It is time to live. 2004 was a year of new discoveries and achievements. It is time to live, to create, to be happy and to build a future.
Alfa-Bank participates in the Life Line Charitable Program designed to supply medical aid to seriously ill children. The program sponsors The World Around Me Children’s Pictures Competition. The best pictures, drawn by children, will be used for a series of postcards, the proceeds from which will be used to further Life Line programs. Thus children’s paintings help to save the lives of other children.
Awards and Recognitions

7,025  Bank's assets (millions in US dollars)
153   Net profit (millions in US dollars)
708   Equity capital (millions in US dollars)
4,100  Loan portfolio (millions in US dollars)
1,114  Number of clients (thou.) – individuals
  67   Number of clients (thou.) – legal entities
4,492  Deposits of clients (millions in US dollars)
    III  Number of branches
4,919  Number of personnel
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Dear Friends,

Succeeding and taking the lead in one’s industry is no easy matter, but it is even more difficult to sustain success, to gather momentum, to keep improving performance. Today, we are proudly submitting to you this Annual Report for the year 2004 as evidence of our continued success.

Alfa-Bank is part of the backbone of Russia’s national banking system, a diversified financial institution that enjoys its clients’ absolute trust and well-deserved recognition in the Russian and international business communities. Alfa-Bank has lived up to its reputation as the leading privately owned (non-government) bank of the country, demonstrating a high growth potential, self-assurance and ability to weather the most difficult situations with grace.

In 2004, Alfa-Bank’s profit was the highest the Bank has recorded in the nine years of its existence. Nonetheless, from year to year it is becoming increasingly difficult to maintain our lead, and therefore we have embarked on a path of continuous improvement and sustainable development. In 2004, we carried out a structural reorganization of the Bank with a view to improving its efficiency, profitability and competitiveness. We intend not only to react to the challenges of our competitive market environment, but also to anticipate...
Them. Today, our team is among the best in the market, with key positions held by professionals with a long, successful employment record from major Russian, European and American companies. Their innovative, well thought-out and consistent banking strategy combined with the use of western management methods adjusted for Russian market specificity is already bringing results that give us every reason to look to the future with optimism.

In 2004, we succeeded in increasing our corporate and private client base. The Bank offers its clients the most advanced forms of settlements, account management and lending products. We employ the latest in banking technology for our clients’ maximum convenience. Alfa-Bank’s proven effective system of risk management gives it a competitive edge over its rivals.

During the past year, Alfa-Bank retained the position of No. 1 private lending bank. Retail business is a strategic line of the Bank’s activities. In 2004, the number of private clients exceeded the one million mark. With its extensive branch network, its knowledge of the local markets and its rich experience of doing retail business in Moscow, Alfa-Bank has the necessary ingredients to expand its retail business at a faster rate than its competitors. The Bank intends to substantially increase its share in the high-yielding consumer lending market. Despite the instability of financial markets, Alfa-Bank’s investment bank business has been doing remarkably well. The Bank is placed firmly among the leading operators and market makers in the external market of sovereign Russian bonds and of Russian corporate debt instruments.

Alfa-Bank’s impressive achievements and its leadership in the Russian banking market are illustrated by many awards conferred on it by leading foreign financial publications and by rating agencies’ high appraisals of its creditworthiness. Realizing full well that the outlook for business in Russia depends on the nation’s social welfare, stability, and cultural and educational standards, the Bank gives generously to art projects and charities. The Bank’s activities in this sphere are not confined to arranging star-studded concert tours or supporting important art exhibitions. We also provide financial support for the Russian Orthodox Church, regional charitable funds and those in need. Beginning from 2005, all social and charitable programs of the Bank are aligned with the long-term corporate strategy focusing on Russian society’s most pressing problems. This year, special attention is paid to supporting the Life Line Charitable Programme aimed at helping seriously ill children, as well as cooperation with the World Wildlife Fund (WWF).

The Bank largely owes its successes to you, our shareholders, clients and partners. We appreciate our shareholders’ invaluable assistance in pursuing our development strategy. Whatever successes the Bank achieved have been made possible thanks to you – our shareholders, clients and partners. We therefore extend whole-hearted thanks for the confidence you placed in us and for your cooperation. You may rest assured that Alfa-Bank is and will always remain your stable, reliable and predictable partner, and will never settle for less than the top standards accepted in the international banking community.

Yours faithfully,

Mikhail Fridman
Chairman of the Board of Directors

Rushan Khvesyuk,
Chairman of the Executive Board
Board of Directors and Managers

Peter Aven
President

Mikhail Fridman
Chairman of the Board of Directors

Rushan Khvesyuk
Chairman of the Executive Board

Petr Smida
Chief Executive Officer

Andrei Kosogov
First Deputy Chairman of the Executive Board

Alexander Lukanov
Deputy Chairman of the Executive Board

Ildar Karimov
Deputy Chairman of the Executive Board

Victor Bashkirov
Head of Retail Business, Member of the Executive Board

Oleg Sysuev
First Deputy Chairman of the Board of Directors
We continue to build a modern bank – a high tech, efficient, stable, developing bank, capable of not only responding to, but also preempting the challenges of our competitive environment. We are improving the architecture of our business in the interests of our clients and partners.
From the very first days of its existence, Alfa-Bank always aimed to be a modern bank. Being considered modern is a very fast moving target in today’s Russia. It implies dynamic development, continuous introduction of new solutions, and evolution of business models based on relentless listening to customer needs. It is even truer today – we would like to become the benchmark of modern banking in Russia. Petr Smida, Chief Executive Officer

For us, the word modern means:
• achieving above market customer satisfaction;
• applying global best practices in the development of products and distribution;
• providing ubiquitous service with high utilization of self service and electronic channels;
• strengthening our competitive advantage through continuous process improvements and focus on lower unit costs; and
• establishing a progressive, service-oriented company culture.

“Our mission is to improve the lives of our customers by actively listening to their needs, creating suitable financial solutions and,
ultimately, saving their time. We believe that by increasing value to the customer, we will continue to increase the value of our company.”

For our targeted customer segments, we are committed to the principles of universality and reliability. The necessary conditions for implementing our strategic plans are: highly qualified employees and managers; adherence to international standards; and use of the most advanced technologies.

Although 2004 was not an easy year for the banking market in Russia, we managed to keep the trust of our clients and partners, while making considerable changes in the Bank. Because of these changes, we are better positioned to capture future opportunities, and therefore we look ahead with confidence.

The main financial result for 2004 is a record profit – USD $152.7 million, which is 45% more than in 2003. Assets increased by 19%, and the loan portfolio by 19%. The number of Bank private clients exceeded 1 million for the first time. Our equity increased by 26% to USD $708 million. We also understand the importance of cost control. In 2004, we streamlined our organizational structure, optimized our business process management and introduced modern technologies. We reduced the number of employees by approximately 15% and substantially upgraded our top management team with the intention of creating an optimal combination of Russian and global know-how.

The outside recognition of the Bank’s achievements is illustrated by awards from leading financial publishers and rating agencies. In 2004 Global Finance acknowledged Alfa-Bank as Best Retail Bank in Russia, Best Trade Finance Bank, Best Foreign Exchange Bank, Best M&A Adviser. In 2005, for the second year in a row, Alfa-Bank received the Operational Risk Magazine Achievement Award for “Operational Risk Framework at an Institution Based in an Emerging Market”.

The reporting year was the most profitable ever for the investment banking group. The Bank continued its successful activities in the equities, fixed-yield securities, foreign exchange, and derivatives markets. The Bank retained its position as one of the leading operators and market-makers in the external market of Russian sovereign bonds and Russian corporate debt instruments. In addition, Alfa-Bank increased its transactions volume in the internal market for ruble bonds by four times. We continued to develop our international presence via Alfa Securities Limited London, a fully licensed class A LSE broker, and Alfa Capital Markets Inc., New York, an SEC regulated entity. Last year was a successful one for the corporate bank as well. Our loan portfolio expanded by 19%, and at the same time we increased its diversification. A considerable part of the loan portfolio was comprised of products with a maturity of more than one year. Alfa-Bank continues to build a risk management function based on international standards. In the Bank, risks are managed on an operational, transactional and portfolio level.

As a result, overdue loans amounted to less than 1% of the portfolio, and write-offs for the year were less than 0.04%. Going forward, the Bank plans to maintain its loan market share to corporate clients. The most important factors for increasing the Bank’s competitiveness are enhancing sales force effectiveness and introducing a better product offering to clients. We plan to continuously develop our product range, taking into account the interests of different client groups.

In lending, product development priority will be given to the Medium Size Business sector. In 2004, we implemented new payment and settlement products based on electronic channel technology. One of the main goals of the commercial Bank is to achieve 80% of transactions in electronic form by the end of 2005. Furthermore, the Bank continues to be one of the leaders in the Russian retail
market. By volume of individual deposits, the Bank ranks among the first three Russian financial entities. Alfa-Bank’s joining the system for insurance of individual deposits became an additional guarantee of stability for our depositors. The Bank’s key advantages in the retail services market are our new distribution model and growing number of products, aimed mainly at above-average household income customers. Client service in the Alfa-Bank Express network was substantially improved, mainly through cost-effective core process redesign. The result of this effort was proven in recent customer surveys. The number of clients served in the new network increased by a factor of three and a half and exceeded 180 thousand.

We intend to introduce a Retail Bank servicing clients 24 hours a day, seven days a week via remote service channels. While the technology based services in the corporate business are already close to the level of international standards, in the retail business we plan to achieve this by the end of 2005. The development of such systems as improved internet banking, GSM banking and others will permit us to improve the quality of client service, cut queues in branches, increase productivity and improve the Bank's image on the way to becoming a benchmark of modern banking in Russia.

2004 marked Alfa-Bank’s real entry into the consumer sales finance market. To increase its share in this fast growing market, the Bank is leveraging its sales channels, extending its product range and training its personnel for efficient operation in Moscow and the regions. Successful expansion of the sales finance business is predicated on developing new technologies, making it possible to process most loan applications automatically. Alfa-Bank’s branch network will continue to be an important part of distribution channels. We are represented in all economically important regions of Russia, and are further developing our businesses in Ukraine and Kazakhstan. Our EU regulated daughter bank in the Netherlands, Amsterdam Trade Bank, continues to grow at above average rates.

In 2004, we made some important structural transformations in the Bank to get us closer to the next stage - that of a global benchmark. We are committed to applying and localizing foreign know-how, including enhanced corporate governance and compliance standards.

As with any corporation, the Bank’s success strongly correlates with the effectiveness of its employee motivation system. To drive further improvements in this area, we are introducing a new motivation program which will keep salaries at a competitive level indexed to the market, provide opportunities for career development, and enhance the climate of openness and confidence. Introducing the new motivation system, the Bank’s executives hope to make the Bank the most attractive employer in Russia in the near future.

We at the Bank believe a high level of corporate culture is one of the necessary conditions for increasing the efficiency of any business. While performing their responsibilities, each employee of the Bank should adhere to the following basic principles: high standards of personal integrity, openness to learn, an orientation towards results, the ability to work in a team, and above all a positive attitude. Our plan to rank as one of the most stable and profitable banks in the country with a reputation for maintaining high business standards remains unchanged.

We look forward to another year of productive changes, improvements in customer service and superior financial performance.
The economic stability achieved in the previous years does not in any way put off the necessity of economic reforms – such positive changes as an increase in the importance of consumption and retail lending for economic growth should be supported by structural changes in the sphere of natural monopolies and a reduction in the market role of the state sector.  

Peter Aven, President
International environment

In 2004 Russia benefited from an extremely favorable external environment. Commodity markets were booming: the average Urals price jumped from USD $27 p/bbl in 2003 to USD $34 p/bbl in 2004, or by nearly 30% y-o-y. Meanwhile, the average nickel price rose by nearly 40% and the steel price by 80% compared to 2003. Russian companies took advantage of this opportunity to increase export volumes by about 10% annually. As a result, net exports increased by around USD $20 billion, with foreign demand acting as the key driver for GDP growth. Around 70% of GDP during the previous year came from expanded export volumes and higher commodity prices.

The international interest rate dynamic was also positive for Russia. Despite expectations, the slower than forecast recovery in the US economy led the Federal Reserve to increase rates only modestly. As a result, the cost of foreign borrowing for Russian companies remained cheap and attractive. External corporate debt grew in line with GDP growth, and the corporate debt burden stayed at 12% of GDP.

The positive external environment was the main reason for upgrades of Russia by rating agencies Fitch (November 2004) and S&P (January 2005). Both agencies mentioned the status of net creditor as a key reason underlying their moves. The high 15% of GDP trade balance and 1.6% of GDP inflow of FDI allowed the CBR to accumulate USD $124 billion in reserves by 2005, exceeding the USD $110 billion of Russian foreign debt.
Economic policy and government strategy

The key change in 2004 was the consolidation of political power in the federal center via the elimination of regional elections. Regional governors will now be appointed by the President upon submission of their candidacy to the local parliament. This move tightens political control over the country and is meant to help with implementation of reform measures. In the field of economic policy, reform of the federal budget and fiscal policy remained a priority. As a result of the tax cut, collection in 2004 reached 34% of GDP versus 33% of GDP in 2003. This better revenue figure was best illustrated by the profit tax, which increased by around 0.6% of GDP last year. Preparation of the 2005 budget also implied an 18% VAT rate and a reduction of the payrolls tax rate from 36% to 26%.

While stimulating economic development through a tax cut, the state also launched the stabilization fund to use the favorable foreign environment as a means of ensuring long-term economic stability. During 2004 the state accumulated around USD $15 billion in the stabilization fund to be used for debt repayment and financing economic reform. By doing so, the Cabinet managed to create an instrument for anti-cyclical management of economic activity. Control over fiscal expenditures, which amounted to 33% of GDP in 2004 versus 35% a year ago, also confirmed the priority to prevent rapid growth in spending.

Debt restructuring was another focus area of state policy. The Ministry of Finance continues to keep flat the amount of domestic debt while the size of foreign debt is declining. In 2004 foreign debt fell from 26% of GDP to 19%, one of lowest levels among emerging markets.
Russian economy: Mixed trends

The accumulation of financial resources in state hands cost the economy some speed in its growth rate. Despite the 30% YTD increase in oil prices, the GDP growth rate of 7.1% was below the 7.3% recorded in 2003. In previous years, each $1 p/bbl increase in the oil price was believed to add around 0.4% to annual growth, on average. This implies that Russia should have grown at a rate of 10% last year, but the actual number was well below this level.

While Russia’s 7.3% growth rate in 2003 was remarkably high, last year the pace of its economic expansion was slower compared to other countries. For example, China and Ukraine – two countries that are net commodity consumers and thus should be vulnerable to higher oil prices – showed 10% and 12.7% GDP growth rates, respectively. Moreover, net commodity exporters like Kazakhstan achieved 10% growth.

