• 7 countries
• 303 branches and offices
• 12 560 employees
• 51 500 corporate clients
• 2 654 937 retail clients
• 253 profit (USD million)
• 1 855 equity (USD million)
• 15 418 gross loan portfolio (USD million)
• 22 695 assets (USD million)
ALFA-BANK AWARDS AND RECOGNITION IN 2007

- Euromoney
  Euromoney named Alfa-Bank the best Russian bank of 2007

- Global Finance
  Global Finance named Alfa-Bank:
  “Best Equity Research Bank”
  “Best Domestic Bank”
  “Best Domestic Trade Finance Bank” in Russia

- The Best Banker of Russia
  Rushan Khvesyuk, Chairman of the Executive Board, was recognized as The Best Banker of the year 2007 by Russian Federation Accounting Chamber Competency Council

- The Retail Finance
  Alfa-Bank was recognized as the bank with “The Highest Front Office Service Quality in Russia”

- “Financial Russia” Annual National Award
  “Private Banking” of Alfa-Bank was awarded as the segment leader in 2007

- C-News
  Alfa-Bank's Alfa-Mobile mobile banking system was recognized as The Best IT Finance Management Project

- Gartner
  Alfa-Bank was the first Russian company to be included in IT Portfolio Management Section of the Gartner report

- KPMG, Senteo
  Alfa-Bank is the best Russian Bank in terms of Retail Client Service

- The Retail Finance
  Alfa-Bank was awarded with the “Creative work of the year” prize for its co-branded Alfa-Bank – Cosmopolitan – Visa card

- Superbrands International
  For the third time Alfa-Bank received: “Super Brand Award”

- Association of Russian Banks, Federal Mass Communications Agency and Financial Press Club of the Russian Federation
  The “Best PRomotion of Financial Institutions” competition recognized Alfa-Bank as the best represented Bank in Mass Media 2007 among all private banks in Russia
We are proud to present the Alfa-Bank* annual report for 2007. This year has been an important step in implementing Alfa-Bank’s strategy, which was aimed not only at development and growth of particular business units but also at enhancement of their synergies. We would like to point out that the numerous awards received by Alfa-Bank in 2007, among them the “Best Bank of the Year 2007” by Euromoney, are indicative of the market’s high opinion on Alfa-Bank's performance.

2007 was a challenging year for the global banking system. Despite the assumptions and forecasts made by some market experts, the Russian banking system, like other markets, was affected by the global liquidity crisis. As a result, domestic financial markets slackened in the second half of 2007. However, Alfa-Bank, being the largest private sector bank in the country, continued its successful development and demonstrated strong performance. Despite the complicated market situation, we have lived up to the expectations of our clients. Today, our customer base includes more than 51,500 corporations and almost 2.65 million individuals.

One of Alfa-Bank’s focus areas in 2007 was active development of its branch network. Regional expansion that started in 2005 gained momentum in the reporting year. In 2007 Alfa-Bank opened 62 branches across the country. Regional expansion makes interaction with Alfa-Bank increasingly convenient and allows it to offer its financial services to a growing number of individual clients.

In order to improve its efficiency, Alfa-Bank has been working continuously to optimise its structure and business model. 2007 has been a period of significant structural transformations of the principal business units of Alfa-Bank. Thus, we completed the merger of retail and consumer finance blocks, aimed at improving the efficiency of the business unit. A major contribution to the success of the investment business was provided by its close interaction with the corporate bank. Such cooperation has proved its effectiveness: working actively with corporate clients, the investment bank managed to demonstrate good performance during the global financial crisis. We expect the results of the strategic changes implemented in the year 2007 to become fully visible in 2008, and to promote further growth of the business.

2007 saw the continuing development of Alfa-Bank’s “youngest” businesses, i.e. auto finance and mortgage lending. Both business units have completed formation of the necessary infrastructure and entered into strategic partnership agreements with major players in their respective markets.

Taking into account the current trends in the Russian economy, in 2007 Alfa-Bank launched a new business line aimed at developing small and medium-sized businesses. This is a promising segment of the Russian market, bearing significant growth potential. Capitalizing on its position of a universal bank having an advanced technology platform and extensive regional network, Alfa-Bank plans to become the bank of choice for small and medium-sized enterprises.

* For the purposes of this report, the term «Alfa-Bank» is used to describe ABH Financial Limited and its consolidated subsidiaries.
Competition in the banking market intensifies each year, both due to the entry of foreign banks into the Russian market and the consolidation of local state-owned and private financial institutions. Therefore, the question of sustainable competitive advantages is becoming increasingly important. Alfa-Bank is continuously improving the quality of its products and customer services. In 2007, we significantly expanded our product line and implemented new remote banking channels for our clients. We also continued to improve the existing procedures and to implement new technologies, which helped us to optimise customer service and manage risks better.

Training and development of front-office personnel receives significant attention, because these people are the face of Alfa-Bank. We appreciate and respect our customers, and use all our resources and capabilities to offer them high quality banking products and professional services.

Along with its financial activities, Alfa-Bank plays an active role in social and charity programmes. We support the national arts, sponsor guest performances by international stars, nurture young local talents and actively liaise with educational organisations. Alfa-Bank contributes to the Lifeline social programme for children with critical diseases and to the World Wildlife Fund. In 2007, “Big Book”, the largest literature prize in Russia, sponsored by Alfa-Bank, was awarded for the second time.

