized business segment will require certain significant structural changes on the part of Russian banks. First and foremost, this includes perfecting our technologies, offering new products, and changing the focus of sales and marketing. Many banks have recently announced new programs targeted to midsized companies. However, according to a McKinsey poll, there are no wide-scale efforts targeting this segment. Many obstacles still stand in the way of credit to midsized companies, such as market volatility, lack of retail lenders, and the companies’ lack of transparency.

In 2003, our new credit program for midsized companies confirmed our reputation as a driving force in the Russian banking market. This new program, developed on the basis of international experience as well as with regard to the needs of Russian clients, will require significant changes in the business process and in risk-management. In 2004, we plan a pilot program in Moscow, to be expanded in the regions later.

We are confident that introducing this program will allow us not only to boost market share, but also significantly to diversify our business and boost our profitability.
Retail Bank

Total Retail Clients 900,000
Total retail client deposits $1,293 million (+63%)
Total loans given out $50 mln
Total credit cards in issue 606,000 (+73%)
Total turnover on credit cards issued $1,590 million (+61%)
Total Acquiring Turnover $1,631 million (+41%)
Including Non-cash Acquiring $229 million (+31%)
Total Enterprises Serviced Through Acquiring 6,600
Total ATMs 400

Our retail business is a traditional priority for us. In developing retail services, we have always worked on the basis that stability as an individual financial-credit organization, as well as in the country’s banking system as a whole, is determined by the ability to work with the assets of private clients. Alfa Bank is one of the largest private client banks in Russia, and the leading bank by retail transaction volumes.

Last year, our retail client base continued to expand rapidly, as did our retail branch network. The main focus of our retail business last year was to improve service and to offer new products. In 2003, our ATMs began offering euros, in addition to rubles and dollars, a service in particular demand among those traveling to the Eurozone. In May 2003, Alfa Bank launched a new Internet banking service offering clients 24-hour access to their accounts with the help of a plastic access card. These cards allow clients to view information about current, savings, and credit card accounts, view recent transactions, order written statements, or block a lost or stolen card.

Competition is growing in the retail sector. A number of large banks have begun developing strategies to enter this market, or else to restructure their existing retail operations. We continue to anticipate the demands of tomorrow’s market, keeping one step ahead of the competition.

In order to maintain our leadership in 2004, we plan to increase customer satisfaction through active development of a new range of products and service channels. One of our priority goals is to introduce elements of the Alfa Bank Express format in regional branches. Some of the services we plan to offer include long-distance banking through our On-line and Telephone Banking services.

The Alfa Bank Express Project

The leading achievement of our retail banking activities was the launch in April 2003 of a completely new method of business with private clients and small- and medium-sized enterprises (SMEs) under the Alfa Bank Express brand name.

The project began with the opening of 11 new branches in Moscow. The new branches are supported by a 24-hour-a-day Telephone Service Center, a Direct Sales Service, and a network of ATMs. By the end of 2003, we had 20 Alfa Bank Express outlets, as well as multi-channel service options including long-distance servicing through our On-line and Telephone Banking services.

Alfa Bank Express was founded as an innovative banking service format targeted to the mass market. Alfa Bank Express was the first service on the Russian market to offer not only
separate products, but a full spectrum of banking services from traditional deposit and credit card services, to full access to credit resources and long-distance banking services.

Alfa Bank Express leverages off all the most important achievements in global retail banking practice. The format combines cutting-edge products, effective service processes, full service in our branch offices and through long-distance channels with a conceptually new standard of quality. The relationship between banking products and service channels provides clients with maximum convenience in managing their assets.

The creators of Alfa Bank Express have created a new category in the Russian market — Russia’s first true retail bank. We believe its business model will pose serious competition to the foreign banks entering the Russian market.

The Alfa Bank Express product range and service channel functionality are based on behavioral models and the needs of our clients. Thus the tariff plans for current accounts are related to the requirements of various client segments.

Clients may use any branch of the Alfa Bank Express network, regardless of where they opened their account. This is a very new and innovative feature in Russia, where most banks still service clients only in the branch where they originally opened an account.

Upon opening an account, a client receives a Visa Electron access card. Alfa Bank Express is the first to offer this card on the Russian market. The card functions both as an access card at any Alfa Bank Express branch, and as an internationally-recognized credit card.

The unique, integrated product portfolio for private clients and small businesses includes current accounts, credit cards, varying-maturity foreign currency savings accounts (including instant-access, variable and fixed maturity), credit products, as well as other supporting products such as pre-paid Visa TravelMoney Cash Passport, international money transfer via Western Union, and individual bank safes.

Alfa Bank Express’s individual credit products have attracted huge client interest. These include credit cards, current account overdraft protection, and credit cards with a payment grace period. Clients can make a credit request in real-time on our Internet site. In 2003, Alfa Bank Express began developing a consumer credit program along with a number of large commercial service networks. The Bank utilizes a scoring system that allows us very quickly to evaluate a potential borrower’s creditworthiness, and to offer revolving credit to a mass market.

For legal entities, Alfa Bank Express offers a full range of options for opening and servicing foreign currency accounts, short- and medium-term credit, payroll projects, acquiring and Internet-acquiring. Our innovative services for legal entities include a fully-functioning Internet Bank combined with a 1C accounting system, as well as payroll encashment using automatic cash deposit safes located in the 24-hour services section of each Alfa Bank Express branch.

By the end of the year, Alfa Bank Express had nearly 50,000 individual clients, and total customer funds of $117 million. Both client growth and customer funds grew by more than 100% in the fourth quarter of 2003.

Alfa Bank Express received a gold medal for brand-building in the Banking category in a national competition judged by Brand of the Year/EFFIE 2003.
In order to strengthen our leadership in the retail sector, the Bank intends to grow its presence in Moscow, moving from the center outwards towards the suburbs. We also plan to bring all of our Moscow branches into the Alfa Bank Express system.

We intend actively to develop our product portfolio by:

- expanding the number of organizations for which we accept payments (cellphone operators, insurance companies and utility payments);
- introducing new types of credit products (motor vehicle loans, emergency loans);
- creating a range of credit products for regional markets;
- developing new types of savings products (multi-currency deposits, long-term savings accounts);
- expanding the range of savings and credit products for legal entities.

**Regional Development**

Our goal is to continue to reach out better to our clients. Every year we have expanded our branch network system. In 2003, we opened five new offices in Russia and Ukraine, including additional offices of our Krasnoyarsky and Altaisky branches in Zelenogorsk and Biisk. One of the most promising aspects of our regional expansion is introducing the new Alfa Bank Express service format in the regions.

“We knew that changing the format and brand, and offering banking principles that were new for the Russian market, would be a courageous step, posing large potential risks. But we went for it. What we ended up with was Alfa Bank Express, a revolutionary retail project and the latest word in Russian retail banking. I am certain that the experience and professionalism of Alfa Bank’s team, as well as the most modern technology and readiness for non-standard, innovative solutions will guarantee the success of this project. The huge inflow of new clients is an affirmation of this.”

**Peter Aven President of Alfa Bank**
Investment Bank

Share Trading and Brokerage

Russian equity markets as a whole, and Alfa Bank in particular, had a very good year in 2003. The year saw strong growth in liquidity, and positive share price movements, with the RTS index up 58% over the year. One of the most notable trends was the significant growth in the number of Russian investors, growing investment volumes, as well as expansion in the domestic currency market. Trading volume on the Moscow International Currency Exchange (MICEX) grew 70% over the year. Trade volumes on the domestic market grew markedly, as did the number of clients trading through Alfa Bank. Alfa Bank had total trading volume of $6 billion on MICEX in 2003, 12.5% higher than that of its nearest competitor.

During the accounting year, the Bank’s brokerage arm achieved significant growth in its client base and trading volumes. The range of services offered more than doubled.

Alfa Bank acted as agent in three public share offerings and three private placements for Russian companies. We aim to continue our leading role in bringing Russian companies to the Russian and international capital markets in 2004.

We continue our efforts to widen the range of products we offer, and increase our focus on clients. An important part of Alfa Bank’s brokerage business is the use of cutting-edge technology to improve client service. Our Internet brokerage Alfa-Direct has achieved impressive results. Alfa-Direct’s MICEX trading volumes exceeded RUR 146 billion in 2003, while RTS volumes reached $690 million. The past two years saw stable growth in private investment. In 2003, Alfa-Direct’s Internet client base grew 70%, to several thousand accounts by year-end. Alfa-Direct completes over 4,000 trades daily. We project that Alfa-Direct’s client base will grow by more than 2,000 new clients in 2004.

In 2003, we introduced a totally new financial product for the Russian market: the Visa Alfa-Direct card, which allows clients to connect their share accounts directly to their credit cards. With the help of Visa Alfa-Direct, the private investor can manage investment accounts, obtain short-term credit, make a payment by credit card, or withdraw cash.

Alfa Bank’s research department plays an important role in helping maintain our clients’ loyalty. Our 19 research analysts, who cover both equity and fixed-income, command great authority on the Russian securities markets. The annual Institutional Investor client poll once again chose Alfa Bank as one of the leading analytical teams in Russia.

Alfa Bank is ranked among the most reliable professional securities market participants by NAUFOR (Russia’s National Association of Securities Market Participants). In 3Q03 Alfa Bank received a top NAUFOR rating of AAA. Alfa Bank was also awarded top place in a “Securities Market Elite” national competition under the nomination “Top Credit Organization on the Securities Market.”

Debt Capital Markets

Foreign Debt

In 2003, Alfa Bank’s total foreign currency debt rose 40%, to $10 billion. Client trades also continued to grow as a percentage of the Bank’s total trading volume, to $7 billion, twice as high as in 2002, while the share of client profit in overall profits of the Debt Capital Markets Division grew to 30% from 20% a year ago.
Returns from proprietary trading in debt securities rose 30% on the year, beating average returns on the Russian debt market.

In 2003, the Bank actively traded foreign sovereign debt for its own account, primarily that of emerging markets (Mexico, Brazil, Turkey, Venezuela, Columbia, the Philippines, Ukraine and Kazakhstan). We also offer our clients access to these debt markets, as well as US Treasuries and those of G7 countries.

**Domestic Debt Instruments**

In the accounting year, the Bank expanded its presence and trade volumes on the Russian ruble debt market. Our total annual turnover in ruble-denominated debt instruments was some $400 million — nearly twice as in 2002. Our returns are continuously rising both from proprietary trading and from client business.

The Bank traded its own book, as well as offering brokerage services to clients, in all segments of the market for ruble debt (government, municipal and corporate). Our clients had the opportunity to trade in real-time on MICEX through Alfa-Direct, as well as to conduct forward transactions in the corporate debt market. Total client trading volume rose 50% in 2003.