Meanwhile, the role of consumption is gradually increasing in the Russian economy. While real disposable income grew in 2004 at a rate of 7.8% vs. 14.9% in 2003, growth in household consumption accelerated, advancing by 12.8% in 2004 compared to a much more modest 7.5% in 2003. The volume of retail sales rose by 11.6% in 2004 after an 8.4% increase in 2003. Indeed, growth in retail lending seems to be the driving force behind this consumption. The retail loan market expanded from 2% of GDP in 2003 to 3% in 2004. However, even after such outstanding growth, private debt per capita in Russia is only slightly more than USD $100, compared to USD $13,000 in the US and USD $8,000-10,000 in EU countries. It is estimated that banking loans accounted for around one-third of the increase in household consumption.

The unfortunate news, however, is that last year’s mini-banking crisis and the more inflationary environment also contributed to a decline in the savings rate, while spending increased as a share of distributed revenues. Household consumption should continue to rise, as its share in the total GDP structure is now quite small compared to other CIS countries. While in Russia household consumption represents around 50% of GDP, in other CIS republics it remains at a level of around 60-70%.

In 2004 Russia underwent a continuing increase in FDI, which totaled USD $9.4 billion, up 38% from the USD $6.8 billion reached in 2003. The commodity sector remains the key recipient of these flows: around 60% of FDI was directed to the oil sector, mainly through investments by Royal Dutch/Shell in Sakhalin projects. Meantime, it is worth mentioning that a number of deals took place in the banking, food and pharmaceuticals sectors. The FDI inflow to Russia in 2004 totaled 1.6% of GDP.
Main trends in the banking sector

The previous year saw significant progress in the area of banking reform. In 2004 the CBR launched implementation of the deposit insurance scheme, which will supplant the current system based on state guarantees covering deposits. According to new law, deposits opened with Sberbank from October 2004 will no longer be covered by state guarantees, which means much more equal business conditions for banks. As of the end of March 2005 some 824 banks had entered the deposit insurance scheme.

When analyzing the banking sector in 2004, it is hard to avoid the issue of instability. Following the summer mini-crisis that afflicted the interbank market, three groups of key players emerged. The first is comprised of state banks, which significantly reinforced their positions. The second is foreign banks, which also increased their client base in the second half of 2004. The third group is Russian private banks, which will have to make an effort to keep their market shares while examining the possibility of mergers and acquisitions. Another implication of the banking crisis was the slower growth of retail deposits, as a result of which the deposits to GDP ratio stayed at only 11% of GDP.

In terms of lending activity, retail was a focus among all banks in 2004. During the previous year the size of this segment doubled to USD $22 billion. At present, retail loans represent 3% of GDP, a figure that is close to the level of Eastern European countries. However, it is estimated that only 5-10% of the population have received loans, which creates high upside potential for the retail market.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total FDI, $ mln</th>
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<tbody>
<tr>
<td>Commodity extraction</td>
<td>4,080</td>
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<tr>
<td>Manufacturing</td>
<td>2,911</td>
</tr>
<tr>
<td>Financial</td>
<td>356</td>
</tr>
<tr>
<td>Real estate</td>
<td>650</td>
</tr>
<tr>
<td>Other</td>
<td>1,423</td>
</tr>
</tbody>
</table>
A tested path of progress, the best offer to clients and profitable growth. Our clients appreciate us not only for the comfort and prompt service provided by us, but also because we consider their interests and bring them confidence in the future.
Last year we proved that Alfa-Bank’s leadership is stable, as it is based on a reliable foundation. In spite of the mini-banking crisis, our advantages – highly professional risk-management, a balanced loan portfolio and a better offer of products – have permitted us not only to retain, but also to increase the trust of our clients, and to demonstrate stable rates of growth in key business segments.  Alexander Lukanov, Deputy Chairman of the Executive Board
In 2004, despite the summer mini-banking crisis, the Bank retained its leading position in the financial market of Russia, ranking among the top five banks practically in all market segments. Today Alfa-Bank is not only the largest Russian private bank, but also the most technologically advanced, providing the most universal product offering. In the reporting year the Bank developed new high-tech settlement products permitting our clients to reduce considerably their expenses on payment processing, as well as centralizing the management of cash flows through a modern flexible channel of communication with the Bank. The number of legal persons being served grew from 61 thousand to 67 thousand.

In 2004 in the sphere of corporate banking services, Alfa-Bank ranked third as to placement volume and fifth as to the amount of attracted funds. By volume of loan portfolio the Bank is below only the state-owned Sberbank and Vneshtorgbank.

The share of regional business continues to grow in the aggregate volume of the Bank’s operations. In 2004 we opened five new structural units of Alfa-Bank in the regions, and the total number of units amounted to 120 as at the end of the year. At the same time, during 2004 the regional expansion had a “spot” nature, with the transition from the extensive growth of the branch network to the maturity of the business in priority regions and the development of effective distribution channels.

In accordance with its business development strategy, the Bank has continued to expand its presence in key industries and spheres of services. According to data from the RF Central Bank, Alfa-Bank’s share in loans to all industries in 2004 amounted to 7.3%. The construction industry became one of the leading sectors in the loan portfolio of the Bank in 2004. Within the past two years the Bank’s share in the aggregate volume of loans to construction enterprises grew from 1.8% to 7.5%. In the structure of the loan portfolio the share of service sector enterprises, engaged in trade, transport and construction, rose while that of natural resources companies decreased (see Diagram 2 on page 27).

In the structure of the loan portfolio the specific weight of industries in which Alfa-Bank possesses a wide clientele base and considerable experience of operations – such as the military-industrial complex, transport and construction – will increase in the near future. Alfa-Bank diversifies its loan portfolio and continuously reduces its sector concentration. In the industry structure of the portfolio, the share of the ten largest borrowers decreased during the year from 32% of the total volume to 23% (market average figure for 2004 – 38%).

The share of loans to Bank-affiliated companies continued to decrease, from 3% in January 2004 to 0.6% in December 2004. The share of loans to medium-sized businesses grows inexorably – during the year it increased by 5% and made up nearly a third (32%) of the total portfolio volume. In 2004 the share of long-term loans (with a maturity of more than a year) increased in Alfa-Bank’s portfolio structure from 27% at the beginning of 2004 to 29% in December.

Our professional risk management and advanced analysis of the financial state of our clients made it possible for the Bank to improve the quality of its loan portfolio in spite of the mini-banking crisis. The share of overdue loans decreased from 0.8% to 0.65% of the portfolio volume.

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**Services to Corporate Clients**

**4.8 %** Market share by placement

**2.9 %** Market share by attraction

**0.65 %** Overdue loan share

**USD $4.3 billion** Corporate loan portfolio (excluding reserves)

**32 %** (5% more than in 2003) Share of medium-sized business in the loan portfolio
Medium-term loan products

In 2004 Alfa-Bank consolidated its position in the market of loan products with a maturity of more than a year: such as project financing, leasing and complex structured loan transactions, which are often arranged with the participation of export-credit agencies.

The total volume of the medium-term loan portfolio in 2004 increased by 44% – from USD $1.5 billion to USD $2.1 billion.

Among the most important transactions in 2004 we should note:

• issuing a guarantee to Machinery Intertrade Ltd., UK, for CJSC Ormet in the amount of USD $23 million to supply mining equipment of Caterpillar (USA);
• issuing an uncovered irrevocable letter of credit to CJSC NSMMZ. Payments under the letter of credit are made out of the loan granted to Alfa-Bank by Bayerische Landesbank, against insurance provided by EKA HERMES. The sum is 10.7 million for acquisition of the equipment of VAI FUCHS GmbH (AC arc furnace, shaft furnace).
• granting to LLC Alfa Leasing of a USD $41 million loan to implement leasing transactions with JSC NOVATEK, connected with supplies of import process equipment and railway rolling-stock;
• granting to LLC Sevtekhnotrans a loan to purchase rolling stock under loan agreements with Cargill for a total amount of USD $30 million; and
• granting loan products to LLC Alfa Leasing and OJSC Izhmash-Avto in the amount of USD $40.6 million to purchase equipment and lease it out to OJSC Izhmash-Avto under implementation of the KIA program.

In 2004 Alfa-Leasing considerably consolidated its market position among the leading leasing operators of Russia. According to the rating of leasing companies given by Expert RA Agency, Alfa Leasing ranks among the six largest leasing companies by volume of received lease payments for the first nine months of 2004, with a total volume of more than USD $59 million, and ranks third by financed funds volume for the specified period, with a total volume of more than USD $122 million.

Among the largest transactions made by LLC Alfa-Bank, some of which became very important for the Russian leasing market in 2004, we should mention:

• a leasing contract worth more than RUR 1.7 billion to supply gondola cars to OJSC Russian Railways;
• a number of leasing contracts worth a total of USD $66 million with OJSC IzhAvto (SOK Group) to supply modern Korean process equipment for assembling and painting cars;
• financial leasing worth USD $14.8 million for the rolling stock for LLC Nova-Trans;
• a program to lease road building and other construction machines for LLC Montazhnoe Upravlenie – 7 (Unit SU-135), OJSC House-Building Complex No. 2 (PIK Group) and others in the total amount of more than USD $21 million;
• leasing of telecommunications equipment, computers and office equipment for CJSC SMARTS and FGUP RTRS in the amount of more than USD $10 million.

By its performance results for 2004, Alfa Leasing holds a considerable share in such segments of the leasing market as railway transport, road-building and other construction machines, telecommunication equipment, food processing, passenger and freight motor transport.

In 2004 the geographic reach of the company’s operations was greatly expanded: projects are being implemented in all federal regions of the Russian Federation, the leasing subdivision of Alfa Leasing is developing in Kazakhstan, and we are

<table>
<thead>
<tr>
<th>Segment</th>
<th>Share in the market, %</th>
<th>Increase in market share, %</th>
<th>Growth rate* 2004/2003, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>4.83</td>
<td>−0.24</td>
<td>34.4</td>
</tr>
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<td></td>
<td></td>
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</tr>
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</table>

* In ruble terms.

Notes: volumes of attraction and placement – annual average; Loans to enterprises without taking into account overdue debts and discounted bills.
laying the necessary infrastructure for the company’s operations in Ukraine.

In 2004 Alfa-Bank continued its intensive cooperation with the leading domestic and foreign suppliers of machines, vehicles and equipment, including: LLC CTH Russian Buses, OJSC Promtractor, FGUP Uralvagonzavod, OJSC Azovmash (Ukraine), Liebherr (Germany), Caterpillar (USA), Marubeni (Japan), Brueckner (Germany), Berkefeld (Germany), Tetra Pak (Sweden) and others.

**Subsidiary Banks**

**Alfa-Bank Kazakhstan**

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.

**Performance results for 2004**

Alfa-Bank Kazakhstan is among the twenty largest banks in the Republic of Kazakhstan by assets and among the ten leading banks by gained net income. In 2004 the Bank’s assets increased by 40% and amounted to USD $94 million by the beginning of 2005, while its loan portfolio is more than USD $57.6 million. The Bank’s capital increased during the year by 30% and amounted to USD $20.5 million. The Bank serves more than 13,500 individuals and legal entities.

As of the beginning of 2005 Alfa-Bank Kazakhstan issued more than 3,200 international plastic cards, which is an increase of 23.7% year-on-year. As compared with 2003 the amount of the loan portfolio increased by 15%, and the average annual client attraction by 46%. On June 20, 2003 Moody’s Rating Agency gave the bank a “B1” long-term rating for foreign currency deposits, and an “E+” financial stability rating. On January 26, 2004 the long-term rating for foreign currency deposits was raised to Ba3.

**Alfa-Bank Ukraine**

Alfa-Bank Ukraine was registered in January 2001. The branch network of Alfa-Bank Ukraine includes branches in Donetsk, Kharkov, Dnepropetrovsk, and two bank offices in Kiev. From the time of its foundation the Bank has been developing in Ukraine as a universal financial institution offering its clients the maximum set of bank products and services.

**Performance results for 2004**

(exchange rate 5.3054 UAH/ USD): The Bank’s assets as of January 1, 2005 amounted to UAH 1,010.09 million, loans and liabilities of clients totaled UAH 727.96 million, and the Bank’s capital was UAH 224.5 million. Attracted funds of individuals totaled UAH 52.364 million, and attracted funds of legal persons reached UAH 344.756 million. The Bank serves over 6,000 private clients, and about 1,000 corporate clients.

The Bank’s loan portfolio increased by a factor of 1.7 and amounted to UAH 727.96 million, or 72% of total assets. Funds in clients’ accounts increased by a factor of 2.49 as compared with 2003 and totaled UAH 397.12 million at the end of 2004. In 2004 Alfa-Bank Ukraine took part in the arrangement of four bonds for Ukrainian enterprises, in a total volume of UAH 241 million. The largest bonds were arranged for JV LLC Metalen (UAH 200 million) and LLC Velika Kishenya-Finansy (UAH 20 million). The Bank’s equity capital increased by a factor of 1.52 and amounted to UAH 224.5 million.

The Bank plans to develop its retail business – in 2005 Alfa-Bank Ukraine plans to join the MasterCard Int. payment system, enjoying the right of an affiliated member to issue and service MasterCard cards, and introduce loan products such as overdrafts on salary cards and credit cards.
Amsterdam Trade Bank N.V.

In 2004 Amsterdam Trade Bank N.V. (ATB) celebrated its tenth anniversary. The foundation of ATB in Amsterdam, the Netherlands, in 1994 was the result of long joint work by Dutch and Russian specialists who performed detailed analysis and long-term forecasts of the demand for professional bank servicing of European and Russian private trade and financial flows. The idea was to unite the advantages of a classic Dutch bank with the capabilities of a strong Russian bank possessing a large regional branch network. At the same time, the specialists took into account the need for high-quality support of business carried out by European companies in Russia. Such support requires reliable analyses of Russian partners and the peculiarities of Russian business, as well as a guarantee of the safety of funds and client confidentiality.

This idea began to be realized after ATB joined the Alfa-Bank structure in 2001. The volume of its business increased considerably. ATB’s assets increased by nearly a third in 2004 – from €952 million to €1.250 billion. ATB has already been repeatedly named as one of the most dynamically developing banks in the Netherlands in KPMG’s annual review of the Dutch banking sector.

ATB specializes in financing trade transactions between Russia and country members of the European Union. In close cooperation with Alfa-Bank, ATB continues to build up its loan portfolio, which grew at a rate of 43.8% in 2004. It is attracting more and more of the top Russian companies as clients. While in 2003 the Bank’s own capital did not exceed €13 million, by the end of 2004 it amounted to €8.8 million – a direct consequence of the high profitability of the bank and the confidence of its shareholders in its continued successful development.