In 2008, Alfa-Bank plans to continue its development as a “universal financial supermarket” that offers a complete range of quality banking services to both corporations and individuals. Our goal is to improve financial results of all business lines of Alfa-Bank. The trends that emerged in the reporting year allow us to be certain that 2008 will be another successful year for Alfa-Bank. We want to emphasise that the excellent results achieved by Alfa-Bank were enabled by the exceptional professionalism of our management team, dedicated work of Alfa-Bank employees and the loyalty of millions of our clients.
Ildar Karimov
Member of the Board of Directors

Dmitry Ponomarev
Member of the Board of Directors

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

Andrei Sokolov
First Deputy Chairman of the Executive Board

Vladimir Tatarchuk
Deputy Chairman of the Executive Board, Managing Director, Head of Corporate Banking

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

Andrei Kosogov
Member of the Board of Directors

Mikhail Fridman
Chairman of the Supervisory Board of Alfa Group Consortium

Alex Knaster
Member of the Board of Directors
Petr Aven
President, Member of the Board of Directors

Petr Smida
Chairman of the Board of Directors

Miroslav Boublík
Member of the Executive Board, Chief Operating Officer

Rushan Khvesyuk
Chairman of the Executive Board, Member of the Board of Directors

Alexey Marey
Member of the Executive Board, Head of Retail Banking and Consumer Finance

Alexander Gafin
Member of the Board of Directors

Alexander Lukanov
Member of the Board of Directors

Oleg Sysuev
First Deputy Chairman of the Board of Directors

Andrzej Podsiadlo
Member of the Board of Directors
2007 was a year of essential transformations in Alfa-Bank. We thoroughly reviewed the structure of each business unit in order to improve the overall performance of Alfa-Bank. This policy had a positive effect on business development dynamics which was evidenced by the pace of growth and the consolidation of Alfa-Bank’s market positions.

Changes also came about at the Board level. On 1 February 2008, pursuant to a decision by Alfa-Bank’s Board of Directors, Petr Smida was appointed Chairman of the Board of Directors. Prior to this appointment, Mr Smida served as Senior Deputy Chairman of the Board of Directors. Mikhail Fridman, who had chaired the Board of Directors from 1990 through 2007, continues his work as a member of the Board of Directors. As before, the activities of the Board are aimed at further strengthening the positions of Alfa-Bank in the Russian retail and corporate financial markets and in consolidating the current strategies of operation in both Russian and international markets.

According to RosBusinessConsulting agency, at January 1, 2008 Alfa-Bank was the fourth largest bank in Russia in terms of total assets.

“Despite the complicated situation in global markets, which slowed down development of banking sector players in the second half of 2007, Alfa-Bank maintained a sustainable pace of growth throughout the year. This allows us to be confident about Alfa-Bank’s readiness for any kind of macro financial conditions.”

In 2007, Alfa-Bank’s assets increased by 49% compared to the previous year, reaching USD 22,695 million. Other key performance indicators also improved.

<table>
<thead>
<tr>
<th>In USD, millions</th>
<th>2007</th>
<th>2006</th>
<th>Growth (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>22,695</td>
<td>15,210</td>
<td>49.2%</td>
</tr>
<tr>
<td>Gross loans</td>
<td>15,418</td>
<td>9,784</td>
<td>57.6%</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>12,180</td>
<td>7,946</td>
<td>53.3%</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,855</td>
<td>1,310</td>
<td>42.6%</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>253</td>
<td>190</td>
<td>33.2%</td>
</tr>
</tbody>
</table>
Alfa-Bank completed an important transformation in its Retail Business. In order to improve the efficiency of its Retail Business, Alfa-Bank merged it with the Consumer Finance unit. This merger had a positive effect on the consolidated performance of both business units. Consequently, Alfa-Bank’s market share of demand deposits by individuals has grown to 4.41%, bringing Alfa-Bank into fourth place in this market segment in 2007. Besides, Alfa-Bank is one of the five leaders in the Russian consumer lending market. The combined retail and consumer finance loan portfolio nearly doubled – from USD 566 million in 2006 to USD 996 million in 2007. Value-added products offered to our retail customers in 2007 were a great success. They include the co-branded Alfa-Bank-Cosmopolitan–Visa and Aeroflot–MasterCard–Alfa-Bank card projects.

Alfa-Bank consistently created and creates additional benefits and new opportunities for its retail customers. In 2007 Alfa-Bank launched a project to develop long-term relationships with existing customers. The project offers increased credit limits and additional loan facilities to premium-segment customers. We are continuously developing remote servicing options – Alfa-Bank introduced a unique system of managing patterns of personal usage in Alfa-Mobile telephone banking and extended the capabilities of Alfa-Click Internet bank.

The work of our Retail Business won recognition from clients – a survey conducted jointly by KPMG and Senteo rated Alfa-Bank as the leader across all categories measured: bank brands and communications, exteriors and interiors of branch offices, product range and culture.

The Mortgage Lending business unit demonstrated outstanding results. Its loan portfolio grew fifteenfold in 2007 and made Alfa-Bank one of the 20 leading mortgage lending banks in the country. Experts perceive Alfa-Bank as one of the most promising players in the Russian mortgage lending market. The Auto Finance operations were also a major success. This business unit strengthened its position among the ten leading banks in the Russian car loan sector and also offered its customers new products like Floor-Plan, a programme aimed at providing corporate financing for wholesale car dealerships.

In 2008, Alfa-Bank will further develop its business segments and continue the integration of its retail business.

Based on trends perceived in the development of the Russian economy, it is evident that Alfa-Bank should be energetically expanding its
regional presence. Active business growth and enhanced profitability is mainly possible on a regional scale. In 2007, Alfa-Bank opened 62 new branches and 418 additional ATMs for its retail customers across Russia. Over the last two years Alfa-Bank’s customer base in the regions grew by 80%. An important feature of Alfa-Bank’s regional operations is the fact that the full range of bank services is accessible to both retail and corporate customers.

A clear illustration of Alfa-Bank’s regional policy is the implementation of “Eurasia”, a state-of-the-art unified technological platform for its corporate customers. This platform creates a unique competitive advantage for Alfa-Bank as it allows for a unification of the product range and service standards in all the regions of Russia. Furthermore, it ensures centralisation of all business processes of the Corporate Bank. The implementation of this system accelerates the process of decision-making on loan issuing and allows all corporate customers of Alfa-Bank to use e-bank services through the Alfa-Client Online unified system of remote services that is based on a technology platform supplied by Gemini.