**REPO Operations**

In 2003, our clients not only invested their own assets directly, but bought securities on margin, as well as using spread strategies such as hedging the purchase of certain securities through sale of others. The Bank became a leader in financed and margin trading on the debt markets. The largest volumes of financed trades were in foreign currency debt, with volumes up 50% in 2003. The market for margin trading with ruble-denominated corporate debt also grew.

The range of debt instruments in our clients’ portfolios expanded rapidly in 2003, and now includes sovereign and corporate debt of emerging markets, G7 and US Treasuries. This allows us not only to expand our trading volumes, but also to diversify risk.

Client demand for securities lending is also growing steadily. Clients may open short positions or create spread strategies.
New Issues and Structured Products

The Bank is a leader in the Russian corporate debt market, offering issuing companies a full range of services, from preparation of borrowing programs, government registration of issues within short deadlines, and supporting liquidity in the secondary market, as well as debt repurchase before maturity.

In 2003, Alfa Bank helped to place 10 debt issues worth more than RUR 13.4 billion. Despite a deterioration in the debt market environment in the second half of the year, Alfa Bank strengthened its position, rising from sixth to third place in debt issuance (according to the information agency Cbonds).

In the accounting period, the Bank developed several new structures for issuing ruble debt. Among these was a single offer mechanism to issue debt for several companies (for example, debt issues by the pharmaceuticals group Otechestvennye Lekarstva). We also developed a flexible repurchase mechanism allowing issuers to repurchase debt at short notice (for instance, loans to Mechel and Amtel), allowing companies flexibly to react to market conditions.

In attracting foreign capital, the Bank offers services to issuers of Eurobonds and credit notes. Compared with Eurobonds, credit notes are cheaper, and issuing them requires less transparency, so they are accessible to a wider range of companies. Credit notes require no guarantee or public credit history. Alfa Bank has unique experience in arranging credit note issues, and has strong ties with Western counter-party banks in credit note issues.

Interbank and Currency Markets

Interbank Market

Our turnover on the interbank loan market remains high, at some RUR 15 billion per day, some 15% of the segment. Our average daily interbank loan volumes have risen, thanks to a growing number of counter-parties, and to their growing confidence in us. Turnover in interbank foreign currency credit has risen to some $100–$200 million a day. The volume of funds on deposit from Russian financial institutions, as well as the length of time on deposit, have also risen. Alfa Bank’s aggressive work with Western counter-parties has helped the Bank to strengthen its position on the international market, too.

The National Currency Association has chosen Alfa Bank as one of the leading banks for calculating MOSIBOR, the Moscow Interbank Offered Rate, which now serves as a base indicator for the Russian money market. Thus we continue to take an active role in development of the Russian financial system.

The number of Alfa Bank’s partners in deposit and currency transactions has also grown. During the accounting period, the Bank gained 97 new counter-parties, to a total of 837. Reliable partner relationships allow the Bank not only effectively and speedily to conduct all types of banking operations, but also to act as guarantor for our corporate clients’ foreign business activities.

Currency market

Alfa Bank maintains its position as one of the leading players on the domestic currency market. In 2003, the Bank’s daily turnover in ruble/dollar trades rose from $200 million to
$500 million, some 4–5% of total Russian currency market turnover. From the beginning of 2003, the Bank became an active participant in the ruble/dollar forward market. The forward transactions offered to our clients allowed them to hedge currency risks, which became particularly important following the rise in Russia’s credit rating last year.

In 2003, Alfa Bank’s domestic currency market turnover rose 150% year-on-year. The main share of transactions was currency exchange for banks and companies from the CIS and Western Europe. By the end of 2003, Alfa Bank became the largest Russian market maker, with 35% of the market and average daily turnover of some $800–$1,200 million.

Our Alfa FOREX Internet brokerage system came on-line this year. The system uses cutting-edge technology to assist in FX trades for bank counterparties and our own bank branches.

Alfa Bank now leads the market in currencies with limited convertibility, too, with a 30% market share. The Bank’s positions have strengthened on the interbank money market. Alfa Bank accounted for some 13% of hard currency imported into Russia, and some 12% of hard currency exported.

Alfa Bank’s activity on the market for hard currency transactions leads in all sectors of the market, and is highly profitable. In 2004, the authoritative journal Global Finance first named Alfa Bank as the Best Supplier of Currency Market Transactions in Russia.

**Borrowings on the International Capital Markets**

In the accounting year, the Bank was able significantly to strengthen its position as one of the highest-class Russian borrowers on the international financial markets.

Over the year, Alfa Bank arranged two one-year syndicated loans worth $50 million and $82 million with option to extend. Moreover, the number and geographical reach of participating banks has grown significantly. The syndicated loan arranged in November included creditors from Europe, Africa and the Near East, with whom Alfa Bank had not worked before. One of our creditors, the German bank Ausfuhrkredit Gesellschaft mbH (AKA), is participating in such a loan for the first time ever. American financial and credit institutions also took an active role in each of the syndicated loans. JPMorganChase took part in its first-ever syndicated loan in Russia in a transaction with us worth $82 million.

In 2003, the Bank became the first Russian borrower following the 1998 financial crisis to enter the Western money market, with our own Eurocommercial paper worth $200 million (the first tranche of this instrument of $50 million was placed in December 2003).

**Correspondent Relationships**

In 2003, Alfa Bank continued to develop correspondent relations with Russian and foreign banks. We worked productively with over 947 banks in Russia and the CIS. Over 690 correspondent banks had over 1,860 open LORO accounts with Alfa Bank in both rubles and foreign currencies.

The Bank has more than $500 million worth of credit lines open with US and Western European financial institutions. During 2003, the volume of mutual credit lines with other banks nearly doubled, principally thanks to a rise in credit limits of foreign banks and subsidiaries. The rise in payment flows both in US dollars and euros has allowed us to gain more favorable conditions for servicing correspondent accounts, in order to minimize our clients’ costs.
### Corporate Finance

**Alfa Bank: Selected Corporate Finance Transactions in 2003**

<table>
<thead>
<tr>
<th>Client</th>
<th>Brief Description</th>
<th>Approximate Transactions Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>TNK</td>
<td>TNK Alliance and Russian and Ukrainian assets of BP</td>
<td>$7 600 mn</td>
</tr>
<tr>
<td>ICN Pharmaceuticals</td>
<td>Sale of Russian Assets</td>
<td>$55 mn</td>
</tr>
<tr>
<td>Tomsk Cellular Communications</td>
<td>Sale of a 100% stake to Mobile TeleSystems</td>
<td>$47 mn</td>
</tr>
<tr>
<td>SibirTelecom</td>
<td>Sale of 30% of the shares of Sibirsky Cellular Systems 900</td>
<td>$29 mn</td>
</tr>
<tr>
<td>SibirTelecom</td>
<td>Acquisition of 49% of the shares of BaykalWestKom</td>
<td>$9 mn</td>
</tr>
<tr>
<td>SibirTelecom</td>
<td>Acquisition of 49% of the shares of EniseiTelecom</td>
<td>$12 mn</td>
</tr>
<tr>
<td>Amtel Holdings</td>
<td>Private placement of 3.8% of shares to Templeton Strategic Emerging Markets Fund</td>
<td>$10 mn</td>
</tr>
<tr>
<td>Perekriostok</td>
<td>Private placement of 7.7% of shares to Templeton Strategic Emerging Markets Fund</td>
<td>$15 mn</td>
</tr>
<tr>
<td>Solikamsk Magnesium Factory</td>
<td>Sale of a controlling stake</td>
<td>Confidential</td>
</tr>
</tbody>
</table>

* This Moscow-based company analyzes the M&A and direct investment markets in Russia.

In each of the past three years, our total deal volume exceeded $1 billion annually. According to an independent study conducted by RussiaDeal* at the end of 2003, Alfa Bank was acknowledged as a leading financial consultant among both international and Russian investment banks operating in the Russian market. Total 2003 deal volumes in which the Bank acted as financial consultant reached nearly $9 billion. The Corporate Finance Division’s main focus was to provide Russian and foreign clients with financial consulting on M&A deals. A team of highly-qualified professionals who have worked together for over four years forms the core of the division.

One of the Bank's main achievements was to act as financial consultant to the Russian shareholders of Tyumen Oil Company (TNK) at the start of its flagship strategic alliance with BP in Russia and Ukraine. The invaluable experience we gained during the course of the deal has taken us to the number one position in the market for energy sector consulting.

In 2003, the US company ICN Pharmaceuticals retained the Bank as a financial consultant in its sale of Russian assets, including five production units, a large pharmaceutical retail network in Russia, and its headquarters in Moscow. A two-step auction process ensured transparency and helped to achieve a successful outcome in record time. The UK’s Millhouse Capital acquired the assets.
Significant deal volume also came from the Telecoms sector. Specialists of the Corporate Finance Division consulted the owners of Tomsk Cellular Communications, the Tomsk Region’s leading cellular operator, on the sale of Mobile TeleSystems. The bank also advised SibirTelecom, the Siberian Federal District’s leading fixed-line provider, on the acquisition of a 49% stake in two leading Siberian cellular providers, BaykalWestKom and Eniseitelecom. Moreover, the Bank continues to act as a strategic consultant to UES, the company’s largest natural monopoly, during the course of the electric power utility’s restructuring.

Alfa Bank continued to act as one of the few active players in the private placement market, arranging placements for a number of Russian companies in 2003. Among others, the Bank acted as consultant to Amtel Holding, Russia’s leading tire manufacturer, on the placement of 3.8% of its shares. We also successfully conducted the placement of a 7.7% equity stake in Perekriostok, Russia’s largest supermarket chain. Templeton Strategic Emerging Markets Fund acquired both these stakes.

As at the end of 2003, the Corporate Finance Division’s profits had doubled year-on-year. In 2004, the Bank aims to strengthen its positions in the corporate finance market.

**Investment Activity**

The Bank has actively developed its own investment activities over the past decade, and is now a leader among Russian investment banks.

The Bank acquires companies for an average of 3–6 years, after which they are sold to strategic investors. The Bank also offers capital management services to other companies within Alfa Group.

Alfa Bank invests in a variety of industries, including telecommunications, TV and radio, pharmaceuticals, real estate, food industry, household chemicals, tobacco, industrial and consumer products. Examples of our investment projects are companies such as TNK, Golden Telecom, Kyivstar, Akrikhin, Bolshevik, Pemos, Borsky Glass Factory, Alfa-Arbat-Center, CTC and Muz-TV.