During the last 18 months Alfa-Bank increased the equity capital of ATB twice – from €14 million to €40 million and then to €80 million. The additional capitalization of ATB was done together with a considerable increase in the transactions volume of ATB, which, thanks to its geographic position, is actually the advanced post of Alfa-Bank in the countries of the European Union. The complementary activities of Alfa-Bank and ATB generate unique opportunities and advantages in the market of modern banking services, which are actively demanded by both European and Russian business communities.
Strategy of corporate business development in 2005

In 2005 Alfa-Bank plans to develop and sell complex “intellectual” loan products, adapted to the needs of its clients. In the market there is great demand for syndicated loans and structural and project financing, and the Bank’s experience and technologies will permit us to keep the leading positions in this highly marginal segment of the market. The Bank differentiates its product offering by developing not only loan, but also new settlement products. New processes and a system of direct sales make it possible to simplify settlements for clients, and increase volume and number of payments without raising costs, as well as offer unique products in the field of settlements. Another area of growth in 2005 will be realizing our high internal potential. Principal attention will be paid to concentrating sales in priority segments such as consumer lending and increasing sales efficiency through our new system of employee motivation and the simplification of procedures for the greater convenience of clients.

The “Mars” project, launched in 2004 and designed to lend to medium-sized corporate businesses, managed successfully to achieve its financial targets for 2004. This program is characterized by simplified procedures of credit risk assessment. In 2004 the program was tested in Moscow, which permitted us to accumulate knowledge and prepare infrastructure and human resources for large-scale introduction of the project in the regions in 2005. At the same time, income from lending to medium-sized business is not yet great. In the first place, this is connected with the small number of companies in this segment that are transparent in terms of income structure, tax planning policy, amount of capital and other important characteristics which permit us to assess the company’s solvency. Servicing small and medium-sized businesses will become truly profitable only when the number of such companies increases by a hundred times. We are sure that implementation of the program is guaranteeing us a leading position in this market in the long term.
Currently Operating Branches and Subsidiaries

Branches Will be Opened in 2005

- Krasnoyarsk
- Angarsk
- Irkutsk
- Khabarovsk
- Yuzhno-Sakhalinsk
- Nakhodka
- Vladivostok
Our main goal is to render services meeting the life style of the client and helping them to solve day-to-day routine problems as well as giving them an opportunity to realize their most daring dreams and wishes. We are learning to understand and foresee the needs of clients, and on this basis we build relations with each of them designed for long-term mutually beneficial cooperation. With such an approach there can be no doubts as to the long-term success of the business.

Victor Bashkirov, Head of Retail Business, Member of the Executive Board
In 2004 Alfa-Bank continued dynamically developing its retail business. Formation of the Alfa-Bank Express branch network was completed. The Bank continues to consolidate its regional presence, laying emphasis on retail development in cities with a population over one million.

The past year turned out to be challenging for our retail business. Competition was aggravated because of the active expansion of foreign banks in the retail services market, and as a consequence Russian banks began to consider the development of retail business as one of their main priorities.

In 2004 the retail strategy of Alfa-Bank underwent some changes, but this did not impact its main focus on progressive growth of both the client base and basic indicators of banking activities such as liabilities and loan portfolio.

Alfa-Bank is one of the leaders in the retail market both in Moscow and the regions. By aggregate of liabilities in settlement and saving accounts of client–individuals, Alfa-Bank ranks among the top three Russian financial institutions. We compete successfully with both state-owned and western banks. The Bank’s key advantages are a wide spectrum of products, a developed system of convenient service channels including access to services by Internet, Telephone Center, mobile phone and self-service zones, the ability to service clients at any branch of Alfa-Bank Express, the diversification of the client base to take into account different categories of clients, and the continued effort to establish long-term relations with clients.

The success of the aggressive policy of Alfa-Bank in the market of retail services is proved by the considerable growth of the client base in Moscow (Alfa-Bank Express) and in the regions.

One of the consequences of growing competition has been the higher requirements of clients. The psychology of buyers of bank services has changed. Clients changed their opinion as to the role of the bank in their day-to-day life and the methods to be used by the bank in its operations. For many clients the bank became a convenient instrument helping them to solve numerous, including routine, problems, such as daily expenses, income planning, funds accumulation, etc. And such instruments used every day must be convenient, and as comfortable as possible for the client.

Considering the changes in the client’s psychology, the Bank reorganized the structure of the Retail Business to be able to take into account the needs and wishes of our clients as much as possible. The team of the retail bank was staffed with well-qualified specialists with a work record in building retail networks in western banks.

Considerable changes were made in the key business processes for client servicing, which has resulted in a substantial reduction of time spent on servicing. Thanks to this we succeeded in increasing the capacity of the branches of Alfa-Bank Express and got rid of queues.

In 2004 advanced processes continued to be introduced into the retail business. In our opinion, the most successful and important project was the launch in October 2004 of the technology for notifying a client of transactions, involving plastic Visa/MasterCard cards via sending SMS-messages to mobile telephones. This is just the first step on the path to a full-service SMS banking system capable of providing a client with a wide spectrum of services at any time, anywhere in the world. Among other successfully implemented product and process solutions...
wrought modification of the credit card operation mechanism, which has permitted us to raise the functionality of credit cards up to the level of international standards, and design alterations in the operating procedures of the Internet-bank. Serious changes affected the organization of sales in the bank’s retail network. Sales are divided into corporate (salary projects, loan products for employees of corporations), retail (Alfa-Bank Express), investment (unit and investment funds, financial planning and private funds management) and regional (regional offices of sales). Sales were separated as an independent function at the level of branches. The Bank is carrying on intensive work for organizing a network of direct sales through its Telephone Center. The approach to training of sales-consultants has been changed. The main priorities are to pay maximum attention to the needs of each client, striving to satisfy the client fully, skillfully describing to a consumer the features of a product, and offering a client the optimum available solution. The main goal for the Bank is growth of the client’s welfare, and thus the Bank’s welfare as well. The most important role in the organization of the sales network was played by the introduction of a flexible and transparent motivation system.

Convenience and comfort of the client is an important factor of banking service attractiveness. Today in the retail sector this convenience is determined by the number and quality (functional fill) of products and services that a client can receive at any time and place. The remote service, as well as being convenient for the client, permits the Bank to minimize transaction costs and hence make a product or service more competitive. Today the most promising services are electronic service channels – Internet-bank, mobile phone and Telephone Center. The Bank provides all three service channels, with Internet-bank and Telephone Center being included in the standard package of services and provided free of charge. The Bank is planning to continue development of electronic channels of service and distribution in the future.

**Alfa-Bank Express**

Alfa-Bank Express has completed the formation of its branch network covering practically all of Moscow thanks to the placement of branches in busy thoroughfares and crossings. At present in Moscow there are 27 operating branches of Alfa-Bank Express. The innovation platform of the retail business, designed to provide transparency of service, convenience and comfort for clients, has proved its right to exist. The client base of Alfa-Bank Express is fast growing – by the end of 2004 it numbered 150 thousand clients. The product line is developing too – new loan, deposit and commission products are emerging. The Bank is intensively developing partnership programs permitting a client to receive the maximum benefit from the integration of services rendered by the Bank and the largest trade-service enterprises. The Bank pays great attention to improving service quality, training employees, building a corporate culture of maintaining relations with clients, and encouraging the exchange of knowledge and skills among the employees. In December 2004 the Bank gathered “feedback” to analyze clients’ assessments of the quality of Alfa-Bank Express’ operations. The results show that the development line had been chosen correctly. We are convinced that in 2005 the Bank will be able to make to existing and would-be clients the best product offer of all our competitors.
Development of the retail business in 2005

The principle task of the Retail Bank for 2005 is to grow the Bank's client base through the consolidation of Alfa-Bank's position in the segments of “medium” and “higher than medium” classes both in Moscow and in the regions. Realizing this goal depends on the fulfillment of some obligatory conditions.

We must make the client the best offer as to “price/quality” ratio. This is not so easy, but possible. The package offers of Alfa-Bank Express give us unique opportunities for accounts management, funds accumulation and financial planning, and the transformation of services of various types at the client’s request. Bank clients receive a set of services, many components of which have no equivalent in the market. In July 2005 the Bank plans to sell personal loans as well as credit cards on the basis of express-assessment technology. Along with increasing the client base, we are facing the problem of speeding up migration of clients from old generation branches to branches of the new Alfa-Bank Express format. To solve this problem it is necessary to bring to the forefront information about the advantages of Alfa-Bank Express over the old branches.

The Bank plans to develop intensively alternative distribution channels, in particular direct sales and sales through Telephone Center. The alternative channels are to be put into operation in autumn of 2005.

In 2005 the Bank will offer its clients a powerful electronic platform capable of providing to a client in real-time mode at any place in the world not only current information on their accounts and transactions, but a wide spectrum of full-scale banking services. The Bank’s branches (in self-service zones) will be equipped with devices of new types which will be capable of receiving and entering cash to accounts in real-time mode, as well as receiving funds and effecting payment of goods and services. The Bank's ATM network will also be considerably expanded.

The Bank’s strategic goal is deploying Alfa-Bank Express in the regions and pursuing an aggressive expansion policy in the regional retail markets. Cities with a population of at least a million are the most attractive for us. The technology of Alfa-Bank Express adapted to local conditions can result in a breakthrough in the regional retail business, in particular in the places where there is no significant presence of foreign banks. The first offices of Alfa-Bank Express in the regions will be opened in 2005.

Partnership programs are the most important element for improving the attractiveness of banking services, and are a necessary condition for gaining the confidence and increasing the loyalty of clients. In 2005 the bank will initiate a number of large-scale partnership programs including co-brand projects giving clients the unique opportunity to save funds on purchase of goods and services, and to participate in bonus and discount programs.
The market of lending services for the population is growing rapidly, at an annual rate of 35%. The development of consumer lending in Russia accounted for about 30% of retail trade turnover growth in 2004. Considering the good prospects of working in this highly profitable market, Alfa-Bank management decided to identify consumer lending as an independent bloc of business.

In 2004 we gained improvement in all indices of the sector – sales, clients and assets. We have managed to build a strong team of professionals in the consumer lending department, hired from top Russian companies as well as from abroad.

As Moscow is already saturated with loan products, and thus the regional markets are becoming especially important. In 2005 we plan the active promotion of our loan products in the south (Krasnodar), northwest (Saint Petersburg), the Volga region (Nizhny Novgorod and Samara) and other regions.

We offer new products to our clients and introduce new technologies that are instrumental in receiving, considering and processing applications for credit automatically. This technology will start operating in the Russian market in the spring of 2005. Its first stage implies introduction of the Gemini platform, which meets the best global standards. At the present time, the business processes in our unit are automated by no more than 20%, but by the end of the year we plan to raise this level to 75%. Among the new products, a mention should be made of the annuity loans, which are very convenient for clients in terms of rapid processing and automated performance.

Tomasz Kazmierowski,
Head of Consumer Finance Business
The investment community is celebrating a whole series of exceptionally important events that have had a considerably positive influence on investors’ behavior in the Russian securities market in 2004. The list of such events includes the beneficial macroeconomic situation, the demand-and-supply structure being favorable for Russia in the world natural resources market, the upgrade by both Fitch and Standard & Poor’s rating agencies of Russia’s sovereign debt to the investment grade level, and a number of other positive factors.
Stock trade and brokerage business

However, the market reacted negatively to such circumstances as uncertainty in the “Yukos Affair”, deceleration of economic growth rates in Russia, and, certainly, the shocks in the banking sphere in summer 2004. In this context, we see the most valuable outcome in the fact that Alfa-Bank has once again consolidated its leading position in the Russian securities market. Based on the results of the year, owing to the efforts taken by the Bank's units in Moscow, London, New York and Kiev, the Bank's volume of trade in the stock market approached the mark of USD $14 billion, which is 27% higher than in 2003.

In 2004 stable growth was recorded in the client base for foreign as well as Russian investors who selected Alfa-Bank as their partner in securities market operations. In particular, clientele of Alfa Direct, Alfa-Bank's Internet-broker, grew by 48%, reaching the 4,000 account mark. Every eighth user of the Alfa Direct Internet-trading system became a holder of Visa Alfa Direct – which offers additional opportunities in investment account management.

Alfa Capital Markets (London) – the FSA-registered London arm of Alfa-Bank’s international equities business – received the highest-rank license, allowing it to conduct a broad spectrum of transactions with securities in the financial markets of the United Kingdom. This company, having become a member of the London Stock Exchange (LSE), started trading securities on the LSE on its own behalf in January, and thus our clients got direct access to one of the leading financial markets of the world.

The analysts’ team at Alfa-Bank is comprised of 20 professionals, who provide both Russian and international clients with truthful and high-grade analytical materials on various sectors of economy. According to the annual poll conducted by Institutional Investor magazine among major institutional investors, Alfa-Bank’s analytical department once again ranked as one of Russia’s best five in the EMEA region (Europe, Middle East and Africa). The rating was granted to this department not only with regard to the Russian stock market, but also in relation to the telecommunications industry and oil & gas sector in the whole EMEA region. The analysis and research department of Alfa-Bank is directed by Andrey Bogdanov.

Successfully operating in the financial markets of Ukraine and Kazakhstan for many years, Alfa-Bank sees one of its most important strategic objectives as offering its clients the opportunity to invest in the securities of these dynamically growing post-Soviet economies. We note investors’ growing interest in these markets, as evidenced by the Second Annual Ukrainian Investment Forum entitled “From Revolution to Investment Opportunities”, which was held by Alfa-Bank in February 2005 and attended by over 250 participants from throughout the world. The list of key speakers at this Forum included: Victor Yushchenko, President of Ukraine; Sergey Lavrov, RF Minister
of Foreign Affairs; Boris Nemtsov, Counselor for the President of Ukraine; Victor Chernomyrdin, Russia’s Ambassador in Ukraine; John Herbst, US Ambassador in Ukraine, as well as members of the Ukrainian Government and Supreme Council (Rada).

Debt Capital Markets

Trade in foreign obligations and bonds of foreign states
In 2004 Alfa-Bank retained its position as a leading operator and market-maker in the Eurobond market. The total volume of trade by Alfa-Bank in the market of foreign-currency bonds amounted to USD $9.6 billion. Meanwhile, the yield of Alfa-Bank’s own transactions exceeded the value of the compound index of Russian debt instruments. In the total volume of transactions, the portion of client transactions was high: the value of client transactions amounted to USD $4.5 billion, or almost 47% of the total trade volume.

The Bank conducts its own operations and offers brokerage services to clients in all sectors of the ruble bond market (government, municipal and corporate). Besides, clients are provided with opportunities for Internet-trading in MICEX through the Alfa Direct System. In 2004, the turnover of client transactions grew by six times. In addition, the past year saw more active trade in derivative financial instruments – in particular, forward transactions with corporate bonds and trade with option contracts.