The extensive regional network of Alfa-Bank, the broad product range and the use of innovative technology were the important factors that drove growth of the Corporate Bank’s client base. In 2007 the number of corporate customers increased by more than 14% (from 45,000 to 51,500). The corporate loan portfolio increased by more than 50% and reached USD 13,548 million. This means that the growth rate in corporate loans was the highest among all private banks in Russia. Alfa-Bank repeated its achievement of 2006 when it ended the year as the fourth largest bank in Russia in terms of its corporate loan portfolio.

A significant event in 2007 was the Corporate Bank’s launch of a long-term programme to provide credit to small and medium-sized enterprises (SME). The programme enables easy and prompt assessment of the borrower, convenient lending conditions and comprehensive support of the deal by a dedicated manager. The pilot SME project was implemented in Moscow and proved to be profitable – the programme’s loan portfolio amounted to USD 200 million by the end of December 2007. In 2008, the SME program will be extended to the Russian regions.

Among the Corporate Bank’s other achievements was Alfa-Bank’s success in winning the tender for settlement transactions between wholesale energy market participants. The tender was put out by the non-profit partnership “Trading Systems Administrator”. Alfa-Bank’s project of organising a system of settlements – called GOELRO – won praise from the tender organisers. This confirmed the priority role of the settlement business for Alfa-Bank and the importance of cooperating with energy sector companies.

In 2007, special attention was paid to developing cooperation between Corporate and Investment Banking. Focused work with Alfa-Bank’s corporate customers allowed the Investment Banking division to demonstrate strong performance – 2007 indicators exceeded those achieved in 2006 by 25%. Due to the high importance of this customer segment for
Investment Banking, a Corporate Finance Division was created within the business unit to be in charge of providing investment products to our corporate customers. As a result the performance indicators of the Corporate Finance Division increased significantly: in 2007 total transactions amounted to USD 7 billion (2006: USD 800 million). Noteworthy transactions included the organisation of the sale of OGK-3 and OGK-5 to ENEL of Italy and the sale of 51% of the assets of Maxi-Group to Novolipetsk Metallurgical Combine.

The completed restructuring of the Investment Banking business unit and the consequent changes made in the professional team, yielded positive results in other areas as well: the volume of transactions in the Equity Division increased by 46% to about USD 73 billion and derivatives market services were revitalised. Income from the Alfa-Direct Internet trading system doubled and the volume of deals reached a value of USD 40 billion. The issuing of corporate rouble-denominated bonds remains a priority business line for Investment Banking.

It is worth mentioning that the Financial Institutions Division of the Investment Bank business unit attracted about USD 2 billion under international interbank financing in 2007. This shows that major financial institutions attach significant importance to cooperation with Alfa-Bank and consider us an important partner in Russia. The Investment Bank’s achievements were acknowledged by Global Finance magazine when it declared Alfa-Bank “The best trade finance bank in Russia in 2007”.

Alfa-Bank pays significant attention to risk management to ensure the safety of the business. Advanced technology is used to minimise risk. Alfa-Bank took part in the development of a risk management programme for the Central Bank of Russia — an affirmation of the reliability of the risk management systems used by Alfa-Bank.

The quality of the services we provide is of the utmost importance to Alfa-Bank. That is why the customer service provided by all of our offices is in compliance with the high standards adopted by Alfa-Bank. To achieve this, Alfa-Bank implements various programmes for staff development and has reward schemes in place to acknowledge employee performance.

In 2008, we plan to continue the activities aimed at improving the profitability of our business. Thanks to efficient risk management devices, we can work with stable and emerging high-margin market segments and financial instruments. We will undoubtedly continue to work towards integration of the different business units of Alfa-Bank, grow the share of cross-sales and strengthen the synergies from such interactions. As a high-tech financial institution, Alfa-Bank will continue to implement advanced operating platforms and models as well as more options to enable remote customer interaction with Alfa-Bank. Based on the 2007 results and taking into account the outlook for the year to come, we can confidently say that Alfa-Bank will continue to improve its performance indicators along all parameters in 2008 and will remain one of the leaders in the Russian banking business.
RUSSIA HAS SHOWN ITSELF TO BE LARGELY INSULATED FROM GLOBAL TRENDS

The sub-prime crisis in the US which started in July-August 2007 had a marked effect on global financial markets, gave rise to new challenges and undoubtedly put the established model of global capital flows to a rigorous test. Significant growth in the volume of financial flows into emerging markets has taken place over the last number of years, reflecting not only inflows of private capital into these regions, but also the growing EM share of world trade. BRIC countries have become the largest holders of gold and currency reserves, while their companies are buying assets all over the world and setting trends for direct investment flows. Given the slowdown in the US economy, the questions being asked in 2008 are whether these countries will manage to maintain these growth rates, and what consequences the sub-prime crisis will have on the global economy.

For the last 10 years it has been characterised by global economic stability, and a number of EM countries have notably improved their macroeconomic situation. In 2006-07, 19 of the 25 largest EM countries grew more rapidly than the 1989-1998 average. While 21 of the 25 countries maintained a current account deficit in 1996, 15 countries posted a current account surplus in 2006 and 2007. In 1996 total EM foreign debt equalled 157% of those countries’ annual export volume. This figure dropped to 67% by 2006, and debt servicing declined from 24% of exports in 1996 to 14% in 2006 and 11% in 2007. These figures provide good reason to believe that the fundamental valuation of the financial instruments of these countries should not be damaged by the worsening economic situation in the US and investors will not be scared off.

Nevertheless, the reality is that the economic situations of many of these countries improved thanks to growing export revenues. Russia is no exception: in 2007, revenues from the export of oil, oil products and gas contributed 61% to the country’s total export revenues. Another 16% came from metals exports. The country’s principal achievement in recent years has been learning how to transform these revenues into long-term savings, which unfortunately still means state savings, and how to use them to finance other sectors through more active bank lending. Growing instability in global markets, including energy markets, makes the balance of payments less predictable.
The increase in export revenues in recent years facilitated foreign borrowing and allowed companies to increase foreign debt at a remarkable pace. Beginning in 2002, the volume of debt inflow into the EM private sector was well above the inflow into the state sector, including in Russia: State debt equals only 3% of GDP, while private debt at the end of 2007 reached 32% of GDP. However, Russia, like many other members of the EM universe, has not raised massive long-term financing. On the contrary, around USD 48 billion, which is equivalent to the total volume of foreign investment in Russia, was spent by Russian companies on the acquisition of foreign assets. This figure indicates that the volume of financial resources at the disposal of Russian companies significantly exceeded the potential of investment in the Russian economy, and that capital is mainly flowing into financial markets.