In 2003, the Bank successfully completed a large number of investment projects. Among these were the sale of a controlling stake in a Russian lamp production monopoly, the company Svet, to a leading German lamp manufacturer, the company OCPAM; sale of a new office complex on the Arbat in Moscow with total area of over 40,000 square meters; sale of one of the largest TV channels in Ukraine; and sale of a wine-making factory in Moldova, among others.

“Over the past few years, Alfa Bank has noticeably strengthened its position in the market for corporate finance services, becoming a leader in this rapidly-growing market. I am certain that the experience, reputation and contacts of the specialists in our Corporate Finance Division will allow the Bank to maintain and strengthen our position in 2004.

Alex Tolchinsky Member, Executive Board, Head of Corporate Finance Division
In addition to the sale of companies in 2003, the Bank acquired shares in StoryFirst Communications, the huge American media holding active in the Russian market, which includes assets of the TV channel CTC, Radio Maximum and a network of regional TV channels. Thanks to our Asset Management Division’s formation of the Gamma Film Company, Alfa Bank became one of the leading players in the market for TV film distribution. The Asset Management Division completed a total of over $260 million worth of deals, while the division’s profits rose 20% year-on-year.

Our investment activities include managing Russian companies we have acquired and investing to increase their value, which have a positive effect on the Russian economy as a whole.

Alfa Bank’s Asset Management Division employs unique specialists who combine the experience of professional company managers and investment managers.

The division has a reputation for honesty and fairness to other shareholders. Our high reputation helps attract numerous offers to invest from large companies in need of financing.
partnership
Alfa Capital

Alfa Capital — Key Events of 2003

Alfa Capital Management Company, a wholly-owned subsidiary of Alfa Bank, is becoming one of the leading Russian fund management companies for both private and corporate clients in Russia and abroad. Founded in the early days of Russian market liberalization, Alfa Capital received new impetus in 2003, becoming a diversified business combining both portfolio investment in debt securities and shares, and a new group dedicated to direct investment, Alfa Capital Partners (ACP).
Investment returns are the main goal both of our professional fund managers, and of the clients they work for. We are happy to announce that in 2003 our oldest and largest investment fund IPIF, a mixed-asset fund, earned a 33% return. This result, according to Kommersant Daily, earned Alfa Capital a well-deserved first place in profitability for the last three years among Russian investment funds (PIFs). The hedge fund we launched in July 2003 earned a 14% return, in line with growth in the RTS index, but with much lower risk.

At the end of the year, intensive investment management and company-building activity, Alfa Capital Management (ACM) reported a small net profit, while client assets under management tripled, from $30 million to $90 million. The results of our investment management for clients in 2003 attracted new assets at the very start of 2004. By soon after the New Year, client assets under management had risen to over $130 million.

Alfa Capital — Investing in Russia’s Future

The past year saw growing interest among the Russian population in long-term financial planning and diversification. Reforms in the banking and financial sphere also began picking up steam nationwide. Over the period, Alfa Bank began actively investing in its fund management activities.

Alfa Capital’s mission is to bring clients high returns at a given level of risk. We aim to keep our business honest and transparent, utilizing cutting-edge systems and drawing from international fund management experience.

Alfa Capital Management launched an ambitious development program in 2003. Our priorities for development of the company, partly financed by a $25 million investment from Alfa Bank, include:

- increasing professionalism;
- creation of a strict and effective investment process;
- development of a range of cutting-edge investment products; and
- building Russian and international distribution channels.

We launched three open PIF funds targeting individual Russian savings and investment.

ACM also began offering trust management services to large private clients. We offer non-government pension funds a number of flexible investment strategies and first-class client service.

We are the only Russian financial institution to sponsor the successful creation and marketing of a hedge fund, an investment product aimed at absolute capital growth targeted principally at foreign investors who would like to invest in Russian assets.

Alfa Capital was also selected by the government to manage individual pension savings. As a result of one of the most important recent developments in Russia, over 40 million young Russian working people may now choose annually who will manage their pension...
investments. Pension reforms have led to growing support of Alfa Capital by Alfa Bank's shareholders.

Alfa Capital Management — Professional, transparent leadership, trusted by clients

In order to boost our competitive advantage in this quickly-growing segment of the market, Alfa Bank invited Bernard Sucher to become Chairman of the Board of Directors of Alfa Capital Management. Mr. Sucher brings more than 20 years' experience on Wall Street and 10 years' experience founding a successful business in Russia. Mr. Sucher and Chief Executive Officer Anatoly Milyukov form a pioneering Russian fund management team. One of the key elements of their success in 2003 was the appointment of Charles Tennes as Chief Investment Officer. A veteran of 23 years in the American fund management industry, Mr. Tennes has taken over responsibility for the division's investment process and profitability. He has joined a young, talented and hard-working team, which includes portfolio managers, client-service professionals and our marketing team.

**Alfa Capital Management — a Bright Future**

We will continue building on our successes in 2004. Our priorities:

- profitability and risk management for all products
- institutionalization and improvement of the investment process
- expansion of joint efforts with Alfa Bank's national distribution network
- expansion and deepening of relations with institutional investors in Russia and abroad.

We have significant stimuli for success. “In 2001, there was only $2 billion worth of Russian assets under management by Russian fund managers. We project that this figure will reach one hundred billion dollars by 2010,” said Anatoly Milyukov. “In this strong growth environment, we believe that our leading team and quality investment product will grow into a large, profitable company. We aim to expand our business, becoming more and more profitable. Alfa Capital musts build on the advantages of its leadership.”

Russian private and institutional investment is growing quickly. We aim to remain a leader in the industry. Alfa Capital has created investment products to meet the needs of all its clients, including ordinary citizens and large investors, as well as the needs of new Russian investment organizations. We also offer special products for large foreign investors.

In the words of Bernard Sucher, Alfa Capital Management has two competitive advantages: Alfa Bank's nationwide distribution network, and its high reputation. “Our goal is to win the trust of clients and confirm the position of our product on the Russian market. After a decade of instability, scandals and unmet promises, it is easy to understand why Russian people are in no rush to risk their savings. We have worked hard to build a management company that meets international standards, and lives up to Alfa Bank's reputation built up over decades of reliability and good results. One of our main goals is to help to educate
our clients, to help investors make an educated choice between risks and returns, and
distinguish the high quality that accompanies growing competition.”

**Alfa Capital Partners – Leveraging Alfa’s Core Competencies**

In 2003, the investment environment in Russia achieved a level of stability and maturity
that makes an international standard private equity initiative attractive for Alfa as well as
sophisticated foreign and Russian investors.

Private equity in Russia is the most practical means for long-term investors to access attract-
tive opportunities presented by Russia’s dynamic economy. Consumer goods, industrial
products, logistics and services companies are not reflected in the public equities market,
which is dominated by large resource and infrastructure companies.

Alfa Capital Partners, founded in 2003, is a private equity investment group based in Mos-
cow. A wholly owned subsidiary of Alfa Bank, Alfa Capital Partners’ long-term objective is
to build the pre-eminent franchise for private equity in Russia and the CIS, institutionalizing
and expanding the historic private equity efforts of the Bank. Alfa Capital Partners’ mission
is to provide equity and equity-type capital and management support to small and medium-
sized private companies operating in the region to help them succeed and deliver attractive
returns to its investor partners and the Bank.

To head Alfa Capital Partners, Alfa recruited Richard Sobel as Chief Executive Officer in
November 2003. Mr. Sobel was an instrumental figure in one of the first major Western
investment efforts in Russia, Baring Asset Management’s $160 million First NIS Regional
Fund – SICAF. At Barings from 1994-1997, Mr. Sobel, who co-founded and managed the
Fund, built a distinguished track record that included investments in VimpelCom, Golden
Telecom, Borjomi, Burren Energy, Global Telesis and Alfa Cement. Mr. Sobel is responsible
for developing the strategy and team on the platform launched in 2003 by Managing Direc-
tor Gleb Davidyuk.

Alfa Capital Partners’ private equity initiative is important financially and strategically for
the Bank. Both Alfa Capital Partners and the Bank generally target medium-sized companies,
one of the fastest growing areas of the Russian economy. Alfa Capital Partners seeks to capi-
talize and expand on Alfa Group’s successful investment experience, the improving political
and economic climate in the region, and the large unmet demand for private equity.
Richard Sobel  
Chief Executive Officer  
Alfa Capital Partners

In 2004, Mr. Sobel, in close partnership with some of the most experienced managers of Alfa Bank, plans to develop a well-structured investment process and manage a direct investment program with capital from the Bank as well as leading foreign and domestic investors.

AlfaInsurance

Insurance premiums received in 2003  $166.3 mn  
Claims paid out  $64.4 mn  
Compulsory Motor Third-Party Insurance (CMTPI) premiums received in 2003  $17.5 mn  
Branch network  170 branches

AlfaInsurance Group is one of Russia’s largest insurers, with a service portfolio that includes a range of policies geared to businesses, as well as a wide spectrum of products for individuals. The company remains a leader in the market, operating throughout the Russian Federation.

In 2003, AlfaInsurance Group worked with a number of large clients. These include representatives of foreign companies, such as IBM, Samsung, DaimlerChrysler and Danone. We are also the trusted insurer of a number of government agencies, such as the Federal Center for Space Industry Facilities and the Russian Ministry of Emergency Situations (MChS). AlfaInsurance Group’s market share is also strong in the high-tech and energy sectors. Our clients include Golden Telecom, VimpelCom, Transnetprodukt, Udmurtneft and Sidanko. We also have strong ties in the rapidly-growing real estate sector — we have ties with the leaders in the industry, such as DON-Stroi and MIAN. The largest players in the consumer retail market are also our clients: Petrovsky Passazh, the boutique chain Wild Orchid (Dikaya Orchidea), Partiya, and Tekhnosila. AlfaInsurance Group also insures NTV+, Kultura TV channel, Kommersant Publishing House, Volzhsky Automobile Factory, Pulkovo-2 International Airport, ICN, Alfa-Eko, Volgatanker, Baiersdorf, Wimm-Bill-Dann, Sun Interbrew, Udarnitsa Candy Factory, IBS Group Holding Ltd., and many other companies and enterprises.

AlfaInsurance Group’s reputation is based on unwavering dedication to customers. Taking on sizeable risks requires a high capitalization. Today, AlfaInsurance Group is capable of meeting its liabilities from within its own group, which comprises three companies with consolidated charter capital of RUR 1,900 billion.