New issues
Alfa-Bank is a leader among organizers of Russian ruble corporate bonds. In 2004, Alfa-Bank participated in the organization and placement of 12 corporate bonds for a total value exceeding RUR 20.1 billion, which is 1.5 times higher than in 2003. In April 2004 Alfa-Bank successfully placed the second issue of its own ruble bonds, worth RUR 2 billion.

At the present time, Alfa-Bank provides issuer companies with the full spectrum of services, ranging from drafting of programs of borrowings and rapid government registration of issues, through to placement and further support of the secondary market liquidity and offer for early repurchase of bonds. Several original structures, developed by Alfa-Bank for ruble bond issues, substantially expanded the options available to issuers.

To attract foreign-exchange resources, Alfa-Bank offers services in issuing of Eurobonds and credit notes. In 2004 Alfa-Bank participated in the organization and placement of six Eurobond issues and credit notes for a total value of USD $690 million.

Alfa-Bank’s own capital market issues
In 2004 Alfa-Bank registered its own programme of medium-term notes for the amount of USD $400 million. The first tranche, worth USD $190 million, was placed in October 2004. Alfa-Bank also actively attracts funds through its eurocommercial paper programme, registered in 2003 for a total value of USD $200 million.
Two large syndicated credits, worth respectively USD $120 million and USD $65 million, were organized for the Bank in the course of 2004. Also, Alfa-Bank prolonged one of its previous syndicated credits for USD $41 million and organized a Bill Program for USD $35 million. Thus, the total sum of attracted funds in this segment of the capital markets amounted to USD $261 million. Attracted at most favorable rates, these moneys are allocated to finance foreign-trade transactions of Alfa-Bank’s clients.

Other funds attracted in 2004 from foreign banks included USD $220 million in the form of short- and medium-term transactions for commerce funding, and USD $160 million in the form of export financing.

Derivative instruments
In 2004 the yield of transactions with derivative instruments increased almost ten-fold. This was made possible owing to the considerable efforts taken in marketing the whole spectrum of derivative services for various market segments. For example, foreign-exchange forwards and options were concluded with several major Russian corpora-

ons. Russian banks acted as clients in bond swaps, while Western hedge funds proved to be very interested in Russian shares options. By 2005 the Bank almost entirely adapted its in-house infrastructure to the needs of its dynamically growing derivative business. While in early 2004 it took five to six months to open a line with the first Western clients and to study the accounting and tax consequences of transactions with them, by the end of 2004 this period was reduced to two months. Similar positive changes took place in other divisions of the Bank.

Work is gaining momentum on the concept of structured financing, which will serve as the basis for successful development of the Bank’s operations in one of the most dynamic sectors of investment banking.

Foreign Exchange and Interbank Markets

Foreign exchange market
As ever, Alfa-Bank continues to be a leading operator on the domestic foreign-exchange market. In 2004, the total daily turnover under RUR/USD exchange transactions grew by almost 50% – from USD $500 million to USD $730 million, which accounted for about 5-8% of total trade on the domestic foreign-exchange market. In 2004 the Bank became a leader in the forward market of RUR/USD transactions. Forward transactions help clients to hedge foreign exchange risks. This service became most timely when the RF Central Bank abandoned its tough regulation of the RUR/USD exchange rate.

The Bank actively develops swap operations, which enable it to enhance the level of liquidity management and reduce the cost of funding. Notwithstanding the banking mini-crisis of summer 2004, the volume of mutual credit lines with other banks became almost 1.5 times larger in 2004, first and foremost due to the enlarged limits by foreign banks and their subsidiaries.

In 2004 the Bank built up its volume of banking transactions on the international market by half. The Bank’s experience, accumulated over nine years of market operations, as well as the automation of banking transactions and timely response to market supply and demand, made it possible to quite swiftly regain the Bank’s domestic market niche, which had been lost because
of the summer mini-banking crisis. In 2004, the Bank’s share in turnover on the Russian interbank currency market amounted to about 15%. Last year Alfa-Bank maintained its trend for sustainable cash trade on the international foreign-exchange market. By the year results, the gross volume of market transactions amounted to USD $350 billion. The main part of such operations was represented by offers of competitive hard-currency quotations to banks and companies from the CIS and Western Europe. In 2004, active work was started with individuals, residents and non-residents of the RF. Sustaining its high-quality service and improving work conditions on the international foreign-exchange market, in 2004 Alfa-Bank joined the world’s largest settlement system of Continuous Linked Settlement. We also established partnership relations with the world’s largest broker of EBS and started to trade actively through this platform. Alfa-Bank also became an active user of several modern Internet applications, designed for conversion transactions to be made on the interbank foreign-exchange market through the Internet, such as Currenex, FX All, and HotSpot FX.

Introduced into operation in 2003, the system of Alfa FX internet-broker for Alfa-Bank and its affiliates continues to grow. The Alfa FX project is as good as similar programs offered by the world’s best banks. In 2004, the daily volume of trade through this system amounted to some USD $300 million. As shown by the results of 2004, Alfa-Bank continues to be one of Russia’s largest market-makers in the international foreign-exchange market.

In 2005 Global Finance magazine recognized Alfa-Bank’s success in development of its FOREX business by naming it “Best Foreign Exchange Bank in Russia”.

**Growth of interbank deposits**
The Bank continues to be a leader among Russian actors in the money market. Its daily trade volume amounts to RUR 15 billion, or about 15% of total market turnover. With the growing confidence and numbers of counteragents, the average daily volumes of attracted/placed resources grew as well, along with the turnover under inter-bank foreign-exchange loans, which reached up to USD $300 million per day. The terms of placement and the volume of funds placed in the Bank by Russian financial institutions also became more impressive. Alfa-Bank’s development and active work with Western counteragents made it possible to consolidate the Bank’s position in the international market. Every year the Bank introduces new products that satisfy the needs of all sorts of clients – counteragent banks, various financial institutions, as well as corporate clients of different categories. The product line includes the whole range of the Bank’s financing operations, including a number of refunding operations that mortgage various financial assets. The Bank’s liability-forming operations include the use of inter-bank loans, the issue of its own promissory notes, and other kinds of refunding operations.

In the course of the summer mini-banking crisis, the Bank not only retained its existing client base, but actually managed to attract new counteragents and thus demonstrated its sustainability and ability to expand its business. Actively participating in the life and growth of the Russian financial system, Alfa-Bank ranks among the leading banks that form the basic money-market indicator – the MOSIBOR rate, calculated by the National Foreign-Exchange Association.
In 2005, Alfa-Bank intends to continue its policy of actively developing corporate funding services in the markets of Russia and CIS countries, by offering a broad spectrum of high-quality services to our clients and by finding comprehensive and optimal business solutions. Vladimir Tatarchuk, Managing Director for Corporate Finance, Member of the Executive Board
Investment Activity

Alfa-Bank is actively developing its own investment activities and occupies a leading position among Russian investment banks. The Bank’s investment activities, which include operational management of acquired assets and investment into those assets to develop them and increase their value, have a positive effect on the growth of the national economy. Companies are acquired for three to six years, after which period they are sold to strategic investors. The Bank also offers its services in asset management to other companies incorporated within Alfa Group.

Alfa-Bank manages assets in different sectors, such as telecommunications, television and radio, pharmaceuticals, real estate, food, household chemicals, tobacco, production of industrial goods and general consumer items. Major investments were made in such companies as TNK, Golden Telecom, Kievstar, Akrikhin, Bolshevik, Pemos, Alfa-Arbat-Center, CTC, and others. In 2004 the Asset Management Department successfully completed a number of investment projects, including, among others, a project for production of TV serials and a project for construction of a film studio in the center of Moscow. Both of these undertakings aroused much interest in the Russian media market.

In total, the operational profit of the Asset Management Department grew by 20% in 2004 and exceeded the mark of USD $50 million.

Last year the Bank also acquired additional shares in the largest US media-holding that operates in the Russian market – CTC Media, Inc. (formerly Story First Communications, Inc.), the assets of which include CTC and Domashniy TV channels as well as a broad network of regional television stations. As a result, Alfa-Bank’s share in the company’s equity reached 30%. The Asset Management Department also structured and financed major acquisitions by CTC-Media Holding and thus increased its capitalization.

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<table>
<thead>
<tr>
<th>Client</th>
<th>Brief description</th>
<th>Tentative value of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natur Produkt</td>
<td>Sale of a material holding of shares of Natur Produkt shares to Renova Capital</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>KaR-Tel LLC</td>
<td>Sale of 100% of shares to Vimpel Communications Company</td>
<td>USD $350 million</td>
</tr>
<tr>
<td>Alfa-Telecom</td>
<td>Merger of Alfa-Telecom and Eco-Telecom</td>
<td>USD $2,100 million</td>
</tr>
<tr>
<td>RAO “UES of Russia”</td>
<td>Sale of Energetik Hotel</td>
<td>USD $5 million</td>
</tr>
</tbody>
</table>

Selected transactions in 2004
Partnership, integrating our efforts to achieve common goals, is a must for any successful business. Responsibility, mutual assistance, and mutual effort make it possible to achieve goals and surpass market expectations.
Key highlights for 2004

In 2004, assets under ACM’s management doubled to approximately USD $170 million. Gaining momentum into the new year, assets under management reached USD $200 million in March 2005. ACM’s Russian operating entity, “Management Company Alfa Capital”, was accorded an “AAA” ranking, the highest possible among domestic competitors, by the industry’s self-regulatory organization.

Investment performance – Exceeding expectations

Investment performance is the overriding goal of professional investors and the clients for whom they work. Since the beginning of Russia’s recovery from the 1998 crisis, ACM’s flagship mutual fund, the Alfa Capital Balanced Fund, has consistently earned top place in its category. Its 2004 return of 30% – on a conservative portfolio combining equities and fixed income securities – beat the RTS average by over three times. These results made Alfa Capital the best performing balanced fund over the trailing three-year period, as measured by National League of Management Companies. The League also awarded Alfa Capital with the highest possible 5-star rating in Russia’s first authoritative ranking of mutual fund quality.

Alfa Capital Management

Alfa Capital Management (“ACM”) manages investment portfolios of publicly-traded debt and equity securities. Its largest clients are Russian pension funds and Russian individuals, but include also domestic corporates and financial institutions, as well as international investors.

Partners
Alfa Capital’s family of open-ended mutual fund strategies, launched in 2003, also performed well in both absolute and relative terms.

**Winning trust – Growing business**

The strong results of ACM’s flagship fund and its smaller cousins establish the foundation for increasing the visibility of managed investment vehicles with Alfa-Bank clients. In the latter half of 2004, ACM and Alfa-Bank specialists deepened their cooperation in distribution, with a shared aim of significantly increasing product sales through Alfa-Bank in 2005.

Satisfactory investment results in strategies managed for Russian pension funds similarly reinforced key long-term relationships with a select group of the country’s emerging institutional investors. By the end of 2004, half of ACM’s total assets under management were retirement monies pooled for the employees of leading Russian corporations.

**Alfa Capital Management – Leading with quality**

Alfa Capital Management’s mission is to serve its customers well by providing strong risk-adjusted returns, while operating with integrity and transparency, and employing the best systems and practices of international asset management firms. ACM is led by a team of very seasoned Russian and international professionals. The company’s three top executives have nearly sixty years’ experience in financial markets, all over the world as well as in Russia. The investment process that they oversee is open and collegial, and is designed to ensure that expertise from different disciplines and backgrounds is used fully to the benefit of clients. In 2004, ACM increased its investment in proprietary research, and believes this ongoing, daily effort to be a real source of competitive advantage.

ACM’s senior management also invested significant effort in improving the practices of Russia’s emerging asset management industry. In the pension arena, the firm is a determined promoter of reform through its leadership in the “Club of Four”. Each of ACM’s top executives has authored articles and opinion pieces addressing challenges specific to the current phase of Russia’s economic and financial development. And ACM’s representatives are active figures in a number of business and community organizations central to promoting a healthier investment climate.

In a fast-growing industry with a short and volatile history, ACM is striving toward the standards set by the best fund management companies in the world. These are high – and rising – standards. Their challenge is evident in the motto Alfa Capital adopted in its inaugural advertising campaign in the autumn of 2004: “Earning your trust every day.”

### Fund Mandate 2004 Return, %

<table>
<thead>
<tr>
<th>Fund</th>
<th>Mandate</th>
<th>2004 Return, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfa Capital Aksii</td>
<td>Growth</td>
<td>11.3</td>
</tr>
<tr>
<td>Alfa Capital Obligatsii Plus</td>
<td>Capital preservation</td>
<td>16.3</td>
</tr>
<tr>
<td>Alfa Capital Reserve</td>
<td>Money Market</td>
<td>7.7</td>
</tr>
</tbody>
</table>

### Alfa Capital AUM structure

- Assets, USD $203 million
- Corporate/HNW, 27%
- Retail Mutual Funds (PIFs), 62%
- International, 45%
- State Pension Fund, 3%
- Private Pension Funds, 66%
Alfa Capital Partners – a private equity and real estate fund manager focused on opportunities in Russia and the CIS. www.alfacp.com

In 2004 Alfa Capital Partners (“ACP”) continued to develop the foundation for its private equity and real estate investment business. ACP’s mandate is to raise and manage investment funds with capital from large international investors together with capital from Alfa Group. ACP’s mission is to provide equity capital and management support to small and medium-sized private companies operating in Russia, Ukraine and the CIS, to help them to succeed, and to deliver attractive returns to its investor partners and Alfa.

ACP’s near term objective is to develop a family of fund vehicles, for private equity, real estate and infrastructure. The OPIC sponsored USD $180 million fund for maritime infrastructure was closed in April 2005 with ACP as a partner. Each of these areas represents large and attractive market niches in the areas of the fund’s activities. ACP has recruited a dedicated and experienced team, developed an attractive pipeline, and attracted interest from third party investors for each of the above fund initiatives, validating the approach.

Alfa Capital Partners is managed by seasoned professionals who have worked in the region and collaborated since the early 1990’s. The team brings a strong record of investment and operating success, as well as a unique mix of skills, experiences and relationships in the region and abroad, which greatly enhances the value that can be brought to target companies and increases the likelihood of success. Richard Sobel, Chief Executive Officer of Alfa Capital Partners, is teamed with Senior Partners Alexander Buyevitch and Daniel Wolfe and supported by ACP Chairman Andrei Kosogov and Senior Advisor Alexander Tolchinsky. Alexander Buyevitch, who joined ACP in March of 2005, until June 2004 was General Director at JSC Volga, a leading newsprint producer with over 30% market share in Russia. Daniel Wolfe, who joined in April 2004, has worked in Russia for most of the past twelve years, including as a lawyer at Clifford Chance, a founding partner at Park Avenue Capital, and Chief Operating Officer and acting Chief Financial Officer of Troika Dialog, one of Russia’s leading investment banks.