EM countries are also materially threatened by growing inflationary pressure, which has been noted in a number of countries since the second half of 2007. Initially, the rise in global prices was tied to growing prices for agricultural products, which in 2007 grew at their fastest rate since 1973-1974. Unsurprisingly, many countries experienced dramatically worsening inflation. Inflation in China reached an 11-year high, while in Kazakhstan and Ukraine it was the highest in 12 years and 7 years respectively. In Russia inflation reached a 4-year high, which is not bad compared with many other countries. It is nevertheless obvious that the inflationary threat combined with the liquidity crunch has not allowed The Central Bank of Russia (CBR) to implement an effective anti-inflationary policy.

RUSSIAN BANKS HAVE PASSED THE TEST

The Russian banking system and CBR have faced down the challenges posed by unstable global financial markets. Fundamentally, the Russian banking system holds a low level of economic risk. Only 20% of Russian banking assets are funded internationally. The IPO boom and foreign banks’ penetration of the Russian market have protected Russian banks from a capital shortage despite strong growth in the banking services market. However, international market turmoil has increased uncertainty and called for active CBR support.

Russia’s underdeveloped refinancing system puts banking liquidity at risk. As a result of the global financial market squeeze in 2H07, the CBR has had to take a number of steps to support Russian banking liquidity and to prevent a crisis of confidence in the banking system. The Fund of Obligatory Reserves lowered the required rate from 4.5% to 3.5%, and the list of instruments that banks can use to receive refinancing
was expanded considerably. Foreign exchange swap rates were lowered. CBR granted 3-month and 6-month loans to support liquidity for some banks. At the end of 2007, RUB 300 billion were injected from the federal budget into the equity capital of the Development Bank and the State Nanotechnology Corporation. These funds played a significant role in stabilising the banking sector, and by the beginning of 2008 the liquidity position of Russian banks looked more secure.

The growth in foreign corporate debt in 2H07 came as a positive surprise. Thanks to low economic risks, Russia’s high credit ratings allowed Russian banks to increase borrowing in 2H07 and to attract around USD 41 billion from abroad. The statistics on capital inflow in Russia also show just a small outflow in 3Q07, which had given way to a positive trend by year-end. In 2007 Russia saw USD 82 billion in net capital inflows, almost twice as much as in 2006. Continued capital inflow is an important sign of global confidence in Russia.

### Table 1: Russian corporate debt 2000-2007, USD billion

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<tbody>
<tr>
<td>Total corporate debt</td>
<td>31</td>
<td>35</td>
<td>48</td>
<td>80</td>
<td>108</td>
<td>175</td>
<td>262</td>
<td>343</td>
<td>378</td>
<td>413</td>
</tr>
<tr>
<td>Banking debt</td>
<td>9.0</td>
<td>11.3</td>
<td>14.2</td>
<td>24.9</td>
<td>32.3</td>
<td>50.1</td>
<td>101.2</td>
<td>131.0</td>
<td>147.7</td>
<td>163.7</td>
</tr>
<tr>
<td>Non-banking debt</td>
<td>22.4</td>
<td>23.9</td>
<td>33.8</td>
<td>55.1</td>
<td>75.7</td>
<td>125.0</td>
<td>160.7</td>
<td>211.8</td>
<td>230.4</td>
<td>249.6</td>
</tr>
</tbody>
</table>

Source: CBR, Alfa-Bank

Despite the trouble in global markets, Russian banks demonstrated high growth rates in 2007. Banking assets increased 55% in 2007 and the corporate loan and retail loan markets grew by 63-68%. However, there is room for growth in all of these areas. Although the Russian economy grew by 8.1% in 2007, assets amounted to a mere 64% of GDP, and corporate loans to only 28%. The retail loans/GDP ratio as of YE2007 was just 10%, and the mortgage market’s share of GDP at the end of 2007 amounted to 2%. While these figures are not high by international standards, they reflect the much more important role played by Russian banks in defining the growth trend in 2007 compared to previous years. As a result, the improvement of banking regulation and expansion of refinancing facilities will enjoy high priority in the coming years.
RUSSIA NEEDS TO FIND NEW SOURCES OF GROWTH

The changing situation in global markets has given rise to some worrisome trends in the Russian economy.

The first is growing inflationary pressure. The price spike in the second half of 2007 was clearly related to external factors like rising global agricultural and oil prices. However, a number of domestic economic factors have kept Russia from counterbalancing the growing prices with internal policies. These factors include Russia's highly energy-intensive manufacturing industry, which inevitably leads to higher domestic gas and electricity tariffs. In 2008 domestic gas tariffs grew almost 40% faster than in 2007. Additionally, there is a large gap between wholesale and retail prices: in 2007 the PPI increased 25% compared with CPI growth of 11.9%. This pressure from the PPI also contributes to rising prices.

Secondly, the need to support the banking system from budget funds has already led to significant budget spending in 2007 and will possibly stimulate a rise in expenditure in the coming years. The federal budget surplus dropped to 5.5% of GDP in 2007 vs. 7.5% in 2006. It is obvious that using budget spending as a means of stimulating the economy should be done with care, since an unbalanced budget policy in future might undermine long-term savings, i.e. the Stabilisation Fund.

As a result of the squeeze in global financial markets, Russia saw an increase in rates and simultaneously a shortening of loan portfolio terms. Investment money remains expensive and therefore half of capital expenditures are still financed by companies' own funds. Bank loans are used mainly to support working capital.