Reinsurance is the principal mechanism for insurance companies the world over to redistribute risk among other dependable insurance and reinsurance companies. The Group takes on its clients’ sizeable financial risks, and can meet all possible losses thanks to a reliable reinsurance program through the following leading international companies: Munich Re, Swiss Re, SCOR, Hannover Re, Lloyd’s of London, as well as the largest Russian insurance companies. AlfaInsurance Group is currently one of Russia’s top-ten largest insurance companies.
In 2003, Expert PA Rating Agency awarded AlfaInsurance Group its highest reliability rating, A++.

The group's priorities over the next year include founding a complex risk-management program for industrial companies (Umbrella coverage) and development of tailor-made insurance schemes for our business clients. Last year, we offered new insurance products to Russky Aluminum, Alfa Bank, Sun Interbrew, one of Russia’s largest construction companies, DON-Stroi, Aeroflot, and a number of long-term clients of Alfa Group.

Last year’s new products for private clients largely were in the form of simple insurance policies that can be arranged in just a few minutes, with a wide choice of options and prices. Last year we offered our new Alfa Travel product in time for the summer holiday season, with five different price and service bands, as well as a policy for people traveling abroad by car. This policy now offers wider coverage, as it is valid not only overseas, but also within the Russian Federation at a distance of at least 90 km from the holder’s permanent address.

Our new AlfaMed product offers our small- and medium-sized corporate clients reliable medical protection for their employees. This product centers on our own medical clinic, staffed by MedAs doctors, who take an individual approach to each client. MedAs medical center is a fully-integrated part of the Russian Ministry of Health Research Center Clinic, with its cutting-edge consultative and diagnostic base. The three varieties of the AlfaMed policy are aimed at top management, middle-management, and rank-and-file employees, and contain a range of standard insurance services that can be supplemented by special services chosen by the client.

In 2003, AlfaInsurance Group continued its active regional expansion. We opened five local insurance centers and 59 branches in Ioshkar-Ole, Kemerovo, Krasnoyarsk, Lipetsk and Arkhangelsk. Today the Group has over 170 branches and insurance centers throughout the Russian Federation.

Our regional branches saw huge demand for new compulsory motor third-party insurance (CMTPI). According to RSA (Russian Insurance Association) statistics, AlfaInsurance Group was among Russia’s top-ten CMTPI providers. Our regional branches are actively working to modernize their IT infrastructure to provide unified service quality for clients nationwide.

Supporting our high quality service through intensive business expansion is one of the Group’s key priorities. Significant resources have been invested in automating all business processes, modernizing infrastructure, forming an integrated information system, and ensuring information safety.

We continue to expand our customer relationship management (CRM) system using SalesLogix and developing specialized systems to account for optional medical insurance (AVIS) and life insurance (LifeOffice).

We are also developing an integrated system of insurance and financial accounting. In 2003 we launched a unified information area for the main types of insurance, which allowed us
to improve the efficiency of business processes connected to accounting for insurance agreements. We intend to automate our budget and management accounting, too.

We have begun introducing a new Corporate Information System, which will allow us to boost the efficiency of our insurance business as a whole. Our round-the-clock medical and automobile insurance call centers are a crucial addition to our clients’ comfort.

The quickly-growing insurance market is continually raising the benchmark for professionals in the industry. Last year we did not significantly expand our team, but instead focused on raising the current team’s effectiveness.

A measured hiring policy presupposes continual development of existing personnel. In 2003 AlfaInsurance Group opened a corporate ‘university’ to provide uniform corporate training standards for all our employees and contractors.

In 2003, our top management revised the Group’s strategic plan through 2006. Our new development strategy assumes future development of products and sales channels in partnership with Alfa Bank, aggressive regional expansion and even stronger sales outreach.
Financial Statements
High Capital Adequacy

In 2003, growth in Alfa Bank’s capital matched the rapid rate of growth of our business. Following the recommendations of international institutions, a bank’s own capital should equal no less than 8% of total assets, risk-weighted. Alfa Bank has decided to set itself an even higher capital adequacy target, of no less than 10%. As at the end of 2003, our capital adequacy was 10.38%. Own capital rose by $115.8 million in 2003, to $547 million. Maintaining a capitalization that matches our cautious approach to running a business in Russian conditions is part of Alfa Bank’s complex strategy for protecting the interests of our clients.

Balanced Asset Structure

Effective use of resources is a key factor in Alfa Bank’s reliability. As a result of our focused efforts to raise the quality of our assets, in 2003 we improved both the structure and liquidity of our assets. The share of profitable assets rose from 76% in 2002 to 79% as at the end of 2003, while commercial credit remained the largest part of our earnings-generating assets.

While maintaining the share of commercial credit in our asset structure at around 60%, the quality of the Bank’s credit portfolio improved noticeably in 2003. As a result of improvements to our credit policy and more effective evaluation of credit risks, the share of overdue credit was less than 1% of the total volume of loans outstanding. Thanks to the increasing quality of our assets, in 2003 we successfully lowered the reserve for bad debts to 4.9% from 5.6% of our total credit portfolio.
Stable Deposits Levels

As at the end of 2003, total customer deposits reached more than $3.99 billion. Stable inflows of client funds enabled us to provide significant growth in the Bank’s loan portfolio, which by the end of the accounting period had reached $3.62 billion.

Our positive business reputation and high international credit ratings allow Alfa Bank regularly to attract resources on the domestic and international financial markets. Thus, in February 2003, the Bank received a $50 million syndicated one-year loan. In December, we secured the next syndicated loan from a number of Western credit organizations worth $82 million, also due in one year. We also arranged a series of medium-term credit notes on the international financial markets to help us manage our intermediate liquidity. As at the end of December, we had deposits of $51.5 million of 3- and 6-month maturity.

In 2003, due to falling interest rates and in accordance with the bond issue terms and conditions, we readjusted the coupon of a series of ruble-denominated bonds of Alfa-Finance, issued with Alfa Bank guarantees. In December 2003 the interest rate on these bonds was set at a 10.5% annual interest rate. These measures helped us to bring our cost of financing in line with market rates.

Balanced Earnings Structure

The Bank’s earnings structure in 2003 is reflected in the balance established between Alfa Bank’s principle spheres of activity — commercial and investment. This is yet one more visible proof of the stability and reliability of our business.

The structure of our operating profits demonstrates growth in the share of regular income, largely thanks to significant growth in the volume of interest and commission income. In conditions of growing competition and an overall drop in rates on the loan market, this attests to the increasing reliability of our business.

Aurora International prepared the English-language text of this annual report.

www.aurora-international.co.uk
Auditors’ report

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

We have audited the accompanying consolidated balance sheet of ABH Financial Limited and its subsidiaries (the “Group” as defined in Note 1 to the consolidated financial statements) as at 31 December 2003, and the related consolidated statements of income, of cash flows and of changes in shareholders’ equity for the year then ended. These consolidated financial statements are the responsibility of the Group’s Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
20 April 2004
ABH Financial Limited
Consolidated Balance Sheet
as at 31 December 2003

(expressed in thousands of US dollars - Note 3)

<table>
<thead>
<tr>
<th>Note</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5</td>
<td>923,191</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation and other local central banks</td>
<td>293,294</td>
<td>214,252</td>
</tr>
<tr>
<td>Trading securities</td>
<td>6</td>
<td>694,575</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>7</td>
<td>131,621</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>8</td>
<td>3,440,680</td>
</tr>
<tr>
<td>Investments</td>
<td>9</td>
<td>65,443</td>
</tr>
<tr>
<td>Other assets and receivables</td>
<td>10</td>
<td>185,609</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>11</td>
<td>149,721</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>5,884,134</strong></td>
</tr>
</tbody>
</table>

| **Liabilities** |           |            |
| Due to other banks | 12 | 796,301 | 672,120 |
| Customer accounts | 13 | 3,400,406 | 1,997,416 |
| Promissory notes issued | 594,940 | 644,976 |
| Other borrowed funds | 14 | 323,917 | 212,684 |
| Other liabilities and payables | 15 | 201,517 | 146,011 |
| Deferred tax liability | 21 | 13,448 | 10,312 |
| **Total liabilities** | | **5,330,529** | **3,683,519** |

| **Minority interest** | | 6,635 | 3,485 |

| **Shareholders’ equity** |           |            |
| Share capital | 16 | 160,800 | 160,800 |
| Fair value reserve for investments available for sale | 9 | 22,798 | 62,657 |
| Revaluation reserve for premises and equipment | 11 | 5,195 | 6,267 |
| Retained earnings | | 358,177 | 201,462 |
| **Total shareholders’ equity** | | **546,970** | **431,186** |

| **Total liabilities and shareholders’ equity** | | **5,884,134** | **4,118,190** |

Approved for issue by the Board of Directors and signed on its behalf on 20 April 2004

Deputy Chief Executive Officer
Mr. Oleg Tumanov

Chief Financial Officer
Mr. Teijo Pankko
ABH Financial Limited
Consolidated Balance Sheet
as at 31 December 2003

(expressed in thousands of US dollars - Note 3)

<table>
<thead>
<tr>
<th>Note</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>17</td>
<td>477,475</td>
</tr>
<tr>
<td>Interest expense</td>
<td>17</td>
<td>(242,490)</td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td><strong>234,985</strong></td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>7, 8</td>
<td>(42,069)</td>
</tr>
<tr>
<td>Net interest income after provision for loan impairment</td>
<td>192,916</td>
<td>151,972</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>18</td>
<td>135,818</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>18</td>
<td>(41,150)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>18</td>
<td>18,987</td>
</tr>
<tr>
<td>Gains less losses arising from investments available for sale</td>
<td>9</td>
<td>31,054</td>
</tr>
<tr>
<td>Gains less losses arising from trading in foreign currencies</td>
<td>9, 10, 24</td>
<td>38,908</td>
</tr>
<tr>
<td>Foreign exchange translation gains less losses</td>
<td>(15,968)</td>
<td>854</td>
</tr>
<tr>
<td>Other provisions</td>
<td>9, 10, 24</td>
<td>(4,450)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>19</td>
<td>65,244</td>
</tr>
<tr>
<td>Operating income</td>
<td>421,359</td>
<td>336,562</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>20</td>
<td>(305,553)</td>
</tr>
<tr>
<td>Monetary gain</td>
<td>—</td>
<td>17,582</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>115,806</td>
<td>108,199</td>
</tr>
<tr>
<td>Share of results of associated company after tax</td>
<td>920</td>
<td>—</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>116,726</td>
<td>108,199</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>21</td>
<td>(11,011)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>105,715</td>
<td>104,626</td>
</tr>
<tr>
<td>Minority interest</td>
<td>(96)</td>
<td>(36)</td>
</tr>
<tr>
<td>Net profit</td>
<td>105,619</td>
<td>104,590</td>
</tr>
</tbody>
</table>
ABH Financial Limited
Consolidated Balance Sheet
as at 31 December 2003
(expressed in thousands of US dollars - Note 3)