Other senior professionals at Alfa Capital Partners include Managing Directors Andrey Shtyrba and Mark Lang, who lead ACP’s efforts for the Maritime Infrastructure Fund, and Director Vladislav Mamoulkine, who supports the core private equity effort.

Private Equity Fund

Alfa Capital Partners core private equity investment initiative invests in companies domiciled in Russia, Ukraine and the CIS, or whose activities are largely focused in the region. Investments include later stage growth companies, industry consolidations, management buyouts and spin-outs, and co-investments with foreign and local strategic partners. Alfa Capital Partners is a provider of equity capital to emerging leaders in the fast-growing consumer and new economy sectors of Russia, Ukraine and the CIS. During 2004, ACP’s private equity team reviewed over 110 investment opportunities in consumer products, retail trade, media, services, logistics, transportation and construction materials, among others. ACP anticipates that a continued increase in GDP and consumer discretionary spending will lead to continued growth in attractive investment opportunities in the domestic economy. ACP made its first investment in August of 2004, acquiring a significant minority stake in Noble Gibbons, Moscow’s leading real estate services provider. Noble Gibbons has an experienced management team and a strong local brand and has consistently shown strong results. Since its founding in 1994, Noble Gibbons has enjoyed a commercial association and branding agreement with CB Richard Ellis, the world’s leading real estate services company. Noble Gibbons is well positioned to benefit from continued growth in the Russian and Ukrainian real estate markets, as well as from close cooperation with Alfa Group and ACP’s prospective real estate investment activities.
Real Estate Investment Fund

Real estate investment is the second strategic investment initiative for ACP. In 2004 Alfa Capital Partners reached agreement with a prominent international real estate firm, with offices in the US and London, to jointly undertake a real estate investment initiative for Russia, Ukraine and the CIS. Jointly with our partner we have formed a strong dedicated team, developed an initial pipeline, and initiated capital raising activities. ACP’s real estate investment strategy and underwriting process borrow heavily from our partner’s expertise in other markets, and leverages the expertise and contacts of Noble Gibbons’ two principals who are transferring to ACP to lead the real estate investment effort in mid 2005. Target investments will include investments in prime income producing properties, value-added investments, portfolio purchases, and selected development projects with risk-sharing, proven partners.

OPIC Sponsored Maritime Infrastructure Fund

In April 2005, Alfa Capital Partners announced the restructuring and re-launch of the US OPIC Sponsored USD $180 million Great Circle Fund LP. Alfa Group is a limited partner, and ACP is the Regional Manager and part of the general partner. The Investment Manager of the Fund is Great Circle Management, and the Investment Advisor is Probel Management. Great Circle Fund’s mandate is to invest in maritime transportation, infrastructure and logistics in emerging markets, primarily in Russia, Ukraine, the other countries in the Former Soviet Union, southeastern Europe, the Balkans, Turkey and other parts of the Mediterranean. A significant portion of Great Circle’s funding is provided through OPIC, a U.S. government agency dedicated to fostering U.S. investment and business in emerging markets.

International Advisory Board

Alfa Capital Partners, together with Alfa Capital Management, created an International Advisory Board during 2004. The objective of the International Advisory Board is to provide ACP and Alfa Group access to best practices in international finance, portfolio management and private equity. ACP also aims to broaden and deepen its investment experience and contacts with investors in other marketplaces, facilitating networking and transaction flow among the international financial community on behalf of Alfa Group.

The Alfa Capital International Advisory Board is comprised of prominent and proven executives. As such, it will serve as an instrumental vehicle in providing guidance and direction to the executive teams of Alfa Capital Partners, Alfa Capital Management, and to the Senior Executives of Alfa Group.

1. Hans Albrecht, Founder, Nordwind Capital; former Head of Carlyle Europe;
2. Richard Burt, Chairman, Diligence LLC; former US Ambassador to Germany; International Director, Barbour Griffith & Rogers; Advisor, Carlyle Group;
3. Scott Delman, Founder and former President, Capital Z Investment Partners;
4. James Harmon, Chairman and CEO, Harmon & Co; former Chairman and President, Export-Import Bank of the USA; former Chairman and CEO, Schroder Wertheim & Co.;
5. Bernard Loze, President, Loze & Associates;
6. Juan Navarro, Founder and CEO of The Exxel Group, Argentina;
7. Lord Powell of Bayswater KCMG; former senior Foreign Affairs Advisor to Prime Ministers Thatcher and Major; Chairman, Sagitta Asset Management; Board Member LVMH, Louis Vuitton Moet-Hennessy, Caterpillar, Textron and various other international companies.
AlfaStrakhovanie Group

AlfaStrakhovanie is one of the largest insurance companies in Russia. The Group offers a universal portfolio of services, including complex programs for protection of business interests as well as a broad range of insurance products for individuals. Based on the survey data of UFG and the Expert Rating Agency, AlfaStrakhovanie Group ranks among the top five leaders in the public insurance market.

Clients

In 2004 AlfaStrakhovanie Group productively cooperated with a number of major clients, including representative offices of such transnational companies as IBM, Samsung, DaimlerChrysler and Danone. AlfaStrakhovanie retains strong positions in the high-tech and fuel-and-energy sectors, where its clientele includes such companies as Golden Telecom, VimpelCom, Transnefteproduct, Udmurtneft, Sibneft, Slavneft and NOVATEK. AlfaStrakhovanie also cooperates with the main consumer market players, such as Petrovskiy Passage and retail chains like Dikaya Orchidea, Partiya and Technosila. The company provides risk insurance for NTV+, Kultura GTRK (State TV-Radio Broadcasting Company), Kommersant Publishing House, AvtoVAZ, Pulkovo-2 International Airport, ICN, Alfa-Eco, Volgotanker Shipping Company, as well as such companies as Bayersdorf, Wimm-
additional services for companies who are cooperating with the Bank under salary projects. Employees of company clients can now receive a complex social package that includes insurance for all life events, such as accidents and injuries at the workplace, and compensation for expenses on travel and commercial medical services. This package, developed especially for holders of salary cards by Alfa Bank, is the first offer of its kind in the market.

Obligatory motor third party liability (OSAGO) policies of AlfaStrakhovanie Group can be purchased today in all branches of Alfa-Bank Express.

Regions

In 2004 AlfaStrakhovanie Group continued its intensive expansion into the regions. It opened 35 branches and four affiliates – in Kola, Mordovia, Karelia and the Republic of Komi. Today 210 branches and affiliates of the company carry on insurance activities in the territory of Russia. One of the main tasks of the Group is maintaining high-quality client service with simultaneous business expansion. Considerable funds were spent on automation of all business processes, and on formation of the united information space of the company and provision of its information security. The regional branches actively modernized their IT-infrastructure to provide equal high quality services throughout the country. Client relations management systems (CRM) and specialized insurance contract recording systems have been introduced and are in operation.

Reliability

The reputation of the Group is based on the strict fulfillment of its commitments to clients. Undertaking high risks requires a high-level capitalization from the company. Redistribution of part of the undertaken commitments among other reliable insurance and reinsurance companies is a normal part of the insurance business throughout the world. The Group assumes large financial risks of its clients and bears responsibility for the whole sum of possible losses thanks to the reliable reinsurance program for portfolio protection provided by such leading international companies as Munich Re, Lloyd’s of London, Swiss Re, SCOR, Hannover Re, as well as major companies in the Russian market. Today AlfaStrakhovanie ranks among the ten largest insurance companies in Russia. In December 2004, Expert RA Rating Agency confirmed the highest reliability rating of A++, assigned to AlfaStrakhovanie Group in 2003. Such a rating implies that there is a high probability that the company would fulfill its financial commitments even in unfavorable economic conditions.

Recognition

AlfaStrakhovanie’s professional team has won recognition throughout Russia’s insurance and business communities. By the poll results of the Association of Russian Managers, five top managers of AlfaStrakhovanie were in the ratings of the most professional Russian managers. The Association included representatives of the company in the ratings of financial, commercial and IT directors, as well as directors for personnel and marketing. Vladimir Skvortsov, Director General of AlfaStrakhovanie Group, was nominated by the COMPANY Business Weekly as “Best Manager of Russia for 2004” in the industry nomination “Financial Sector”, and was included in the rating of “Top-1000 Best Professional Managers”. According to COMPANY Review, AlfaStrakhovanie Group was qualified as “Company of the Year – 2004” in the nomination category “Insurance”.

USD $150 million  Insurance premium revenues in 2004

USD $32 million  OSAGO collection in the second half of 2004

210 branches and offices  Branch network
Today an open and transparent business is an indispensable condition for success. We stand for fair rules of the game.
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 2004, 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 2004 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
8 April 2005
### Assets

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents 5</td>
<td>997,278</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>139,549</td>
<td>293,294</td>
</tr>
<tr>
<td>Trading securities 6</td>
<td>717,050</td>
<td>694,575</td>
</tr>
<tr>
<td>Due from other banks 7</td>
<td>570,642</td>
<td>131,621</td>
</tr>
<tr>
<td>Loans and advances to customers 8</td>
<td>4,100,089</td>
<td>3,466,306</td>
</tr>
<tr>
<td>Investments 9</td>
<td>60,933</td>
<td>65,443</td>
</tr>
<tr>
<td>Other assets and receivables 10</td>
<td>275,690</td>
<td>159,983</td>
</tr>
<tr>
<td>Premises and equipment 11</td>
<td>146,891</td>
<td>149,721</td>
</tr>
<tr>
<td>Deferred tax asset 21</td>
<td>16,587</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>7,024,709</strong></td>
<td><strong>5,884,134</strong></td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to other banks 12</td>
<td>499,958</td>
<td>796,301</td>
</tr>
<tr>
<td>Customer accounts 13</td>
<td>4,492,072</td>
<td>3,400,406</td>
</tr>
<tr>
<td>Promissory notes issued</td>
<td>206,223</td>
<td>594,940</td>
</tr>
<tr>
<td>Other borrowed funds 14</td>
<td>706,955</td>
<td>323,917</td>
</tr>
<tr>
<td>Other liabilities and payables 15</td>
<td>380,568</td>
<td>201,517</td>
</tr>
<tr>
<td>Deferred tax liability 21</td>
<td>28,501</td>
<td>13,448</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>6,314,277</strong></td>
<td><strong>5,330,529</strong></td>
</tr>
<tr>
<td>Minority interest</td>
<td>2,875</td>
<td>6,635</td>
</tr>
</tbody>
</table>

### Shareholders’ equity

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital 16</td>
<td>160,800</td>
<td>160,800</td>
</tr>
<tr>
<td>Fair value reserve for investments available for sale</td>
<td>-</td>
<td>22,798</td>
</tr>
<tr>
<td>Revaluation reserve for premises</td>
<td>4,123</td>
<td>5,195</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>542,634</td>
<td>358,177</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td><strong>707,557</strong></td>
<td><strong>546,970</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>7,024,709</strong></td>
<td><strong>5,884,134</strong></td>
</tr>
</tbody>
</table>

Approved for issue by the Board of Directors and signed on its behalf on 8 April 2005.

Petr Smida  
Chief Executive Officer

Marina Popova  
Chief Accountant
### ABH Financial Limited
#### Consolidated Statement of Income for the Year Ended 31 December 2004

(expressed in thousands of US dollars – Note 3)

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>17</td>
<td>548,467</td>
</tr>
<tr>
<td>Interest expense</td>
<td>17</td>
<td>(236,143)</td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td>312,324</td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>7,8</td>
<td>(23,971)</td>
</tr>
<tr>
<td>Net interest income after provision for loan impairment</td>
<td></td>
<td>288,353</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>18</td>
<td>145,898</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>18</td>
<td>(30,380)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td></td>
<td>63,804</td>
</tr>
<tr>
<td>Gains less losses arising from investments available for sale</td>
<td>9</td>
<td>34,009</td>
</tr>
<tr>
<td>Gains less losses arising from trading in foreign currencies</td>
<td></td>
<td>(3,468)</td>
</tr>
<tr>
<td>Foreign exchange translation gains less losses</td>
<td></td>
<td>(5,248)</td>
</tr>
<tr>
<td>Other impairment provisions</td>
<td>9, 10, 24</td>
<td>(22,212)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>19</td>
<td>51,073</td>
</tr>
<tr>
<td>Operating income</td>
<td></td>
<td>521,829</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>20</td>
<td>(350,738)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td></td>
<td>171,091</td>
</tr>
<tr>
<td>Share of results of associated company after tax</td>
<td>9</td>
<td>13,621</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td>184,712</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>21</td>
<td>(31,522)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td></td>
<td>153,190</td>
</tr>
<tr>
<td>Minority interest</td>
<td></td>
<td>(420)</td>
</tr>
<tr>
<td>Net profit</td>
<td></td>
<td>152,770</td>
</tr>
</tbody>
</table>
### Cash flows from operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>547 644</td>
<td>495 426</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(247 041)</td>
<td>(222 764)</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>145 898</td>
<td>138 417</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(32 519)</td>
<td>(39 011)</td>
</tr>
<tr>
<td>Income received from trading in securities</td>
<td>50 884</td>
<td>24 566</td>
</tr>
<tr>
<td>Income received from trading in foreign currencies</td>
<td>4 425</td>
<td>36 595</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>39 064</td>
<td>37 246</td>
</tr>
<tr>
<td>Staff compensation paid</td>
<td>(152 650)</td>
<td>(136 221)</td>
</tr>
<tr>
<td>Operating expenses paid</td>
<td>(142 678)</td>
<td>(135 969)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(27 063)</td>
<td>(6 162)</td>
</tr>
</tbody>
</table>

Cash flows from operating activities before changes in operating assets and liabilities

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>185 964</td>
<td>192 123</td>
</tr>
</tbody>
</table>

### Changes in operating assets and liabilities

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation and other local central banks</td>
<td>164 920</td>
<td>(59 818)</td>
</tr>
<tr>
<td>Net decrease/(increase) in trading securities</td>
<td>263 613</td>
<td>(288 031)</td>
</tr>
<tr>
<td>Net (increase)/decrease in due from other banks</td>
<td>(438 667)</td>
<td>85 985</td>
</tr>
<tr>
<td>Net increase in loans and advances to customers</td>
<td>(574 741)</td>
<td>(961 752)</td>
</tr>
<tr>
<td>Net increase in other assets and receivables</td>
<td>(106 350)</td>
<td>(27 303)</td>
</tr>
<tr>
<td>Net (decrease)/increase in due to other banks</td>
<td>(305 185)</td>
<td>102 211</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>782 867</td>
<td>1 302 254</td>
</tr>
<tr>
<td>Net decrease in promissory notes issued</td>
<td>(381 945)</td>
<td>(94 326)</td>
</tr>
<tr>
<td>Net increase in other liabilities and payables</td>
<td>50 298</td>
<td>17 090</td>
</tr>
</tbody>
</table>