It remains important for Russia to convert the continuing growth of its loan market into increased investment activity and into the creation of internal sources of growth. The latter is necessitated by drastic growth in imports: in 2007 imports increased by 37% or USD 58 billion. The effect of this increase is equivalent to a USD20/bbl decrease in the oil price. Diversifying export flows and improving the competitiveness of Russian producers are therefore the main priorities. This will not only improve short-term economic growth indicators, but will also help lay the foundation for the healthy long-term development of the Russian economy.
A STEP AHEAD WITH ALFA-BANK

THE AEROFLOT-MASTERCARD-ALFA-BANK CARD MAKES YOU A PARTICIPANT IN THE AEROFLOT BONUS PROGRAMME.
2007 was a year of new opportunities and challenges. Despite the deteriorating global macroeconomic situation and turbulence in financial markets, the Russian economy, specifically its non-resource sectors, was attractive to bank financing in 2007. The three major market trends were increasing competition, focus on the SME segment and a shift in customer preferences.

In the last year competition intensified in all segments and niches of the corporate market. This was mainly due to the growing professionalism of seemingly independent banks that drove their growth through funds attracted by share offerings. Other growth factors were the regional expansion of foreign banks, active development of regional banks and the emergence of niche players.

Banks are focusing on small and medium businesses, because of the higher margin on products offered to these customers and the growing significance of this segment for the national economy in general.

The product preferences of customers have undergone significant changes: 2-3 years ago clients were mainly interested in receiving loans to finance working capital needs, but now they are increasingly interested in complex solutions that can extend the capital base of the enterprise and improve the efficiency of corporate finance (project finance, cash management, M&A financing, investment products).

Today we can confidently say that the Corporate Bank team starts to capitalise on both the opportunities offered by the market and the business unit’s inherent competitive advantages – a unique product mix, long-term customer relationships, a focus on rapidly developing segments, a powerful technology platform and a national distribution network.

In 2007, Alfa-Bank focused on implementing the strategic priorities of consolidating its positions in the high-margin segments of leasing, trade and structured finance. Furthermore, it entered the promising SME sector and put into operation a large settlement project in the utilities market, which strengthened Alfa-Bank’s position as the market leader in innovative settlement solutions.

Alfa-Bank maintained its policy of increasing synergies between corporate and investment banking through the sale of investment products to Corporate Bank clients. Major corporate finance deals of the year include the sale of a 51% share in Maxi-Group to Novolipetsk Metallurgical Combine and the acquisition of Dunham-Bush by AgromashHolding.

The Corporate Bank division increased its client base by more than 14% – from 45,000 to 51,500 clients.

Alfa-Bank’s loan portfolio in 2007 amounted to USD 13,548 million, which exceeds the 2006 figure by more than 50%. This increase outstrips the development pace of competitor banks and is in general comparable to levels of corporate asset growth across the banking system. In terms of its corporate loan portfolio, Alfa-Bank occupies the fourth place in the Russian banking sector.
Breakdown of loan portfolio by economic sectors

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Trade and commerce</td>
<td>2,695,676</td>
<td>1,533,474</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>2,194,725</td>
<td>1,315,625</td>
<td></td>
</tr>
<tr>
<td>Finance and investment companies</td>
<td>994,421</td>
<td>676,017</td>
<td></td>
</tr>
<tr>
<td>Ferrous metallurgy</td>
<td>825,823</td>
<td>738,869</td>
<td></td>
</tr>
<tr>
<td>Power generation</td>
<td>718,306</td>
<td>913,350</td>
<td></td>
</tr>
<tr>
<td>Armaments production</td>
<td>715,207</td>
<td>524,402</td>
<td></td>
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<tr>
<td>Railway transport</td>
<td>672,527</td>
<td>340,415</td>
<td></td>
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<tr>
<td>Machinery and metal working</td>
<td>661,997</td>
<td>591,926</td>
<td></td>
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<tr>
<td>Non-ferrous metallurgy</td>
<td>637,059</td>
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<tr>
<td>Nuclear industry</td>
<td>572,777</td>
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<td>Natural gas industry</td>
<td>425,516</td>
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<tr>
<td>Diamond extraction and processing</td>
<td>302,497</td>
<td>—</td>
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<td>Food industry</td>
<td>254,938</td>
<td>155,357</td>
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<td>Aviation transport</td>
<td>230,491</td>
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<td>Oil industry</td>
<td>196,880</td>
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<td>Mass media and telecommunications</td>
<td>196,420</td>
<td>93,043</td>
<td></td>
</tr>
<tr>
<td>Chemistry and petrochemicals</td>
<td>190,326</td>
<td>190,261</td>
<td></td>
</tr>
<tr>
<td>Agrobusiness</td>
<td>154,720</td>
<td>28,735</td>
<td></td>
</tr>
<tr>
<td>Coal Industry</td>
<td>147,489</td>
<td>135,034</td>
<td></td>
</tr>
<tr>
<td>Water transport</td>
<td>77,262</td>
<td>78,612</td>
<td></td>
</tr>
<tr>
<td>Timber industry</td>
<td>34,062</td>
<td>40,903</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>648,654</td>
<td>417,063</td>
<td></td>
</tr>
<tr>
<td><strong>Total gross loans and advances to customers</strong></td>
<td><strong>13,547,773</strong></td>
<td><strong>8,974,395</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Source: IFRS consolidated financial statements of Alfa-Bank

The leading industries in Alfa-Bank’s 2007 corporate loan portfolio were trade and commerce (20% of loans outstanding), construction (16%), finance and investment companies (7%), Ferrous metals (6%), power generation (5%) and armaments manufacture (5%).

The share of the following industries increased significantly: agriculture (257%), nuclear (166%), non-ferrous metallurgy (66%).

In 2007, half of Alfa-Bank’s Corporate Bank loan portfolio was comprised of loans issued to clients of regional bank offices.
In 2007, the concentration of the corporate loan portfolio demonstrated a positive trend with the share of the ten largest borrowers of Alfa-Bank decreasing from 22.3% to 18.5%.