Note 2003 2002

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
</tr>
<tr>
<td>Interest paid</td>
</tr>
<tr>
<td>Fees and commissions received</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
</tr>
<tr>
<td>Income received from trading in securities</td>
</tr>
<tr>
<td>Income received from trading in foreign currencies</td>
</tr>
<tr>
<td>Other operating income received</td>
</tr>
<tr>
<td>Operating expenses paid</td>
</tr>
<tr>
<td>Income tax paid</td>
</tr>
</tbody>
</table>

Cash flows from operating activities before changes in operating assets and liabilities 192,123 81,188

Changes in operating assets and liabilities

<table>
<thead>
<tr>
<th>Net increase in mandatory cash balances with the Central Bank of the Russian Fed-</th>
</tr>
</thead>
<tbody>
<tr>
<td>(59,818)</td>
</tr>
<tr>
<td>Net increase in trading securities</td>
</tr>
<tr>
<td>Net decrease/(increase) in due from other banks</td>
</tr>
<tr>
<td>Net increase in loans and advances to customers</td>
</tr>
<tr>
<td>Net increase in other assets and receivables</td>
</tr>
<tr>
<td>Net increase in due to other banks</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
</tr>
<tr>
<td>Net (decrease)/increase in promissory notes issued</td>
</tr>
<tr>
<td>Net increase/(decrease) in other liabilities and payables</td>
</tr>
</tbody>
</table>

Net cash from/(used in) operating activities 268,433 (306,689)

Cash flows from investing activities

<table>
<thead>
<tr>
<th>Proceeds from disposal of investments available for sale, net</th>
</tr>
</thead>
<tbody>
<tr>
<td>87,487</td>
</tr>
<tr>
<td>Acquisition of investments available for sale (204,711)</td>
</tr>
<tr>
<td>Additional acquisition of investment in associated company (8,210)</td>
</tr>
<tr>
<td>Acquisition of premises and equipment, net (26,971)</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiary, net 4,000</td>
</tr>
<tr>
<td>Dividend income received 1,486</td>
</tr>
</tbody>
</table>

Net cash from investing activities 57,799 16,313
### Cash flows from financing activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution from shareholder</td>
<td>73 000</td>
<td>56 400</td>
</tr>
<tr>
<td>Proceeds from other borrowed funds</td>
<td>132 318</td>
<td>200 625</td>
</tr>
<tr>
<td>Repayment of other borrowed funds</td>
<td>(24 034)</td>
<td>(40 533)</td>
</tr>
<tr>
<td><strong>Net cash from financing activities</strong></td>
<td><strong>181 284</strong></td>
<td><strong>216 492</strong></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>33 441</td>
<td>59 817</td>
</tr>
<tr>
<td>Effect of inflation on cash and cash equivalents</td>
<td>-</td>
<td>(62 473)</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td><strong>540 957</strong></td>
<td><strong>(76 540)</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents as at the beginning of the year</td>
<td>382 234</td>
<td>458 774</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents as at the end of the year</strong></td>
<td><strong>923 191</strong></td>
<td><strong>382 234</strong></td>
</tr>
</tbody>
</table>
## ABH Financial Limited
### Consolidated Balance Sheet
as at 31 December 2003

(expressed in thousands of US dollars - Note 3)

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Fair value investments</th>
<th>Revaluation premises and equipment</th>
<th>Retained shareholders' equity</th>
<th>Total shareholders' equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at 1 January 2002</strong></td>
<td>112 800</td>
<td>45 678</td>
<td>7 339</td>
<td>112 207</td>
<td>278 024</td>
</tr>
<tr>
<td>Net fair value gains arising on investments available for sale (Note 9)</td>
<td>—</td>
<td>34 947</td>
<td>—</td>
<td>—</td>
<td>34 947</td>
</tr>
<tr>
<td>Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)</td>
<td>—</td>
<td>(17 968)</td>
<td>—</td>
<td>—</td>
<td>(17 968)</td>
</tr>
<tr>
<td>Translation movement</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(16 407)</td>
<td>(16 407)</td>
</tr>
<tr>
<td>Transfer of realised revaluation of premises and equipment</td>
<td>—</td>
<td>—</td>
<td>(1 072)</td>
<td>1 072</td>
<td>—</td>
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<tr>
<td>Net profit</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>104 590</td>
<td>104 590</td>
</tr>
<tr>
<td>Share issue (Note 16)</td>
<td>48 000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>48 000</td>
</tr>
</tbody>
</table>

| **Balance as at 31 December 2002** | 160 800       | 62 657                 | 6 267                              | 201 462                     | 431 186                  |
| Net fair value gains arising on investments available for sale (Note 9) | —             | 7 104                  | —                                  | —                           | 7 104                    |
| Transfer of net fair value gains arising on investments available for sale to net profit (Note 9) | —             | (12 503)               | —                                  | —                           | (12 503)                |
| Effect of change in accounting treatment of investment in associated company (Note 9) | —             | (34 460)               | —                                  | —                           | (34 460)                |
| Translation movement | —             | —                      | —                                  | 25 024                      | 25 024                   |
| Transfer of realised revaluation of premises and equipment | —             | —                      | (1 072)                            | 1 072                       | —                        |
| Net profit           | —             | —                      | —                                  | 105 619                     | 105 619                  |
| Contribution from the shareholder (Note 26) | —             | —                      | —                                  | 25 000                      | 25 000                   |

| **Balance as at 31 December 2003** | 160 800       | 22 798                 | 5 195                              | 358 177                     | 546 970                  |
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Throughout the history of Alfa Bank, we have considered our reputation to be our most valuable asset. Over the years, we have experienced all the obstacles and challenges that faced Russia as a whole. We have triumphed against all odds, becoming Russia’s largest private bank, a leader of the financial industry. Alfa Bank is one of the very first Russian companies to acknowledge its social responsibilities.

For years now, the name of Alfa Bank has been closely linked with such cultural and social initiatives as the annual Golden Mask Theater Festival in Moscow and the Alfa Chance Program, supporting talented young people in Russia’s regions. Alfa Bank has blazed a trail to Russia for some of the world’s leading contemporary performers, including Elton John, Sting, Tina Turner and Paul McCartney, as well as organizing foreign tours for leading Russian opera and ballet companies. This year we also helped to organize and finance a competition to design a statue in memory of Nobel Laureate Joseph Brodsky in St. Petersburg. But all this is just the tip of the iceberg. The Bank’s community service is not limited to large nationwide projects. Alfa Bank provides financial support to numerous non-profit programs in Russia’s regions, as well as offering assistance to young talent, and helping those in need. But that’s not all, either. We take an active role in society in every place where we develop our business, from holding conferences aimed at attracting investment into the regions, to financing ecological programs and aiding educational institutions.

We offer aid at all levels of society. We see our role as encouraging the harmonious advancement of all of our communities. We are convinced that the future of our business is directly linked to the level of social stability, cultural development and well-being in Russia. Moreover, we are convinced that it is within our efforts to help make society happier and more confident.

Mikhail Fridman
Chairman, Alfa Bank Board of Directors
Support for the Arts

Alfa Bank’s support for cultural activities has played an important role in forming our image in the eyes of society. This is no accident. We aim to help maintain Russia’s role as a world cultural center. We hope that our activities help the mutual absorption and enrichment of different cultures, as well as to enrich the spiritual life of Russian society.

First and foremost, we see our sponsorship of the Arts as a means of forming the self-awareness and self-respect of Russian society. We hope that this work has helped to blaze a path to Russia for some of the world’s leading cultural icons. We also hope that we have contributed to the world’s perception of Russia as an important cultural center. Right from the start, we aimed to focus our work on an equal exchange of cultures.

Back in 2001, Alfa Bank signed a cooperation agreement with Russia’s Ministry of Foreign Affairs. This was the first such agreement to be signed between the Foreign Ministry and a Russian private company. Our goal was to support Russian culture and art and the development of external cultural ties in Russia. Since then, with the Ministry’s support, the Bank has undertaken numerous projects that bring outstanding cultural achievements to a new and wider audience, both in Russia and abroad.

Kazimir Malevich in New York

Like Joseph Brodsky, Kazimir Malevich was a principal influence in the formation of world culture in the 20th century, and has come to represent Russia in the eyes of the world.

Kazimir Malevich was one of the founders of abstract art in the 20th century. From 1915 to 1935 he developed a new system of painting — Suprematism — which he understood as an art of pure form, comprehensible independent of cultural or ethnic roots. His most famous works are “Black Square” and “Black Circle” (1915) and “White on White” (1918).

In 2003, with the financial support of Alfa Bank, the exhibit “Kazimir Malevich: Suprematism” opened at the Solomon R. Guggenheim Museum in New York. The exhibit opened in the US following its exhibition at the Guggenheim Museum in Berlin, where it had over 70,000 visitors.


“Kazimir Malevich: Suprematism” was the first exhibit to focus visitors’ attention on a defining stage in the development and work of the artist. The exhibit included about 100 paintings, drawings and objects collected from around the world from large state and private collections, including works that had never been exhibited in the West before, as well as several masterpieces that were discovered only recently.

“Cooperating with the Solomon R. Guggenheim Museum to hold such a significant exhibit is a great honor for us. Supporting Russian culture both in Russia and abroad has always been one of our top priorities.”

Peter Aven, President of Alfa Bank
Stars of the Mariinsky in London
The Mariinsky Ballet has been the pride of our nation for decades, and a symbol of Russian culture. For St. Petersburg’s tricentennial, we were pleased to support a tour of “Ballet Stars of St. Petersburg.”

London’s famous Royal Albert Hall held two gala concerts featuring stars of the Russian ballet.

The audience enjoyed a program including truly world-class Russian stars, including Nikolai Tsiskaridze, Irma Nioradze, Igor Zelensky, Yuliya Machali and Farukha Ruzimatova, who presented classic scenes from “Corsair,” “Sleeping Beauty,” “Swan Lake,” “Scheherezade” and “Don Quixote.” The tour even included the world premiere of a ballet by the young director Kirill Simonov, created especially for Irma Nioradze.

Russia and the United States
The Bank’s cooperation with the US State Department and the US Embassy in Russia, begun so successfully during work on the statue and museum to Joseph Brodsky in St. Petersburg, received a continuation in the year of our Northern capital’s tricentennial.