Net cash (used in)/from operating activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(359 226)</td>
<td>268 433</td>
</tr>
</tbody>
</table>
## Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposal of investments available for sale, net</td>
<td>64 311</td>
<td>87 487</td>
</tr>
<tr>
<td>Acquisition of investments available for sale</td>
<td>(17 664)</td>
<td>(2 047)</td>
</tr>
<tr>
<td>Additional acquisition of investment in associated company</td>
<td>(17 070)</td>
<td>(8 210)</td>
</tr>
<tr>
<td>Acquisition of premises and equipment, net</td>
<td>(17 065)</td>
<td>(24 917)</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiary, net</td>
<td>7 832</td>
<td>4 000</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>2 764</td>
<td>1 486</td>
</tr>
</tbody>
</table>

Net cash from investing activities                                          | 23 108 | 57 799 |

## Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution from the shareholder</td>
<td>-</td>
<td>73 000</td>
</tr>
<tr>
<td>Proceeds from other borrowed funds</td>
<td>606 232</td>
<td>132 318</td>
</tr>
<tr>
<td>Repayment of other borrowed funds</td>
<td>(223 782)</td>
<td>(24 034)</td>
</tr>
</tbody>
</table>

Net cash from financing activities                                    | 382 450 | 181 284 |

Effect of exchange rate changes on cash and cash equivalents           | 27 755  | 33 441 |

Net increase in cash and cash equivalents                           | 74 087  | 540 957 |
Cash and cash equivalents as at the beginning of the year             | 923 191 | 382 234 |

Cash and cash equivalents as at the end of the year                   | 5      | 997 278 | 923 191 |
### Financial Statements

#### Share capital
- **Balance as at 1 January 2003**: 160 800

#### Fair value reserve for investments available for sale
- **Balance as at 1 January 2003**: 62 657

#### Revaluation reserve for premises
- **Balance as at 1 January 2003**: 6 267

#### Retained earnings
- **Balance as at 1 January 2003**: 201 462

#### Total shareholders' equity
- **Balance as at 1 January 2003**: 431 186

#### Net fair value gains arising on investments available for sale (Note 9)
- **Balance as at 1 January 2003**: -7 104

#### Transfer of net fair value gains arising on investments available for sale to net profit (Note 9)
- **Balance as at 1 January 2003**: -(1 2503)

#### Effect of change in accounting treatment of investment in associated company (Note 9)
- **Balance as at 1 January 2003**: -(34 460)

#### Translation movement
- **Balance as at 1 January 2003**: -

#### Transfer of realised revaluation of premises
- **Balance as at 1 January 2003**: -(1 072)

#### Net profit
- **Balance as at 1 January 2003**: 105 619

#### Contribution from the shareholder (Note 26)
- **Balance as at 1 January 2003**: 25 000

#### Balance as at 31 December 2003
- **Total shareholders' equity**: 1 23 542
- **Total shareholders' equity**: 634 707
- **Total shareholders' equity**: 557

<table>
<thead>
<tr>
<th>Description</th>
<th>Share capital</th>
<th>Fair value reserve for investments available for sale</th>
<th>Revaluation reserve for premises</th>
<th>Retained earnings</th>
<th>Total shareholders' equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at 1 January 2003</strong></td>
<td>160 800</td>
<td>62 657</td>
<td>6 267</td>
<td>201 462</td>
<td>431 186</td>
</tr>
<tr>
<td><strong>Net fair value gains arising on investments available for sale</strong></td>
<td>-</td>
<td>7 104</td>
<td>-</td>
<td>-</td>
<td>7 104</td>
</tr>
<tr>
<td><strong>Transfer of net fair value gains arising on investments available for sale</strong> to net profit**</td>
<td>-</td>
<td>(12 503)</td>
<td>-</td>
<td>-</td>
<td>(12 503)</td>
</tr>
<tr>
<td><strong>Effect of change in accounting treatment of investment in associated company</strong></td>
<td>-</td>
<td>(34 460)</td>
<td>-</td>
<td>-</td>
<td>(34 460)</td>
</tr>
<tr>
<td><strong>Translation movement</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25 024</td>
<td>25 024</td>
</tr>
<tr>
<td><strong>Transfer of realised revaluation of premises</strong></td>
<td>-</td>
<td>-</td>
<td>(1 072)</td>
<td>1 072</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>105 619</td>
<td>105 619</td>
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<td><strong>Contribution from the shareholder (Note 26)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25 000</td>
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<th>Description</th>
<th>Share capital</th>
<th>Fair value reserve for investments available for sale</th>
<th>Revaluation reserve for premises</th>
<th>Retained earnings</th>
<th>Total shareholders' equity</th>
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<tr>
<td><strong>Balance as at 31 December 2003</strong></td>
<td>160 800</td>
<td>22 798</td>
<td>5 195</td>
<td>358 177</td>
<td>546 970</td>
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<td><strong>Transfer of net fair value gains arising on investments available for sale</strong> to net profit**</td>
<td>-</td>
<td>(24 249)</td>
<td>-</td>
<td>-</td>
<td>(24 249)</td>
</tr>
<tr>
<td><strong>Impairment of investments available for sale</strong></td>
<td>-</td>
<td>1 451</td>
<td>-</td>
<td>-</td>
<td>1 451</td>
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<tr>
<td><strong>Translation movement</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30 615</td>
<td>30 615</td>
</tr>
<tr>
<td><strong>Transfer of realised revaluation of premises</strong></td>
<td>-</td>
<td>-</td>
<td>(1 072)</td>
<td>1 072</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>152 770</td>
<td>152 770</td>
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<th>Retained earnings</th>
<th>Total shareholders' equity</th>
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<td>160 800</td>
<td>-</td>
<td>4 123</td>
<td>542 634</td>
<td>707 557</td>
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Design of the Annual Report includes the drawings of:
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Irina Korotun, 8 years
Anna Zhigalina, 6 years
Lena Rindakhova, 7 years
Alyosha Ivanov, 6 years
Tom Svrcek, 6 years
Anna Yagutkina, 5 years
Business cannot exist outside of society and its problems. To participate in the resolution of such problems and to assist the government in their resolution is a serious commitment for responsible business structures. Our level of culture, stability, and well being directly depend on business structures’ appreciation of their public and social responsibilities. The Alfa-Bank Board approved our social policy for 2005. From now on, all of our social and charity programmes will be conducted in conformity with the Bank’s long-term corporate strategy, built with the proper sense of the Bank’s traditional corporate role and the immediate problems of Russian society.

In 2005, special attention will be devoted to supporting the “Life Line” charity programme of aid for seriously ill children, as well as to cooperating with the World Wildlife Fund.

Understanding how important the health of younger generations is for the future of our country, we decided to fund specifically targeted medical aid for seriously ill children. No man is an island, and peace and harmony in the country can be provided only when each of us does what he or she can to help those in need. The more people are convinced by our own example of the need to help our fellow folks, the higher appraisal we shall give to our social mission.

Modern, civilized business must have a concern beyond the simple search for profits. Preservation and improvement of one’s outer environment is a mandatory condition for the successful growth of business and the harmonious development of the country and world at large. Here, we do not refer just to the business environment in the narrow sense of the word — that is, one’s market and competitors — but rather to the social, cultural and natural environment. Protection of the natural environment, careful treatment of natural wealth and good care of the animal kingdom are not a fashion or caprice, but rather a necessity and requirement of our time.

Sponsorship of national arts continues to be a most important element of Alfa-Bank’s social policy. In the course of its entire history, the Bank has been contributing to the rise and proliferation of Russian culture, as well as to the preservation of artistic and historical values and monuments. We take part in the organization of national art exhibitions in major museums of Europe and the United States. With the Bank’s support, many world famous performers visited and will be visiting Russia, while multiple exhibitions, theater festivals, as well as concerts by artists from top international theaters and national jazz groups annually take place in the regions of Russia.

Alfa-Bank has managed to become the biggest private bank in Russia, a universal high-tech and efficiently operating financial institution and an example for many business structures. Our success is characterized by professionalism, creativity, continuous renovation, and the development of innovations that enhance the level of business and client relations. We have set ourselves the objective to facilitate the elevation of business and society relations to a new — for Russia, entirely new — level, and we believe that we shall find followers who will join us on this road.

Rushan Khvesyuk,
Chairman of the Executive Board
Life is our most valuable asset, and even more valuable is the life of our children. Imagine how immeasurable would be the sorrow of parents who lose their child, just because they don’t have the money to pay for expensive surgery. Each of us must contribute as much as he or she can to aid those in need.

Charity programme “Life Line”

Each of us must contribute as much as we can to aid those in need. We should not tolerate a situation where people feel desperate because their child does not receive timely medical assistance.

With the advent of the new charity programme, “Life Line”, all of us obtained a real opportunity to manifest our social responsibility in deeds rather than in words. The “Life Line” programme will provide sick children with a chance to survive. Alfa-Bank is a partner of the “Life Line” charity programme.

The programme was initiated by leading Russian companies and individuals, who decided it was necessary to fund targeted medical aid for seriously ill children. The programme is oriented to help children suffering from one of the following diseases:

- congenital liver pathology;
- cardiovascular diseases;
- congenital malformation of cerebral development; and
- various types of cancer.

While drafting the “Life Line” programme, the authors used the experience of international organizations working in the spheres of healthcare and charity. The programme is administered by the Russian representation of British Charities Aid Foundation (CAF Russia). The Foundation was set up in 1924, with support from the British Royal Family. In Russia, where CAF has been operating successfully for over 10 years, it realizes every year over a dozen programmes with a total budget in excess of USD 3 million. The list of its partners in Russia includes V. Potanin Charity Foundation, Rosbank, Alcoa, and many international organizations and funds, including UNICEF, the UK Department for International Development (DFID), the US Agency for International Development (USAID), the Ford Foundation, and the Mott Foundation.

Partners of the “Life Line” programme include the Russian Children’s Clinical Hospital, the Research Institute for Pediatrics and Pediatric Surgery under the RF Ministry of Healthcare, the Gelmgotz Research Institute of Ophthalmology, the Burdenko Research Institute of Neurosurgery, the Institute of Pediatric Oncology and Hematology under the Blokhin Oncology Research Center n.a., and Bakoulev Research Center of Cardiovascular Surgery. The Board of Trustees, being the strategic manager of the “Life Line” programme, sees its main functions as general supervision of programme realization and use of funds.

Historically notable figures from financial, academic, mass media and non-commercial circles were invited to join the Board of Trustees, such as:

- Alexeeva Lyudmila Mikhailovna — historian, public figure, founder and member of the Moscow Helsinki Group;
- Brand Jakov Benjamionovitch — Dr. Sc/ (Medicine), surgeon, TV-presenter;
- Bashlyaeva Zoya Alexeevna — Merited Physician of the RF, Cand. Sc. (Medicine);
- Venediktov Alexey Alexeevich — Chief Editor, “Echo Moskvy” radio station;
- Gavrilova Vera Sergeevna — coordinator of UNICEF programmes for Russia;
- Kasatkina Elvira Petrovna — Professor, Dr. Sc. (Medicine);
- Oster Gregory Bentsionovitch — writer for children;
- Sorokina Svetlana Innoketievna — TV-presenter;
- Sysuev Oleg Nikolaevevich — First Deputy-Chairman, Board of Directors, Alfa-Bank;
- Topoleva, Elena Andreevna — Director, Social Information Agency;
- Chistyakov Gerogy (holy father Georgy) — philologist, historian and theologian.

The Fund’s moneys shall be allocated exclusively for acquisition of the necessary equipment and medicines. Various private donation-collecting technologies are applied in order to realize the “Life Line” programme. Among the major fund-raising instruments, a note should be made of the “Give As You Earn” programme, designed by CAF specially for company employees. This programme is unique,
as it pools charity donations from the staff of entire companies. Each PC user can remit the desired amount to the Fund’s account just by clicking the mouse key. You would not simply contribute to a general fund — rather, you would earmark the targeted contribution to a specific child. To know about the efficacy of your donation, just visit the special link on the website of the programme.

The programme was launched officially on the Children Protection Day, under the motto of “Business Against Infant Mortality”. With its targeted format, the programme does not claim to resolve all problems of healthcare, as this is a task that can be solved by the state only. Even within its first year, the programme is expected to help over two thousand children.

For the time being, corporate membership in the “Life Line” programme includes such companies as: Alfa-Bank OJSC, TNK-BP, Western Union, VimpelCom OJSC, SUEK, and Renaissance Capital investment group.

Alfa-Bank rendered financial assistance to those injured in the terrorist attack in the Moscow subway

“This is a senseless and blood-thirsty crime, which cannot be justified before God and people. We cannot stay aloof from this tragic event, and we share the grief for the victims of this catastrophe”, said Mikhail Fridman, Alfa-Bank Chairman of the Board of Directors. The Bank gave over RUR 1 million to the injured.

Alfa-Bank as a partner in the charity musical marathon of “SOS-COMPASSION”

On September 7-8 the broadcasting companies of NTV and “Nashe radio” (Our Radio) in cooperation with the Russian Red Cross Society organized the broadcast charity musical marathon “SOSTRADANIE” (SOS-COMPASSION) to raise money for those families who were victims of the terrorist act in Beslan. Alfa-Bank supported this initiative and offered its service to all those who were willing to remit money through the Bank’s affiliates and offices. In this connection, on September 7 and 8 Alfa-Bank extended the working hours of its offices and affiliates in Moscow as well as in the regions.

Participants in this initiative were Yury Shevchuk, Boris Grebenschikov, Alexander Rosenbaum, Garik Soukachev, Sergey Shnourov, Vyacheslav Boutusov, plus the pop groups Spleen, Mashina Vremeni (“Time Machine”), Voskreseniye (“Resurrection”), Chaif, B-2, Bravo, Visokosnyi God (“Leap Year”) and others. Leading soloists and artistic groups of Moscow took part in the concert that took place in the Kremlin concert hall as part of the charity initiative “Music for Beslan”. All profits from this concert were given to the rescue fund for victims of the terrorist act in Northern Ossetia.

“Time To Live” Charity TV-Marathon

Alfa-Bank joined the partnership of the “Vremya Zhit!” (“Time To Live”) Charity TV-Marathon, devoted to the World Day of the Struggle against AIDS. The TV-marathon was broadcast live by the First Channel on December 1-2, and its objective was to draw attention to the problem of AIDS proliferation in Russia and to slow down the growth of this epidemic.

The “Time To Live” TV-marathon combined a talk show by Vladimir Pozner and a concert by Russian musicians. The talk show was attended by political figures, rock and pop stars, as well as leaders of public organizations. The box-office revenues were channeled to purchase medicines that reduce the risk of AIDS transmission from mothers to children.