The share of overdue loans in the corporate credit portfolio remains at 0.3% level.

In view of current liquidity in the Russian and global markets, a priority task for the Corporate Bank is to attract deposits. The volume of funds attracted by the corporate business increased by 40.4% – from USD 5 734 million to USD 8 051 million (including promissory notes issued). In terms of the volume of corporate funds attracted, Alfa-Bank is in 5th position in the country (according to RosBusinessConsulting). Branches in the regions account for 38% of corporate funds attracted by Alfa-Bank.

SME

• 2007 saw the launch of a lending programme aimed at small and medium-sized enterprises.

The Russian small businesses credit market is currently in the early stages of formation and will demonstrate active growth in the next couple of years. According to estimates made by the Ministry for Economic Development and Trade (MEDT), the current needs of small enterprises for borrowed funds amount to about USD 25-30 billion. Alfa-Bank intends to become one of the leaders in this market by optimising its technological advantages, product range and distribution network.

At the initial stage, lasting until the end of 2007, a pilot programme was implemented in the Moscow region. In 2008 this programme will be rolled out in the Russian regions. In 2007, the SME loan portfolio amounted to USD 200 million.

The primary distinguishing features of Alfa-Bank’s SME lending programme are the adoption of continuous-flow technology for working with customers and a specialised scoring procedure used to assess potential borrowers. This ensures simplicity and promptness in loan approval. A preliminary decision on loan issue is made immediately after the loan manager visits the client’s operational facilities. The deal is fully supported by a personal manager who assists the borrower in preparing the necessary documents and receiving the loan.

Existing credit terms on offer allow the client to select the most convenient loan repayment method, depending on the seasonal nature of their business. They also have the option to make use of a loan repayment delay. Alfa-Bank has adopted a flexible approach to collateral and may issue partly secured loans. It accepts as security goods in turnover or purchased non-current assets, e.g. vehicles, equipment and properties.

Loans to small and medium-sized enterprises are issued in roubles, US dollars and Euros in the form of one-off loans, credit facilities, bank guarantees or unsecured letters of credit.

GOELRO

• Alfa-Bank – a single settlement centre for the energy market

In 2007, the non-profit partnership “Trading Systems Administrator” selected Alfa-Bank as the settlement bank of the wholesale electricity market. The 5 largest Russian banks competed for the contract.

Based on its long record of working in the utilities sector, Alfa-Bank offered a solution incorporating state-of-the-art developments in the settlement business and advanced information technology which take into account the specifics of settlements in the wholesale electricity market.

Alfa-Bank’s project to develop and operate the settlement system was called GOELRO after the 1920’s plan of the same name that was aimed at the electrification and restructuring of the national economy.
The fact that Alfa-Bank was chosen to become the settlement bank of the wholesale electricity and power market is evidence of our strategic value to this market. It is a crucial step in bringing the development of the settlement business to fruition. The GOELRO project is also the next stage in Alfa-Bank’s long-term cooperation with energy sector enterprises. In its role as investment advisor to RAO UES of Russia, Alfa-Bank has played an active role in reforming the sector. The implementation of the GOELRO project will allow Alfa-Bank to expand its financing base significantly. This is all the more important given the global lack of liquidity, because to ensure settlements, wholesale electricity market players need to transfer the necessary funds for making settlements to their accounts with Alfa-Bank.

As part of the GOELRO project, Alfa-Bank will open more than 250 settlement and 250 trading accounts. The services to the electricity market will add up to USD 1 billion in turnover in 2008.

**Project Eurasia: unified technology platform**

Since November 2006 Alfa-Bank has implemented “Unified Corporate Bank” – a two-year programme of strategic initiatives that was called “Eurasia” in 2007.

This programme of innovation and implementation of a new business model is aimed at achieving absolute competitive advantage in the corporate services market through ensuring a unified product offering, a unified service standard as well as cost control and reduction. In general, the programme will enable centralisation of all Alfa-Bank’s corporate business processes and literally make Alfa-Bank a national-level institution that functions in a single operational and information space.

The Eurasia programme consists of five components. Firstly, a unified banking system means a centralisation of Alfa-Bank’s technology platform on the Misys Equation solution and a unified product range across the whole territory where Alfa-Bank operates. For customers this will mean accessibility to even the most sophisticated financial products, irrespective of their location in Russia. Secondly, a unified delivery channel means that systems and interfaces will be unified. Alfa-Bank’s corporate clients across Russia will have access to innovative and secure e-banking through a system of remote services based on a Gemini platform and called “Alfa-Client Online”.

Thirdly, a unified credit process will be adopted to speed up the decision-making process in lending on a national level and to ensure synergy between lending and settlement business lines.

Plans for optimising the lending process include standardisation, adaptation of Alfa-Bank’s practices to market requirements and identification and removal of counter-productive elements from the lending process. For customers, loan issuance will become a comprehensible and standardised procedure that takes significantly less time.

In the fourth place, a unified corporate customer relationship format will be introduced. This means centralisation of operational functions and adoption of unified service standards. This means that all processes of Alfa-Bank, both internal and customer-oriented, will be governed by promptness and client-focused principles.

Finally, a unified reporting system will ensure better overall management of the corporate business due to reliability, consistency and integrity of data for all types of reporting.

**LEASING**

In 2007, finance lease receivables amounted to USD 617 million. For the first time leasing drove sales of banking products – leasing brought new customers like the company TransleasingService to Alfa-Bank. In addition, a leasing subsidiary of Amsterdam Trade Bank was established in the Netherlands in the reporting year. From the beginning of 2008 ATB-Leasing will significantly extend Alfa-Bank’s capabilities in organising cross-border transactions and deals with sophisticated structures.
As of January 1, 2008, Alfa-Leasing was the third largest Russian company in terms of the volume of lease portfolio and the fourth largest Russian company in terms of the volume of new business and in terms of the volume of financing leasing contracts (based on Expert RA research conducted among 170 leasing companies).