On November 20, 2003, US Ambassador to Russia Alexander Vershbow presented a memorial plaque in honor of the first official US envoy to Russia and the sixth US President, John Quincy Adams (1767–1848). The ceremony took place at the residence of the US Consul-General in St. Petersburg. Alfa Bank supported historical research to establish one of the addresses of John Quincy Adams in St. Petersburg, at 66 River Moika Embankment, where the future president lived with his family in 1810–11. The memorial plaque was created by sculptor Alexander Pozin. Both Russian and American historians advised on the text of the plaque, as well as on the US coat of arms of the time. The facade of the building at 66 Moika Embankment has been restored as part of the project, which will be unveiled in 2004 in the presence of American embassy representatives and Alfa Bank management.

Robbie Williams in Moscow
We helped bring another pop music superstar to Russia

In 2003, Alfa Bank, in partnership with the Internet Provider ROL, presented the only Moscow concert tour of Robbie Williams. The two-hour concert drew over 15,000 fans to the capital’s Olympiisky Sports Complex.
Covent Garden and Franco Zefirelli in Russia

As a member of the Board of Trustees of the Bolshoi Theater, Alfa Bank supported one of the Bolshoi’s biggest projects: the Russian tour of the British Royal Ballet at Covent Garden’s “Swan Lake.”

In December, the Bolshoi presented “La Traviata” directed by the great Italian director Franco Zeffirelli, also with our support. Some of Italy’s most famous voices came to Moscow for the event: Stefania Bonfadelli played Violetta, the outstanding tenor Massimo Giordano played Alfredo, while the world-famous baritone Renato Bruson played Germont.

Franco Zeffirelli had not been to Russia since 1973. Last December, he came to Moscow to present his new ballet in person.

“Traviata” is the second Italian opera seen in our capital in the last two years: in the fall of 2002 also with the support of Alfa Bank, the Opera of Rome performed Puccini’s “Tosca” at the Kremlin, also under the direction of maestro Zeffirelli.

“The Golden Mask Theater Festival

For many years now, Alfa Bank has supported the Golden Mask Theater Festival and Competition. During Petersburg’s tricentennial year, Alfa Bank supported Russian Case, an out-of-competition program to introduce foreign critics and producers to Russian theater productions.

We also supported the gala-concert “Nord-Ost and the World’s Best Musicals,” and a charity ball in aid of St. Petersburg’s theater academy, one of Russia’s most famous theater schools. Two of the most talented young students of the Theater Academy received individual stipends established by Konstantin Raikin and Sergei Yursky. Funds from an auction held during the ball went to support students of the Theater Academy.

Three Centuries of Russian Art

The “Three Hundred Years of Russian Art” Project was realized by the Russian Museum and Ministry of Culture with support from Alfa Bank and British-American Tobacco.

The project aims to create a ‘unified cultural space’ on the territory of the Russian Federation. One hundred masterpieces of Russian painters of the 18th to 20th centuries from the collection of the Russian Museum have begun a tour of the Russian Federation. The traveling exhibition includes works by Repin, Perov, Bryullov, Kiprensky, Surikov, Serov, Shishkin, Levitan, Savrasova, Malevich and Filonov.
Project of the Year
Sir Paul McCartney — In Russia with Love

On May 24, 2003 on Red Square in Moscow, the one-and-only Paul McCartney charmed an audience of 50,000. McCartney’s first-ever Russian concert was sponsored by Alfa Bank, BP, TNK and SAV Entertainment.

The event was unique in many ways. Never before had a star of such world stature performed in this historical and spiritual center of Russia. Paul McCartney, author of most of the hits of the legendary Beatles, performed many of his best compositions before the walls of the Kremlin.

Before the concert, Sir Paul gave a press-conference for a record number of 400 Russian and foreign journalists.

The concert lasted three hours, and Sir Paul gave three encores. Fans enjoyed 36 songs, including 22 Beatles hits, the most Beatles songs performed in a single concert since the group’s last tour 35 years ago.

- The event drew 50,000 people, the record for a rock concert on Red Square.
- McCartney’s tour managers called the Moscow concert the best-organized event of the whole of the star’s last year-and-a-half tour “Back in the World.”
- A nine-storey concert stage was erected for the event, a first in Russia.

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In June 2004, also with the support of Alfa Bank, Sir Paul will again visit Russia. This time the musician plans to give a huge concert on Dvorts-oval Square in St. Petersburg. The two-and-a-half hour show promises to become one of the largest-scale musical events in the history of our Northern capital. Over 80,000 people are expected to attend. President Putin, who was forced to disrupt his official schedule to see McCartney’s

“I am proud that the work of Alfa Bank has made thousands of my fellow citizens happy. We all grew up on the songs of the Beatles, but most had never dreamed of meeting one of them. … Alfa Bank now has a decade of experience working with top-ranking stars, many of whom have already accepted our invitation to Russia, but even for us this concert was something special. It is unrepeatable!”

Mikhail Fridman, Chairman of the Board of Directors, Alfa Bank
Joseph Brodsky Monument and Museum in St. Petersburg

The fate of Joseph Brodsky — poet, thinker and wanderer, at home equally in St. Petersburg, Venice, Konosha and New York, has made the unveiling of his statue in our Northern capital a symbol in its own right. It is a symbol of connection between times and cultures, a symbol of Russia’s complex relations with the outside world, a symbol of the tensions between poesy and politics.

We longed to help bring this great poet back to his Homeland. Brodsky never returned to his native St. Petersburg. But the neighborhood of Liteinaya sloboda still remembers him.

In March 2002, Alfa Bank and the Committee for Municipal Construction and Architecture announced the opening of an international competition to design a statue to Brodsky in St. Petersburg. At the same time, a competition website was established.

Twenty-four designs made it to the second round, each chosen by at least three members of the Expert Jury.

In May 2003, seven works made it to the third round.

During August and September 2003, the Brodsky Project hosted a public exhibition of the proposed designs on Nevsky Prospekt and in the garden of the Akhmatova Museum (’The Fountain Building’), and a nationwide debate about the proposed designs.

Finally, in November 2003, the jury met for the last time in the Akhmatova Museum. After a three-hour debate, a design by Vladimir Tsivin and Felix Romanovsky was chosen. The jury asked the two artists to continue work on the project.

We are happy that the jury’s opinion largely coincided with the opinion of the people of St. Petersburg. Tsivin and Romanovsky’s design had received wide approval throughout the exhibition and from visitors to the competition’s website. The jury then asked the organizers of the competition to offer all the other proposed designs as a gift to the cities where Brodsky lived and worked, asking those cities to use the designs to build their own monuments to Brodsky. The Brodsky Project also plans to publish the designs in a volume for art historians, art students and others.

As part of the project, on 4 June 2002, on Preobrazhensky Square in St. Petersburg, next to the home where Brodsky lived, the Bank held a poetry reading in honor of the 30th anniversary of Brodsky’s exile from the Soviet Union. During the event there was a screening of an animated film based on Brodsky’s drawings and sketches, called ‘One-and-a-Half Cats,’ created by the animator Andrei Khrzhanovsky. The film later was nominated ‘Best Animated Film’ at the Golden Eagle 2003 and Nika 2004 film festivals.

In April 2003 at the Akhmatova Museum Alfa Bank and the US Consul-General in St. Petersburg launched an exhibit entitled: Joseph Brodsky: “Urania. Leningrad, Venice, New York.” The exhibition included books, manuscripts, photographs and memorabilia surrounding the poet’s departure from Russia, depicting his choice, his taste, his interests and his foibles, demonstrating his unique ability to turn “the state we call exile” into a source of inspiration.

Many objects from the exhibition will be turned over to the collections of the Brodsky Literary Museum, currently under construction with Alfa Bank’s financial support in Brodsky’s former apartment in St. Petersburg’s famous Muruzi House.
Not Only High-Profile Projects

Our support of culture and art are not limited to high-profile, large-scale projects calculated to bring “good press.” The Bank aims to participate in preserving and expanding Russia’s cultural heritage through initiatives to restore artistic and historical treasures and monuments. We support such activities as tours of well-known performers and exhibitions, as well as new cultural programs not only in Moscow, but in nearly every region where we conduct our business.

The Art of Writing with Light

In cooperation with the Moscow Photography Center, we sponsored a series of festivals and photo exhibitions, including an exhibition of works by one of the patriarchs of the Russian avant-garde, the master of photo montage, artist, graphic designer, set designer, actor and director Peter Galadzhev. His works were presented by the State Central Film Museum, private collectors, and the Gallery of Alex Lachmann (Cologne). We sponsored other photo exhibits throughout Russia, including:

- at the Photo Center on Gogolevsky Bulvar in Moscow — “Karl Bulla and Sons”
- Moscow — “From the History of the Moscow Police”
- Samara and Togliatti, Central Russia — as part of the “Samara Assembly” Project, an international photography festival
- Chelyabinsk, Siberia — a photo contest entitled “Temptations of a Large City”

With Alfa Bank’s support, the Photo Center of the Union of Journalists held “For Friends and Enemies,” a unique exhibition of photo portraits of well-known political, cultural and business figures from Russia and the other post-Soviet states. Many well-known subjects of the exhibition attended the opening event.

First, Moscow, Next — the World

For the fourth year running, the Bank sponsored “December Evenings with Sviatoslav Richter.” In connection with the music festival, we also sponsored “Harmony and Counterpoint,” an exhibition
of works by German painters of the 19th century, at the Pushkin Museum of Fine Arts in Moscow. We also supported Moscow and regional theatres, including Moscow Youth Theater (TYuZ), the Art Theater Na Presnye, the student theater of The State Institute of Theater Arts (GITIS), Tomska Drama Theater, the Maxim Gorky Primorsky Akademichesky Theater, the Bashkir State Theater of Opera and Ballet, Nizhny Tagil Drama Theater, Sverdlovsk Academichesky Drama Theater, and The Yekaterinburg Puppet Theater.

In Fall 2003, Alfa Bank acted as general sponsor of the Italian Cultural Festival in Moscow. The festival was organized as part of St. Petersburg’s tricentennial celebrations, with events in both of Russia’s cultural capitals, Moscow and St. Petersburg. The celebrations included concerts by one of Italy’s leading symphony orchestras, Maggio Musicale Fiorentino, conducted by Zubin Metha; as well as performances by the well-known ensembles Brass-Quintetto Italiano and Polimnia Ensemble. The Russian public also applauded famous Italian dance groups Aterballetto, directed by Mauro Bigonzetti, and the Theater of Contemporary Ballet, headed by leading European choreographer Misha Van Hoecke. The Bank sponsored numerous other cultural events, including:

- Almaty, Kazakhstan — the 70th anniversary of the Lermontov Russian Drama Theater
- Kiev, Ukraine — the Lesya Ukrainka National Akademichesky Theater of Russian Drama’s tours to Donetsk, Dnepropetrovsk, Dneprodzerzhinsk and Nikopol;
- a production of My Funny Happiness based on the letters of Anton Chekhov, as part of the Year of the Russian Federation in Ukraine; individual stipends to deserving theater workers.
- Kiev, Vinnitsa, Slavutich, Vyshegorod, Chernigov and Belaya Tserkov, Ukraine — the second tour of the International Bulgakov Art Festival, as part of a program entitled “Against Drug Addiction and AIDS”

**Povolzhe** – a classical music series that brought concerts of leading Moscow musical talent to 14 cities in the region.