Alfa-Bank supported this charity initiative providing a commission-free service for those who donated money to the “East-West AIDS Charity Fund”.
Alfa-Bank is reviving the best Russian traditions of charity. For us, charity means targeted assistance to those in need. Together with the “Maria” charity foundation, the Bank regularly provides assistance to destitute families of Moscow militiamen. A regional charity organization, “Maria” has been working for over a decade to support bereaved families of militiamen who were killed in action, and it provides targeted aid for veterans as well as 1st- and 2nd-category invalids of the Moscow Department of the Interior. The Board of Trustees under the Main Department of the Interior was set up on the basis of “Maria” Charity Association on February 28, 2002.

Alfa-Bank earmarked USD 2 million to the All-Russian National Military Fund in order to help the Russian military. The Bank has been helping servicemen’s families for a long time already — in August 2000, the bank allocated about RUR 3 million to help children of the “Kursk” submarine crew, as well as to provide targeted assistance to the destitute families of militiamen. Alexey II, Patriarch of Moscow and of all Russia and Chairman of the Board of Trustees at the All-Russia National Military Fund, addressed Mikhail Fridman, President of Alfa-Bank’s Board of Directors, with a personal request to provide charity assistance for families of the military. As Patriarch Alexy said, the task facing Russian society, of solving Charity — that is, genuine mercy — has nothing to do with a handout. Charity means unselfish assistance provided to those who have genuine need of help, plus the natural manifestation of care for people. Charity, to a considerable extent, helps in the restoration of social justice. Stirring the best feelings in humankind — such as responsibility, compassion and complicity — charity plays an enormous pedagogical role.
the North Caucasian crisis and thereby solving multiple human troubles, requires the engagement of Russia’s business community.

Charity assistance is provided on a permanent basis to:
- “RDD” Charity Foundation;
- Moscow orphanage No. 6;
- “Detstvo” (Childhood) public organization in Lyubertsy; and
- Samara orphanage No. 3, boarding school No. 117, as well as the regional clinical hospital for war veterans, the Research Institute of “International Center of Gerontology”.

For its active participation in charity programmes and provision of specific assistance for co-citizens in need of social support, the Bank received a letter of appreciation on behalf of the Governor, government, legislative assembly and trade-union federation of Sverdlovskaya Oblast.

In 2004 Alfa-Bank rendered financial support to the Kemerovo Oblast Administration in their organization of New Year events for socially-unprotected children; to the “Zhuravoushka” orphanage in Novotroitsk, Orenburg Oblast, for their Christmas festivities; and to the “Future for All” art festival for physically impaired children in Tyumen.

In Kazakhstan, the Bank donated New Year gifts to disabled children, to patients of the National Center for Corrective Pedagogy, and, in commemoration of Victory Day, provided charity assistance to the Almaty regional council of veterans. The Bank also provided financial help to Xenia Marinina, a legend of Soviet and Russian TV, for renovation of her burned apartment.

A charity action was held among the Bank’s personnel to collect toys and children’s clothes. All collected items were sent to orphanages of Tver Oblast.
With financial support of Alfa-Bank and its subsidiary, the Amsterdam Trade Bank NV, the first Russian Orthodox Church in honor of the Saint, great prince Alexander Nevskiy, was consecrated in Rotterdam, the Netherlands. The solemn liturgy was performed by Cyril, metropolitan of Smolensk and Kaliningrad.

The Bank’s grant helped icon-painting school students from the Moscow Theological Academy in Sergiev Posad to design and manufacture the icons for the temple. The one-dome temple of Alexander Nevskiy in Rotterdam is created in northern Orthodox architectural traditions and resembles the temple of Protection-on-Nerl. Developed by the Dutch bureau of “Vaardenburg”, the architectural design of the temple was blessed by the Holy Patriarch of Moscow and the All Russia Alexiy II. About 100,000 Orthodox Christians from the former Soviet Union reside in the Netherlands. Until recently, none of the five Orthodox-church parishes had its own temple building. The newly built temple is the first genuine Russian Orthodox temple in the Netherlands.

Dialogue and Response

Our world is far from being perfect. Efforts taken in order to prevent ethnic and religious conflicts, to overcome dissension, and to reach understanding among nations, are necessary, but not always successful. Therefore, the development of multi-sided contacts among representatives of various viewpoints, a willingness to resolve all disputed issues peacefully, and the proliferation of religious tolerance play an ever-greater role in the contemporary world.
The first aim for business is profit. That is what business is made for. However, for a civilized business — provided that it is really civilized — profit must not be the only concern. Preservation of one’s social, cultural and natural environment is a mandatory condition for the successful long-term growth of business, because otherwise there will be no place for business to grow.
At all times and under all regimes, there are people who deserve to be called the conscience of the nation. They abide neither by the principle of like-mindedness, which means indifference or cowardice, nor by unanimity, which is nothing but the freedom of reiterating well-learnt instructions; rather, they stand for the right to hold and express their own opinion, as well as the right to respect themselves. Many of them paid for their beliefs with their freedom and lives, but they did not step back.

We took part in the creation of a memorial to Russian intelligentsia, because we share the values of democratic society. We consider it our public duty to immortalize the memory of Russian intellectuals, who walked a thorny road in the period of totalitarianism. Alexander Gafin, Member of the Board of Directors
Support for the Arts

If someone said twenty years ago that performances by rock stars of world magnitude would become a usual thing in Russia, this would be considered at best as a joke. Stars remained inaccessible, and their Russian fans had to be content with vinyl discs and recordings of lesser quality. Only very few lucky ones happened to attend live concerts in London, Amsterdam, Hamburg or Budapest. However, beginning in the 1990s, world-famous musicians started coming to Russia. Alfa-Bank paved the way for Ray Charles, Elton John, Paul McCartney and many other performers to come to Russia. Owing to the Bank, this “starry road” has two-way traffic. Alfa-Bank sponsored performances of Russian musicians abroad and exhibitions of Russian art in major museums of the world.

Support of our culture and national heritage is one of the priorities in Alfa-Bank’s cultural and educational activities. The Bank participates in the organization of national art exhibitions at museums in Europe and the United States. Alfa-Bank is a member of the Board of Trustees of the State Academic Bolshoi Theater of Russia, and ranks among the best-known sponsors of cultural projects undertaken by the leading museums, theaters and music groups in Moscow and regions of Russia. Many world-famous foreign musicians visited Russia with Alfa-Bank’s sponsorship — such as Elton John, Sting, Tina Turner, Eric Clapton, Paul McCartney, and others.

Whitney Houston’s First Time In Russia

With financial support from Alfa-Bank, Whitney Houston, for the first time in her career, made a visit to Russia. The singer gave three concerts, including two of them in the National Kremlin Palace in Moscow. The concerts in Russia opened the grand tour of Whitney Houston in Europe and Asia.

Whitney Houston is one of the most popular world stars in Russia. Prior to her performances, Alfa-Bank provided its actual and would-be clients a unique opportunity to attend her concert. The Bank held a contest for the best knowledge of Houston’s creative career and biography in 19 Russian cities hosting our affiliates. Ten winners of the contest could meet the singer personally, talk with her and take photos together.

Igor Zelenskiy in Royal Albert Hall

The famous Royal Albert Hall in London hosted the Gala concert by Igor Zelenskiy, ballet premier from the Mariinsky Theater. Igor Zelenskiy presented the viewers with his own project, to which he invited the stars of the world ballet — such as Maria Kowroski (New York City Theatre), Uliyana Lopatkina.
Alfa-Bank • Social Report 2004

(Mariinsky Theatre) and Svetlana Zakharova (Bolshoi Theatre), and 50 dancers of the Mariinsky Theater. Repertoire of the concert included classical dances from such ballets as “Apollo Musaget” by Stravinsky, “Bayaderka” by Minkus, and “Sheherazade” by Rimsky-Korsakov. Igor Zelenskiy’s concert was organized by the producer company of Ensemble Productions Ltd., with financial support provided by Alfa-Bank.

The 3000th Concert by Paul McCartney

During his 2004 Summer Tour of Europe, Paul McCartney organized a tremendously successful concert in Russia, for a 70-thousand-strong audience at the Dvortsovaya (Palace) Square in Saint Petersburg. The concert was organized by TNK-BP, Alfa-Bank and SAV Entertainment. In terms of its dimensions, Paul McCartney’s concert in Saint-Petersburg exceeded even his famous performance of May 2003 at Red Square in Moscow. During the three hours of performance in St. Petersburg,
the audience heard over 30 songs of The Beatles, Wings, as well as solo material by the singer. McCartney wrote one song especially for this concert in Russia and dedicated it to Saint Petersburg. The musician’s show at the Palace Square was really a unique one, as its scenario was written especially and only for that single performance in Saint Petersburg. For one month Paul McCartney and his team had been rehearsing for the Palace Square concert in the Millennium Dome, London. The stage, manufactured especially for the concert in Russia, was 62 meters long and 22 meters high. To see Paul McCartney’s performance, six thousand viewers arrived to Saint Petersburg from Moscow and about four thousand from other regions of Russia and CIS countries. Prominent Russian businesspeople and representatives of show business also attended the concert, and its TV version was broadcast on the ORT channel.

Yuri Bashmet in Kiev

With support from Alfa-Bank OJSC (Ukraine) and TNK Trade House (Ukraine), the concert by Yuri Bashmet (People’s Artist of the USSR, People’s Artist of Russia, and laureate of Government Prizes of the USSR and Russia) as well as “Soloists of Moscow” chamber ensemble took place in the National Opera House of Ukraine in Kiev. Xenia Bashmet, laureate of international music contests, also took part in the concert, where the audience enjoyed musical works by Shostakovich, Tchaikovsky and Paganini.

Yuri Bashmet is one of the brightest stars of the contemporary world of music, and his impeccable talent and artistry delight his numerous admirers. He is considered one of the greatest virtuosos among the world’s conductors and soloists. As part of an international tour, Bashmet has performed solo concerts in such halls as Carnegie Hall (New York), “Barbican” (London), Berlin Philharmonic, La Scala (Milan), and the Grand Hall of the Conservatory (Moscow). As soloist and conductor, he has performed with the best symphony orchestras of the world, and has played together with such outstanding performers as Svyatoslav Richter, Mstislav Rastropovitch, Isaac Stern, Gedeon Kremer, and many others. Contemporary composers created over 50 cello concertos and other musical pieces especially for Yuri Bashmet.

The chamber ensemble of “Soloists of Moscow” was founded by Bashmet, and consists of Russia’s most talented young musicians, graduates and graduate-students of Moscow Conservatory. It would be difficult to imagine a full-fledged artistic life without this ensemble, not only in Russia, but in many countries and continents as well.
Thanks to support from Alfa-Bank, every year the Russian regions play host to top artistic events, such as theater festivals involving winners of Zolotaya Maska (Golden Mask) national awards, and concerts by artists from the Bolshoi Theater and Mariinskiy Ballet as well as by the best jazz bands of the country.

Art museums of Russian cities are used to host touring exhibitions of paintings, graphics and sculptures, as well as decorative and applied arts from collections of the State Russian Museum. One example is “Three Centuries of Russian Art”, a joint project of the Russian Museum, RF Ministry of Culture, Alfa-Bank, and the company British American Tobacco Russia.

“Three Centuries of Russian Art” is a part of the Russian Museum’s comprehensive long-term programme for cooperation with local museums of Russian cities. Its objective is to bring to the regions the opportunities and experience offered by the major treasury of national fine arts — the Russian Museum — with its academic, methodological, organizational, creative and productive potential for building a single space of culture and information in the territory of the country.

The “Russia” programme is designed to last ten years.

In April 2003 the exhibition “I Love Petersburg”, dedicated to the 300th jubilee of the Northern capital, opened in the Pushkin National Museum of Fine Arts. After that, the large touring exhibition of paintings visited Nizhniy Novgorod, Samara, Saratov and Murmansk. About 100 of the brightest masterpieces of Russian art of the 18th — 20th centuries were shown in the halls at art museums of major Russian cities. The works, shown at the exhibition, included “Barge Haulers” by Repin, “Hunters at Rest” by Perov, portraits by Bryullov, Sourikov, and Serov, landscapes by Shishkin, Levitan and Savrasov, as well as composition by Malevich and Filonov.
Saint Petersburg

Cooperating with the municipal Committee for Architecture and City Planning on the “Programme for the Creation of Monumental Art Works in Saint Petersburg”, Alfa-Bank initiated installation of the memorial plaque in honor of the first US official envoy to Russia and sixth US President John Quincy Adams (1767–1848). The memorial plaque opening ceremony was attended by the US Ambassador to Russia Alexander Vershbow, US Consul-General in St. Petersburg Morris Hews, Alfa-Bank’s Board Chairman Rushan Khvesyuk, and others.

The Bank offered on-line ticket booking services to the management of theaters, concert venues, and sports events in St. Petersburg. On-line payment for tickets is increasingly popular throughout the world. Today, plastic card holders can book and pay for tickets to theaters, concerts and sporting events on-line and in real-time. The booked tickets, paid for through plastic cards, can be received either in any of 50 ticket boxes under the programme, or through a courier delivery service.

Rostov

Alfa-Bank provided financial support for the Rostov Oblast Ministry of Culture in conducting a gala concert for physically impaired children.

Saratov

“Three Centuries of Russian Art”— an exhibition sponsored by Alfa-Bank, opened in May at the Radischev Art Museum in Saratov.

Samara

“Three Centuries of Russian Art” — the joint exhibition project of Alfa-Bank and British American Tobacco Russia had great success in the summer of 2004, when it was shown in the Samara Art Museum.

The traditional Groushin Festival of Author’s Songs takes part in Samara with the active participation of the Bank. The audience gathering at this festival amounts to almost 250,000 people.


Nizhniy Novgorod

Exhibition of masterpieces from the Russian Museum collection “Three Centuries of Russian Art” was held in the Nizhniy Novgorod Museum of Art until mid-February 2004.

Alfa-Bank was the general sponsor for the 8th International Festival of Arts n.a. Andrey Sakharov. The festival programme included special days for arts from the Netherlands, Germany, Britain and France, which were conducted in cooperation with embassies of the respective countries. Festival concerts included performances by Mstislav Rostropovitch, Yuri Bashmet and the “Soloists of Moscow”
chamber orchestra, the Borodin Quartet, Victor Tretyakov, Natalia Goutman, Daniel Kramer, Maxim Shostakovitch and other prominent artists, many of whom have been linked with Nizhniy Novgorod Philharmonic Society by long professional friendships.

Alfa-Bank became a partner for the “Day of Russia in the Capital of the Volga Area”. Over thirty thousand people gathered as participants and spectators of the festive show by famous musicians and performers.