In 2007 Alfa-Bank began automating leasing transactions (the project partner and integrator is 1C:Homnet company).

Current Alfa-Leasing successes are mainly thanks to leasing deals with several of the largest and medium-sized Russian companies, as – in aircraft leasing (Transaero Airlines, Sibir Airlines), in leasing of power equipment (Lenenergo), in leasing of rolling stock for transportation companies (DVTG, Novotrans, SG-Trans, Sovfraht, Transgroup, Transgarant), in leasing of road and building machinery (Aerodromdorstroy, Donstroj, and also food and processing equipment (Izhauto, Unimilk, AhmadTea, Peresvet-invest) and others medium-sized clients, which lease complex and costly items like equipment for transportation, mountain-extracting equipment.

Alfa-Leasing’s largest deals in 2007 were:

1. Various contracts worth over USD 150 million with OSJC Holding Company “Novotrans” for the leasing of rolling stock.
2. Contracts worth RUB 2.7 billion with DVTG Group for the leasing of rolling stock.
3. Contracts worth USD 85 million with ETK Group (Leman Pipe) for the leasing of rolling stock.
4. Contracts worth RUB 0.9 billion with UniversalTransgroup for the leasing of rolling stock.
7. A bridge loan to Transaero Airlines for the supply of aircraft under leasing contracts worth USD 26 million.
8. Contracts worth RUB 95 million with Vladavia for the leasing of aircraft engines.
10. Contracts worth RUB 0.5 billion with Aerodromstroy Group for the leasing of construction and purpose-built equipment.
11. Contracts worth USD 6.2 million with Vtormet for the leasing of equipment for non-ferrous scrap recycling.
12. Various contracts worth RUB 1.5 billion with OJSC Lenenergo for the leasing of power equipment.
13. Contracts worth USD 2.2 million with Gema Group for the leasing of vehicles (32 cars).

Late in 2007 Alfa-Leasing finalised its development strategy for the next two years. This strategy aims to penetrate new markets like leasing services for small and medium-sized enterprises, leasing of cars and trucks, commercial real estate, construction and purpose-built equipment. The strategy also provides for the expansion of our geographical presence in the Siberian, Southern, Central and North-Western districts of Russia.

The implementation of this strategy will enable Alfa-Leasing to maintain its current market position and continue the growth of its leasing business.
STRUCTURED FINANCE

In 2007, Alfa-Bank strengthened its position in the area of structured credit products.

The most significant deals of 2007 included the following:

- In May 2007 Alfa-Bank, in conjunction with Natixis bank, acted as the mandated Lead Arranger and Bookrunner of a syndicated loan for Renaissance Securities (Cyprus) Ltd., which forms part of the leading independent investment group Renaissance Capital. The latter operates in the financial markets of Russia and other CIS countries. The loan, in the amount of USD 130,000,000, was issued for one year with the possibility of prolonging the agreement for another year. The share of Alfa-Bank in the syndicated loan is USD 50,000,000.

- In the second half of 2007 Alfa-Bank, through its Dutch subsidiary Amsterdam Trade Bank, participated as the Lead Arranger in a syndicated loan issued for five years to RAIL.RU Ltd., the largest Russian private company engaged in leasing out rolling stock and cargo transportation. The syndicated loan was organised by CITIBANK N.A., London Branch. The syndicated loan totalled USD 165,000,000 with ATB’s share amounting to USD 25,000,000.

- Alfa-Bank acted as the Co-Arranger of a syndicated loan of RUB 850,000,000 issued to CJSC DeltaLeasing for three years. Alfa-Bank’s share of the loan amounted to RUB 300,000,000. Moscow International Bank acted as the Mandated Arranger of the deal.

Alfa-Bank also continued developing other structured products, including project finance and financing of mergers and acquisitions. Alfa-Bank’s portfolio for these types of deals amounted to USD 350 million.

TRADE FINANCE

Trade finance has traditionally been one of the top priorities of the Corporate Bank. Alfa-Bank’s leading position and its extensive experience in trade finance have been acknowledged repeatedly by Global Finance magazine when it selected Alfa-Bank as The Best Domestic Trade Finance bank in 2001, 2003, 2004, 2005, 2007 and 2008.

Alfa-Bank’s issued guarantees and import letters of credit amounted to more than USD 1.3 billion at the end of 2007 (2006: USD 1.1 billion).

The largest trade finance deals funded by Alfa-Bank in 2007 included:

- an import contract with CJSC TZMP for the supply of equipment for the production of mineral-wool boards (funding for 6 years secured by EGAP guarantees)
- a contract with OJSC Krasnoyarsk Refrigerators Plant “Biryusa” for the export of refrigerators
- an import contract for the supply of equipment for OJSC Volgograd Shipyard
- an export contract for OJSC “Severnaya Verf” shipyard
- a documentary credit limit of USD 300 million for 5 years for OJSC Power Machines. Power Machines is a leading Russian manufacturer and supplier of equipment for thermal, nuclear, hydraulic and gas-turbine power plants. Alfa-Bank products (guarantees and letters of credit) and funds provided will be used to enable the foreign economic activity of the company and produce equipment supplied by Power Machines to Russian utilities companies.
SUBSIDIARY BANK JSC Alfa-Bank (KAZAKHSTAN)

Alfa-Bank Kazakhstan, established in December 1994, provides a full range of banking products and services to both corporate and individual clients. Alfa-Bank Kazakhstan’s head office is located in Almaty. Alfa-Bank Kazakhstan has a branch in Astana and three representative offices in Ust-Kamenogorsk, Ekibastuz and Karaganda.

Alfa-Bank Kazakhstan serves more than 22,000 corporate and individual clients. Its services are utilised by Kazakhstan entities of different forms of ownership and across a variety of industries. According to figures published by Kazakhstan’s Central Bank, Alfa-Bank Kazakhstan is placed among the 20 largest banks in the Republic of Kazakhstan in terms of assets.