**Samara** – “Cinemania: New Russian Film” film festival, as well as the Grushin Song Contest.

**Izhevsk** – the ‘Music Britannia’ concert, with a number of local stars. Proceeds were donated to support a talent program for orphaned children in Izhevsk.

**Ulyanovsk** – an exhibition of Japanese art of the 18th and 19th centuries from the Pushkin Museum in Moscow.

**Nizhny Novgorod** – a tour of Moscow’s Tabakov Theater, a fashion show of leading Russian designer Valentin Yudashkin’s fall-winter 2003–2004 pret-a-porter collection; a concert by the Rejkjavik Chamber Orchestra conducted by Vladimir Ashkenazi; and a number of other cultural events.

**Ufa, Bashkortostan** – a ballet and drama festival including productions of “Giselle,” “Sleeping Beauty” and “Blue Don,” and including the famous Italian dancer Igor Yebra.

**Pskov**, part of Russia – in honor of the 1100th anniversary of the founding of Pskov, a concert performed by the St. Petersburg Academic Symphony Orchestra and the Sveshnikov State Choir.

“The ideas of free thinking and of an open society are more easily comprehensible, perhaps, to musicians and other artists than to just about anyone else. True Art knows no bounds. Its language is universal, and accessible to all. For us it is a huge honor to support this incredibly deserving cultural initiative.”

**Svetlana Kulagina**

**Director of Alfa Bank’s Nizhny Novgorod Branch**
Khabarovsk and Vladivostok, Russian Far East – concerts by Andrei Makarevich’s “Creole Tango” Orchestra; and a concert of opera stars from the Mariinsky Theater (St. Petersburg).

Krasnodar – Cultural and sports events, including a concert celebrating the 210th anniversary of Krasnodar with a concert of Russian pop music; the annual equestrian festival and a World Cup Final in acrobatics.

Lipetsk – on the eve of Lipetsk’s 300th anniversary, a concert with Yuri Bashmet and his Moscow Soloists Ensemble.

Ekaterinburg – five concerts and festivals, including a music festival in honor of the 130th anniversary of the birth of Sergei Rachmaninov, and the jazz festival Jazz Transit.

Tomsk, Novosibirsk and Omsk, Siberia – a traveling art exhibition entitled “Dutch from Siberia”, as well as an exhibit of Western European Art of the 17th–19th centuries from the collection of the Omsk Fine Arts Museum, including etchings by Rembrandt and his successors, Barend Cornelius Koekoek and others.

Novosibirsk – a tour of the Moscow Art Theater, featuring many of Moscow’s leading theatrical talent; the Fifth International Christmas Arts Festival; a portrait gallery of leading citizens of Novosibirsk.

Kemerovo – a Russian Orthodox theater festival; and the creation of a monument to the Soviet Cosmonaut Alexei Leonov, who was born in Kemerovo; as well as a festival of Russian lyric romances.

Irkutsk, Siberia – reconstruction of a statue of Tsar Alexander III in Irkutsk’s central square; a benefit concert for well-known Russian musical theater performer Vyacheslav Varlashov; publication of a poetry collection entitled Irkutsk Time.

Chelyabinsk – a concert by the British pianist Peter Donohue and Russian performers.

Orenburg – the fourth Eurasia Jazz Festival.

Tomsk – a tour by the Novosibirsk Opera and Ballet Theater.

Altai – an exhibit of Russian painter Nikolai Rerikh’s “Himalaya” series, and a competition to compose the best orchestral arrangement for Russian folk instruments.

St. Petersburg – in addition to the Bank’s support for the Joseph Brodsky monument and museum, in 2003 we supported a long list of projects connected with the city’s 300th anniversary. Among others, we supported a number of architectural restoration projects, in partnership with the St. Petersburg Committee for Municipal Construction and Architecture. This project focuses on establishing monuments to inhabitants who made their mark on the history of the city. The first step in our agreement with the Committee was to build a monument to women of the Air Defence Force who gave their lives defending the city during the siege of Leningrad (1941–44). The monument, designed by sculptor Lev Smorgon and Architect Igor Matveev, was opened on the eve of Victory Day, on 7 May 2002, on Kronverkskaya Street.

In May 2003, the sculpture “Stone Oarsman” was unveiled on the Suzdal Lakes in the Shuvalovo-Ozerki region of St. Petersburg. The Artists’ Hamlet Project had proposed building a landscaped park on the shore of Suzdal Lake to hold open-air festivals and other events. “Stone Oarsman,” a joint project by Alfa Bank and sculptor Dmitry Kaminker, is the first step towards realizing this idea. In June 2003 we sponsored a literary contest in partnership with Elle Magazine on the theme “My Petersburg.” The three top entries were awarded Alfa Bank credit cards with pre-paid monetary prizes, as well as valuable gifts from Montblanc. Following the awards ceremony, a dinner was held, with proceeds donated to the Russian National Library.
Support for Education and Identity

We well understand today’s child is the future face of our world. Tomorrow’s history will be formed by those who are still in nursery school or preparing for their university exams. Social awareness for us consists in helping today’s young people find their place in the world, develop their talents and realize their dreams.

The 18 finalists of the Alfa Bank Chance Program 1995 have now graduated from MGIMO (The State Institute of International Relations), MGU (Moscow State University), Plekhanov School of Economics, the Higher International School, the Finance Academy, and the Moscow State Linguistics Institute, and have now successfully entered the workforce. Considering the program’s good results, and also the fact that young talent in Russia’s regions crucially needs assistance, we have continued the Alfa Chance Program.

In 2002, 19 finalists won Alfa Bank scholarships to MGU (Moscow State University), Plekhanov School of Economics, the Higher School of Economics, the State University of Management, Bauman State Technical University, the St. Petersburg State University of Economics and Finance, and the Leningrad State Electrotechnical University.

The Bank pays the finalists’ tuition, their housing expenses, and a stipend to live on. We do not see the program as a way of preparing our own workforce. Students graduate with no obligation to the Bank whatsoever.

Student Diary – Ukraine

In 2003, Alfa Bank, in partnership with the company BSCA Ukraine, began the Student Diary Project at the Taras Shevchenko University in Kiev. The Student Diary is part of the international Student Planet educational program, which has run for over a quarter century in 15 countries including Belgium, France, Germany, Switzerland, Spain, the UK and Russia.

Over 10,000 university students will participate in the project. Some of them will serve an internship at Alfa Bank, while others will be invited to participate in master-classes taught by Alfa Bank specialists in finance and the Law. The top students will receive awards.

This project aims to educate a new generation of business people oriented towards building socially-responsible businesses in Ukraine. We aim to raise students’ awareness of the principles and functions of the financial sector, as well as to prepare professionals who will help...
“The Bobek Children’s Fund would like to express our huge gratitude for your financial support over many years. On behalf of the Fund, and from me personally, I would like to thank you for your active participation in the Self-awareness Project. I would like to thank Alfa Bank as a whole for its help and personal participation in a project that to me has almost sacred importance. <…> The value of your contribution is incontrovertible. We hope that with your help, and with the help of society as a whole, we will succeed in uniting our efforts, experience and expertise in order to restore human values, to help give life meaning, and to create a source of Humanity.”

SARA NAZARBAEVA, FIRST LADY, REPUBLIC OF KAZAKHSTAN

Children’s Fund, headed by Kazakhstan’s First Lady, Mrs. Sara Nazarbaeva. The Self-Knowledge Project, a schools-based program to help renew human values, has become an essential part of Kazakhstan’s educational system.

Alfa Bank Stipends
For several years now, the Bank has also supported St. Petersburg State University’s School of Management. We are one of the largest Russian sponsors of reconstruction of a new building for the school. As part of the program, Alfa Bank’s top managers hold lecture courses for MBA students, and some students serve as interns in various divisions of the Bank. Alfa Bank traditionally endows a stipend for students of the School of Management who show particular talents in financial management. In 2003, the Bank assisted the Russian Academy of Sciences Institute of World History in a program to support young scientists preparing and conducting international scientific conferences.

Other educational projects we supported last year include:

St. Petersburg – St. Petersburg Classical Lyceee, School No. 610.

Volgograd – a stipend program for top students at a number of higher educational institutions, as well as a program for high-school students of the top schools.

Perm – support for Perm State Choreographic Institute.

Nizhny Novgorod – Awards to winners of the Nizhegorod Talent Contest, including internships for winners at the Nizhny Novgorod branch of Alfa Bank.

Tomsk – a competition for best economics and finance research.

Bryansk – support of the young chess champion Yan Nepomnyaschy.

Belovo, Kemerovo District – purchase of computer equipment for schools.

Moscow – support to the Mitino Teachers’ Institute.

Aid to Young Talent
In 2003, Alfa Bank supported the following events and programs:

Chelyabinsk – as part of the World of Fantasy, a nationwide children’s festival of illustrated stories, the Bank helped publish a calendar with works by Chelyabinsk children. The Bank also supports the Chelyabinsk Puppet Theater.

Vladivostok – support for the Children’s Drama and Choreography Studio.

Ekaterinburg – “Rights of Children through the Eyes of Children” competition.

Glazov – a musical album called “Glazov Children’s Songs.”

Izhevsk – a tour to Slovakia by the concert choir of Children’s Art School No 1.
We consider the social responsibility of our business to be an essential part of our own development, a natural sign of the maturity of our business. We do everything we can to make the world around us a little better, a little happier. Perhaps we won’t solve all the world’s ills. But by finding points of growth and applying our efforts at these key points, we believe we can improve relations between business and society. We aim to help make our fellow citizens healthier both physically and spiritually, to make the air cleaner and the earth more fertile.

Rules for Development
This is how we interpret the work we do to support a civil society and to build Russian social infrastructure. Throughout the past years, Bank President Peter Aven and Chairman of the Board of Directors Mikhail Fridman have actively worked to create foundations for legal and banking reform.

Investor Confidence Index
Since June 2003, Alfa Bank has begun publishing a new monthly index that we hope will become the first indicator of investor attitudes towards Russia.