Thanks to Alfa-Bank, performances by the Moscow Theater Studio of Oleg Taktakov have become a tradition for Nizhniy Novgorod. In 2004 this theater visited the city for the fourth time, and local theater fans could see its well-known repertoire as well as two premieres, shown on the stage of the Nizhniy Novgorod “Comedy” theater.

Ekaterinburg and Sverdlovskaya Oblast

Alfa-Bank provided financial assistance to the Sverdlovsk National Academic Philharmonic Society in the organization of two concerts by famous pianist Andrey Gavrilov. Gavrilov had two concerts in Ekaterinburg — one solo and the other together with the Ural Philharmonic Orchestra conducted by D. Liss.

For the fourth time, the Bank sponsored the international exhibition of arms, military equipment and ammunition — the “Russian Arms Exhibition — Nizhniy Tagil, 2004”. Ekaterinburg hosted a conference on “Medium-size Business in Figures, Deeds and Thinking”, attended and sponsored by Alfa-Bank.

Chelyabinsk

In January in Chelyabinsk the ceremony to award the annual musical prize “Golden Clef” was held. Awards were given in four nominations. Alfa-Bank received the three highest awards.

The Bank provided prizes to reward the winners of the city photography contest, the “Temptations of the Big City”. The award ceremony was held in November. It was the second time that Alfa-Bank acted as official partner of this photo contest.

Tomsk

In 2004 this city celebrated its 400th anniversary. Within the framework of jubilee events, Alfa-Bank rendered financial support to the Oblast Local-Lore Museum in the organization of a festive exhibition.

In May 2004 the Bank provided financial assistance to the amateur choreography group run by “Union of Adults and Children” public organization.

Novosibirsk

In May 2004 Alfa-Bank took part in the ceremonial closing of the 84th theatrical season for the “Krasnyi Fakel” (Red Torch) Novosibirsk theater, where prizes were presented to the actors qualified as the best performers in the 2003-2004 season. The Novosibirsk affiliate of Alfa-Bank won the 1st-grade diploma in the nomination of “Socially Significant Project of the Year”. The interregional public fund, the “Siberian Center for Support of Public Initiatives”, recognized the philanthropic activities of Alfa-Bank’s regional affiliate with the award “For Contribution to the Development of Charity and Support of the Cultural and Creative Potential of Novosibirsk Oblast”, which Alfa-Bank won in both 2002 and 2003.

Barnaul

In March 2004 Alfa-Bank presented the only concert by Alexander Rosenbaum in Barnaul. The vocalist performed his new programme, the “Strange Life”. He was accompanied by musicians from Saint Petersburg, including the famous “Zhemchuzhnye Brothers”, with Nikolai Rezanov, Alexey Doulkevitch and others.

Kemerovo

In August 2004 the Bank actively participated in the celebration of Coalminers’ Day that took place in the town of Osiniki. The municipal authorities received a present, delivered on the behalf of the Bank — a certificate for professional lighting equipment for the Coalminers’ Palace.

Ukraine

Supported by Alfa-Bank, the International Bulgakov Festival of Arts took place in Kiev. The festival was organized by the Mikhail Bulgakov Creative Fund, Kiev Drama Theater on Podol, and the Museum of Mikhail Bulgakov.
As long as Alfa-Bank has existed, it has contributed to programmes designed to help talented youth. By supporting educational programmes and establishing memorial stipends, the Bank helps meet the national challenge of raising entrepreneurs. In order to develop and consolidate ties between Russia and the US, the Bank realizes the programme of training American specialists in Russia.

“Alfa Chance”

Ten years ago, in 1995, the Bank authorities decided to select the most talented graduates of regional schools in Russia and to offer them an opportunity to get education at the best Moscow institutes of higher education in the spheres of economics, business and finance. This decision led to the creation of the programme “Alfa Chance”. In 2002, 19 finalists were selected, who received Alfa-Bank stipends and entered Moscow State University, Plekhanov Russian Economic Academy, the Higher School of Economics, the State Institute of Management, Baumann Moscow State University of Engineering, St. Petersburg State University of Economics and Finance, and Leningrad State University of Electric Engineering. “Alfa Chance” is not a programme to train future Alfa-Bank personnel; the stipend winners do not have any formal obligations to the Bank. The Bank considers the given programme as its contribution to the national challenge of raising new entrepreneurs.

Support of Young Talent in the Regions

Murmansk

For almost six months, Murmansk students competed for the titles of “Best Male Student” and “Best Female Student” in the “I am a Student” competition held by the Committee for Youth Affairs and the Student Council. Supported by Alfa-Bank, the award ceremony took place in the Mayor’s Office, where the winners received the city mayor’s stipend for 2004-2005 school year and special cash prizes established by the Bank.

Volgograd

Nine personal stipends from Alfa-Bank were paid to excellent students of Volgograd institutes of higher education. The long-term stipend programme had been approved in November 2003, and participation included the leading institutes of the city, such as Volgograd State University, Academy of Government Service,

Investing in Education
and Engineering University. Selected through a contest, the nine best students, majoring in economic specialties in the participant institutes, were conferred with the title of “Holder of Alfa-Bank’s Personal Stipend”.

Saratov
Personal stipends by Alfa-Bank were paid to the best students of the Saratov State Academy of Law and Saratov State Socio-Economic University.

Ukraine (Kiev)
From September 2003, Alfa-Bank, the Ministry for Family and Youth Affairs, Shevchenko Kiev National University and BSCA Ukraine have been realizing the “Student Diary” project, which is part of the “Student Planet” international programme, operating in 15 countries of the world. Under this project, students from Kiev will have an opportunity to get training in Alfa-Bank and to attend master classes offered by the Bank’s top managers.

“Junior Achievement”
Alfa-Bank provides support for educational programmes of “Junior Achievement”, oriented to facilitate business education in Russia.

The interregional public organization of Junior Achievement — Junior Achievement Russia — is a member of the global organization Junior Achievement (JA), which was founded in 1919, and currently operates in 106 countries of the world, as well as of the global organization Young Enterprise (YE), which Junior Achievement Russia joined in 1995.

The major objective of these international associations is to develop programmes that would help schoolchildren and students in learning the fundamentals of economics and entrepreneurship. The associations hope to raise economically educated, initiative-taking, and enterprising young Russians, who would be confident in themselves and in their future, as well as be prepared for successful activities in different spheres and sectors of the economy.

Partnership between business and education facilitates the building and development of continuous learning for students, helping them master economic thinking and models of successful professional work in conditions of a market economy. Every year over four million school students of many different nationalities participate in these international education programmes.

From the very start, the Russian Federation Ministry of General and Professional Education, as well as republic-level ministries, regional committees and departments of education have been taking part in the activities of Junior Achievement.

Support for Sport Talents
In September 2002 Alfa-Bank took patronage over Jan Nepomnyaschii, a young chess player from Bryansk. Jan is champion of the world and Europe among juniors. In the course of the “Match of the New Century”, conducted with Alfa-Bank’s support, Mikhail Fridman, Chairman of the Bank’s Board of Directors, awarded the young chess player with a notebook computer.

The Bank provided charity assistance to the Junior Sport School — the “Mikhail Botvinnik Center” (Moscow) — so that assemblies and contests of young chess players could be held in the Czech Republic from June 26 through July 7, 2004.
Alfa-Bank strictly abides by its social commitments to its personnel. This is reflected in the Bank’s compensation and social policies, which are oriented to regulate the issues of labor rewards, personnel training and development, as well as the offering of benefits to workers and their family members.

Alfa-Bank seeks to become the most attractive employer in the banking sector of Russia. The Bank’s compensation policy is designed to keep salaries competitive, and link rewards to results. Every year the Bank reviews and revises the salaries for its personnel in Moscow and in the regions, while the growth of salary and the size of bonus for each worker depend on the results of his or her work. Evaluation of work results is an automated process. To this end, we use the “Alfa Personnel” e-portal helping the manager to evaluate the work of his or her subordinates and to set their tasks for the next year.

In 2004 salaries grew by about 7% in Moscow and by 26% in the regions. In the next year, we plan to increase salaries by over 10% on average.

The Bank pays serious attention both to the cash component of the personnel compensation package and to benefits. Personnel receive such benefits as voluntary medical insurance, life and disability insurance, short-term lending on beneficial terms, the possibility to get credit cards with a beneficial credit rate, payment for mobile communication services, compensation of recreational costs for personnel’s children, and other benefits.

All workers of Alfa-Bank are colleagues. For most people, this notion means a formal definition of affiliation with some organization. For us, it means allies, co-thinkers, and members of the same team.

Professional and highly competent colleagues give us a competitive advantage enabling the Bank to retain its leading position in the market. Therefore, the Bank pays special attention to personnel training and development. The Bank offers personnel training along several directions, such as:

- professional education and training;
- foreign language courses;
- corporate learning programmes;
- long-term learning programmes (courses for professional upgrading and retraining, secondary higher education); and
- learning under business-education programmes (MBA, GMP, etc) at the leading institutes of higher education in Russia and abroad.

For newly enrolled employees, the Bank offers the “Welcome to Alfa-Bank” adaptation seminar. Also, we have special programmes helping supervisors to master management skills.

In 2004, the Bank introduced the “Alfa Personnel” portal, an in-house information resource containing over 50 distant learning courses, curricula timetable, corporate competencies, etc.
Alfa Bank believes that securing Russia’s place in the world is a worthy investment of time and resources. Part of our mission is to help professionals in other nations better understand what we call “New Russia.” For this reason, we have inaugurated the Alfa Fellows Program, under which a number of young professionals from the US come to live and work in Russia for a six-month program. The Alfa Fellows develop a meaningful professional understanding of life and business in Russia and then return home to use this knowledge to foster greater ties between America and Russia.

Alfa Fellowship Program

The second group of young professionals from the United States arrived in Moscow on April 5th to participate in the Alfa Fellowship Program and begin six months of intensive professional work experience in Russia.

The Alfa Fellowship Program is a new initiative of Alfa-Bank designed to provide direct, hands-on work experience in Russia for young professionals from the United States. From 2004 to 2006, three groups of Fellows will spend six months each in Russia — the first arrived in late September 2004, the second class just arrived in April 2005 and the third class will arrive in July 2005.

The Alfa Fellowship Program is governed by an impressive Advisory Board of prominent Russian business leaders, officials, intellectuals and media experts, and chaired by Alfa-Bank President Peter Aven. In announcing the program, Aven noted, “Our experience in the US indicates that too few American professionals have direct exposure to post-Soviet Russia and that too many American private and public sector officials are still locked in a Cold War mentality. The Alfa Fellows Program will help to educate a new generation of American thinkers on the realities of the new Russia. We think it can only be a good thing for Russian — US relations to have more exposure and more understanding of the realities of new Russia.”

Thanks to the excellent cooperation of Institute of Economic Analysis, TNK-BP, Boston Consulting Group (Moscow) Limited, Renaissance Capital, Higher School of Economics, Radio Ekho Moskvi and the Administrations of Samara, Rostov-on-Don and Novgorod who have all agreed to accept Fellows for work assignments, the first two groups of Alfa Fellows will gain great professional experience. This will help them to develop a more accurate and realistic view of life and business in Russia. Over time, these Fellows, and those that follow them in subsequent years, will move on to senior decision-making positions in the public and private sector, and put their new knowledge of Russia to use for the good of Russian — American relations.

The Fellows spend two weeks in orientation seminars and meetings with government and private sector leaders before moving on to their professional assignments and visiting regions. The first and second groups of Fellows were already fluent in Russian, but future groups will include intensive language training so that Fellows need not be fluent in order to apply.

The Alfa Fellowship Program is run in the US by CDS International, Inc., which handles recruiting, selection and training. The Russian part of the program is managed by the Moscow Center for International Fellowships, an independent institute that sees to all local aspects of the program.

Founded in 1968, CDS International is an American non-profit organization committed to the advancement of international career training opportunities customized to provide individuals with in-depth practical knowledge of other nations’ business practices, cultures, and political
traditions. Each year CDS serves approximately 1,600 young professionals and students from over 50 countries through a wide variety of work/study, internship, and study tour programs.

Alfa-Bank and the Lauder Institute of the Wharton School of Business Award for Excellence in Foreign Investment in Russia

Speaking to the 10th Anniversary Dinner of the United States Russia Business Council in March 2003, Alfa-Bank Chairman Mikhail Fridman announced the creation of a major new international investment award sponsored by Alfa-Bank and the Lauder Institute of the Wharton School of Business in the U. S. The annual award is offered to the foreign company operating in Russia which best combines successful business operation with a strong sense of social interest and attention to training and preparing Russian workers and managers. Alfa-Bank and the Lauder Institute have selected Nestlé as the 2004 Winner of the Annual Award for Excellence in Foreign Investment in Russia. In announcing the Award, Alfa-Bank Chairman Mikhail Fridman noted, “Few companies have come so far in such a short period of time in this market as Nestlé. Nine years ago, Nestlé opened a small import business in Moscow. Since then, they have come to dominate key consumer markets in the areas of chocolate, instant coffee, ice cream and infant nutrition. Whereas their initial market position was as an importer, Nestlé is now a leading food producer with twelve production facilities in Russia and employing over 5,500 people.”

The Award was presented at a special ceremony presided by the Hon. Sergei Lavrov, Foreign Minister of Russia, and held in conjunction with the Wharton Global Alumni Forum in Moscow on May 21, 2004. Mr. Lars Olofsson, Nestlé Executive Vice President for the European Zone, accepted the Award. The Award is presented by a distinguished jury appointed by Alfa-Bank and the Lauder Institute. Jury members for the 2004 Award are: Peter Aven (President of Alfa-Bank), Richard Burt (Former US Ambassador to Germany), Yegor Gaidar (Director, Institute for the Economy in Transition), Richard Herring (Director of the Lauder Institute), Shiv Khemka (Board of Governors, Lauder Institute), Paul Fribourg (Board of Governors, Lauder Institute), Leonard Lauder (Chairman, Estee Lauder Companies), Raf Shakirov (Editor in Chief, Izvestia Newspaper), Bernie Sucher (Chairman, Alfa Capital). The 2003 Award for Excellence in Foreign Investment in Russia was presented to Procter & Gamble.
In 2004, Alfa-Bank won the nomination “For Professional Activities of a Socially Responsible Nature” and became a laureate of the “Public Recognition” Award, which noted the Bank’s active participation in the “Life Line” charity programme, which aims to provide targeted medical aid to seriously ill children.

The “Public Recognition” Award is conferred annually on companies which in the past year have most helped in the dissemination of the principles of socially responsible business, and which have most contributed to the creation of a positive image of Russian business. The Award was founded by the Committee for the Enhancement of Social Responsibility of Business under the Russian public organization “Delovaya Rossiya” (Business Russia).