The Alfa Bank Investor Confidence Index (AB-ICI), developed with the help of specialists from the Russian Economic School, allows us to project with greater accuracy the intentions of investors, the amount of foreign direct investment and the direction of investment flows. With help of this index, money managers, analysts and journalists can gather a more objective view of the trends and changes in the Russian investment climate.

Openness for Trust
Alfa Bank and the Lauder Institute of Wharton School of Business have announced the founding of a new award in the area of foreign investment. The Award for Excellence in Foreign Investment in Russia will be awarded annually to a foreign company operating in Russia that achieves the biggest business success and makes the most substantial contribution to development of high standards of corporate management in Russia. In 2003, a distinguished jury awarded the prize for Excellence in Foreign Investment in Russia to Proctor & Gamble. Former Chairman and CEO Mr. John Pepper traveled to Russia to receive the award on behalf of Proctor & Gamble.

“Alfa Bank supported an initiative to erect a monument to the Russian Intelligentsia, because we share Andrei Sakharov’s respect for a civil society. We consider it our debt to society to memorialize the Russian Intelligentsia, which endured such hardship during the years of totalitarianism.”

Alexander Gafin, Member of Alfa Bank’s Board of Directors
In Nizhny Novgorod, Alfa Bank became a co-organizer of the “Rating Information Openness of Enterprises of the Nizhny Novgorod Region” Project. The main goal of the project was to publicize the most open and best-managed industrial enterprises in the region.

The Environment – Our Living Space
For several years now, Alfa Bank has served as a corporate member of the World Wildlife Fund, which supports rational uses of nature and protects the biodiversity of Russia and the world through the Living Planet program.

The Bank also supported the following environmental protection projects:

Chelyabinsk – a citywide spring festival for Children’s Day by organizing a Green World event that involved planting trees around seven children’s homes and orphanages in the city. The Bank also supported the opening of a pedestrian zone on Kirov Street in connection with the project.

Moscow – the citywide Moscow Yard competition.

Yaroslavl – the Bank supported the citywide ‘My Yard’ Program by building children’s playgrounds.

Irkutsk – an environmental education project to teach children how better to protect the nerpa, a local endangered species. The nerpa is a unique species of seal native to Lake Baikal.

In Memory
In 2003 the Bank sponsored the design of a sculptural project at Moscow’s Andrei Sakharov Museum and Community Center. “Pierced Pegasus” is a monument to Russian intelligentsia who suffered under totalitarianism. The sculpture, designed by Daniel Mitlyansky, Galina Shilina and Grigory Saevich, will be unveiled in 2004 in the square next to the museum.

The Bank also supports the founding of a museum and monument to former St. Petersburg Mayor Anatoly Sobchak.

Preserving Our Roots
Year in and year out, the Bank has supported the preservation of cultural and religious monuments within Russia and beyond our borders. In 2003, we provided financial support to over a dozen Russian Orthodox churches, cathedrals and monasteries, including:

- the Moscow Church of the Virgin at Petrovsky Gates
- Volokolamsky Josifo-Volotsky Staropigialny Monastery
- the Bogoyavlensky Church in Volgograd
- the Church of the Kazan Icon of the Virgin in Vladivostok
- Sviato-Knyaze-Vladimirsky Monastery and Bogoyavlenksaya Church in Irkutsk
- the Krestovozdivzhensky cathedral in Perm
- the Russian Orthodox Church in Rotterdam, Holland
Healthy Youth

Over many years, the Bank has offered directed assistance to realization of the most important national and regional programs aimed at supporting national healthcare and development of a healthy way of life.

We supported a Rock Against Terrorism event at Moscow’s Luzhniki Stadium, as well as a Rock Against Drugs rock festival in Krasnodar as part of the governor’s AntiNarco program. Throughout Russia, Alfa Bank offers financial support to sporting competitions and sports teams. Here are just a few of the many initiatives we sponsored last year:

- Magnitogorsk – the Romazan Hockey Tournament
- Nationwide Fifth Russian Youth Boxing Tournament
- Republic of Bashkortostan – financial assistance to the hockey club of Salavat Yulaev
- Volgograd – an annual sailboat race
- Murmansk – the 69th-annual traditional Polar Olympics, an international festival for the Far North
- Krasnodar – World Cup Final for Sporting Acrobatics
- Rostov – Rostov Football Federation
- Ekaterinburg – Russian Parachuting Championship and the Ekaterinburg Aviation Sports Club
- Vladivostok – sports teams including a basketball club and a children’s sports school for Greco-Roman Wrestling.

Aid to Those in Need
We will not go into detail in this section. We will not list the dozens of names and hundreds of donations. We believe that certain things should be done quietly, without attracting undue attention. We list here only a number of ongoing programs.

Aid to Orphaned Children
In 2003, the Bank began working with Rotary Club International, organizing a charity concert to support children’s homes in Sergiev Posad and Moscow.
The Bank also supports:

- Moscow Children’s Home No. 6
- Lyuberts Childhood Community Organization
- Satykov Children’s Home
- Serafimovichevsk Children’s Home in Volgograd
- Vadosky Children’s Home in Nizhny Novgorod
- Samara Children’s Home No. 3
- Krasnokamsky Orphanage in Bashkortostan
- Talovsky Boarding School and Children’s Home in Voronezh
- Children’s Home No. 1 in Irkutsk
- The Specialized Children’s Home in Murmansk
- The Vladivostok City Children’s Home
- and the Yaroslavl Children’s Home and Music School

As a member of the board of trustees of the Moscow City Police, the Bank, along with the Maria Charitable Society, supports needy families of the Moscow police force who have lost breadwinners. In 2003, Alfa Bank was honored for “Active Participation in Charitable Programs for Families of Employees of the Ministry of Internal Affairs Who Perished in the Line of Duty” by the Central Internal Affairs Administration for the city of Moscow.

In the Russian Far East, as a member of the Board of Trustees of the Region’s governor, the Bank gave financial support to children of armed forces and Ministry of Internal Affairs personnel killed in the line of duty.

Some of our other donations in support of children included:

- The Charitable Fund for Aid to Seriously Ill and Needy Children – the Bank funded a search for bone marrow donors for a six-year-old boy with leukemia.
- Novosibirsk – an operation for six young patients of the Novosibirsk NIITO.
- Tomsk – donations to the Tomsk Cardiology Scientific Research Institute.
- Krasnodar – financial support to the Solnyshko Children’s Psychoneurological Sanatorium.
- Kemerovo – New Year’s celebrations for orphans at children’s home no. 27.
- Nizhny Novgorod – Christmas and New Year’s celebrations for children from needy families.

Support of Veterans

In 2003, we continued our traditional charitable support for World War II Veterans’ organizations and other support for the handicapped, including:

- Basmannaya Veterans’ Organization
- Moscow Community Veterans’ Organization of the 65th Army
- Russian National Veteran Society
- The Council of Veterans of the Oktyabrsky Region, Izhevsk
- Voronezh Handicapped Society
- Zaschita — the Murmansk Regional Foundation for Support of the Handicapped, Pensioners and Veterans of Law Enforcement Agencies
- Samara Regional Clinical Hospital for War Veterans

Aid to Those in Need

Alfa Bank offers financial aid for purchase of medical equipment, including:

- Artificial lung machines for newborns. In 2003, the Bank aided purchase of this equipment for the Amosov Institute of Cardio-Pulmonary Surgery (Ukraine) and Hospital No. 7 in Kamensk-Uralsk.
- Equipment to provide emergency aid to World War II veterans and the handicapped for Irkutsk Clinical Hospital No. 1.
- Ambulances – for the Children’s Regional Clinical Hospital in Krasnodar.
- Medical equipment – for the Vladivostok’s Rygal Eye Center, Ekaterinburg Oncological Center and the 354th Regional Military Hospital.
- Support to handicapped children and drug-dependent teenagers in St. Petersburg.

The Bank also supported an international seminar in applied science to study congenital heart defects in Tomsk, as part of the Tomsk Scientific Research Institute’s heart transplant program. The European Association of Cardiopulmonary Surgery participated in the seminar, which covered new technologies for treating congenital heart defects, technologies for producing biomaterials for cardio surgery, and other contemporary approaches to treating infants with heart defects. In addition to presentations, the seminar included a five-hour live broadcast of an aorta transplant operation performed by leading Austrian surgeon Paul Simon. Performed very rarely in Russia, the operation provided local medical practitioners a unique opportunity to witness the procedure.
We are honored that our efforts to support a healthy society are met with understanding and respect in Russia and abroad.

In May 2003, Alfa Group Chairman Mikhail Fridman was awarded the Golden Plate Award of the International Academy of Achievement. The Golden Plate is awarded annually for outstanding lifetime achievement to international business, political, economic and cultural leaders who have set an example for the world’s youth.

In addition to Mr. Fridman, the following people received the Golden Plate Award in 2003: Dr. Lynne Cheney, Wife of US Vice President Richard Cheney; Leonard Lauder, Chairman and CEO, the Estee Lauder Co.; US Senator John McCain; US Senator Hillary Rodham Clinton; US Supreme Court Justice Antonin Scalia; H. E. Ricardo Lagos, President of Chile; H. E. Alvaro Uribe, President of Colombia; and H. E. Tayyip Erdogan, Prime Minister of Turkey.

In October 2003, Alfa Bank was acknowledged as “the Bank with the Highest Reputation,” according to Expert magazine’s annual rating. The Bank was named as having the best business reputation among commercial banks over the course of the year. Moreover, Alfa Bank was named “Most Attractive Bank in Russia in 2003,” and took first place in the ratings for all companies over the entire history of Expert’s rankings (1997–2003).

At an awards ceremony for the Third Annual National Media Award “Media-Manager of Russia for 2003,” Alfa Bank Board Member Alexander Gafin received an award for advancement of public relations in Russia.

“This award is a huge honor personally for me, but, more importantly, it is a great honor for Russia, for the successes we have achieved in building a promising economic and political future for ourselves and our children.”

Mikhail Fridman, Chairman of the Board of Directors of Alfa Bank
Building Community

Alfa Bank’s geographical presence spans 54 cities in Russia from Kaliningrad in the west to Vladivostok and Nakhodka in the east; 12 cities from Ukraine to Kazakhstan, as well as representation in Europe and the US.

Every one of our regional branches operates in accordance with a unified mission and principals of social responsibility that take into consideration the real needs of local people. Our approach means that we have a unique chance to support social and cultural ties throughout the territory we cover. We are proud of our contribution towards unifying society and restoring broken links. We are proud that over the years we have learned to help people. For many years, we have painstakingly and sincerely worked to build our reputation. Today, we are pleased that for thousands of people, Alfa Bank is more than just a bank.