By the end 2007, Alfa-Bank Kazakhstan’s assets increased by around 16% to USD 209.0 million from USD 179.7 million at the end of 2006. Its gross loan portfolio grew by 55% to USD 150.0 million, from USD 96.8 million at the end of 2006. On December 31, 2007, total shareholder capital stood at USD 55.4 million vs. USD 40.1 million at the end of December 2006.

According to Moody’s international credit rating agency, the long-term deposits of Alfa-Bank Kazakhstan are rated Ba3 with a stable outlook while the financial strength rating is E+.

AMSTERDAM TRADE BANK N.V.

Amsterdam Trade Bank N.V. (“ATB”) was incorporated in October 1994 in Amsterdam, the Netherlands, and holds a full banking license from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, Alfa-Bank acquired a 100% interest in ATB. ATB is a member of the SWIFT, TARGET and INTERPAY settlement systems and issues private and corporate MasterCards.

ATB provides a wide range of banking services, including project finance services, to a range of corporate clients with a particular focus on trade finance involving Russia, other CIS countries and the European Union. ATB also facilitates foreign direct investment in Russia and the CIS.

At the end of 2007, ATB served over 600 corporate clients and over 81,500 private clients.

2007 was characterised by stable growth in business volumes. ATB’s assets increased to € 2,889 million by the end of 2007. In close cooperation with Alfa-Bank, ATB continues to expand its corporate loan portfolio. By the end of 2007, it had grown by 36% to € 1,395 million (€ 1,026 million at the end of 2006).

ATB continues to fulfil its high growth potential by attracting deposits in the Dutch and German retail markets. In June 2007, ATB successfully switched its savings programme in the Netherlands to one based on internet technology. The volume of retail deposits attracted as at the end of 2007 was € 1,511 million. ATB’s net profit amounted to € 33 million for 2007 vs. € 22 million for 2006.

ATB’s equity on December 31, 2007 amounted to € 193 million.

The high efficiency of ATB’s operations in 2007 is underlined by the following key indicators: return on capital exceeded 20% while the cost to income ratio was 26%.
At the end of 2007 Alfa-Bank’s Board of Directors approved the corporate business development strategy until 2012. The strategy aims to build a balanced bank. The primary strategic focus areas are the top segment of medium-sized companies and the development of sophisticated products. Alfa-Bank will continue to expand partnership relations with large companies, but these relationships will be focused on selling credit products with complex structures, investment products (jointly with the Investment Bank) and Cash Management products.

The small and medium-sized enterprises (SME) sector will be developed aggressively through offering standardised products to the extensive customer base – in 2008 an SME credit programme will be rolled out in 15 regions with Alfa-Bank targeting 2% market share in this sector by the end of 2008. By 2010-2011, SME projects will be one of the key drivers of corporate business development.

Alfa-Bank currently sees its primary potential in the segment of client companies that have annual revenues of USD 200 million – USD 700 million. Alfa-Bank intends to significantly strengthen its position in this customer segment. The product line intended for this segment is comprised of numerous products – investment, sophisticated credit products, leasing, factoring and a complete range of settlement instruments. Alfa-Bank’s ambition is to become the bank of choice for medium-sized companies, however, Alfa-Bank will continue to work with large enterprises including state-owned companies.

In 2008, Alfa-Bank will continue extending its industry experience in key sectors of the Russian economy and will offer new financial instruments to attract financing from the international capital markets for its largest customers on terms and conditions that are comparable, or even preferable, to the offerings by the largest independent banks.

In 2008 Alfa Corporate Bank’s regional network will undergo certain changes. Business on the regional level will be organised based on the cluster principle: only 9 out of 32 branches will retain their status; the others will be reorganised into operating offices. This represents a new, simplified regional presence. Six new operating offices are also scheduled to open in 2008. The transformation of branches into operating offices will enable implementation of advanced banking technology, which will significantly expand the capabilities of regional customer relations. An innovative corporate customer relations methodology that is based on a state-of-the-art, multi-functional IT platform will be rolled out at regional level as part of the Eurasia programme. This will expand Alfa-Bank’s product range, enhance the quality of its customer service and standardise it across the Russian Federation. This transformation of branches into operating offices will be a follow-up to the two successful pilot programmes completed in Tomsk and Saratov in 2007.
In 2007 Alfa-Bank proved again that it is one of the market leaders in retail banking. To further optimise the operations of its retail business, Alfa-Bank merged the operations of its retail and consumer finance divisions. The 2007 performance of the merged business demonstrated that this consolidation was not only an important step in the development of Alfa-Bank’s retail business, but also helped to enhance the division’s efficiency. Our success in retail services was evident in the numerous awards we received in 2007. According to a survey titled “Client perceptions of retail banking services in Russia”, Alfa-Bank’s service was rated best in the market. The survey of Russia’s 32 largest banks was conducted jointly by independent consulting firms KPMG and Senteo. Banks were assessed in five general categories: bank brands, communications, the exterior and interior of branch offices, product range (whether the bank’s products are comprehensible to clients) and culture (staff attitude and accessibility). Alfa-Bank was the front-runner in each category. Alfa-Bank plans to further strengthen its position in the retail market and continue improving customer service in 2008.

The overall situation in the Russian retail market in 2007 offered opportunities for active growth and extension of the customer base. The consumer lending market (excluding mortgage lending) increased by USD 36 billion in 2007 to reach a value of USD 101 billion, while demand deposits made by individuals in Russian banks increased from USD 26 billion to USD 39 billion over the year (RBC data). Based on the year’s results, Alfa-Bank was the fourth largest market player in terms of demand deposits received from individuals, and managed to increase its market share to 4.41%. Funds invested by individuals in demand deposits amounted to USD 1.714 billion, which is USD 664 million more than at the end of 2006. Despite the complicated nature of legislation and regulatory requirements regarding banking products in the consumer lending segment, Alfa-Bank demonstrated stable growth in this area in 2007, and this allowed it to nearly double its retail loan portfolio. As a result of productive work in the area of primary and secondary sales in 2007, the combined retail and consumer finance loan portfolio nearly doubled – from USD 566 million in 2006 to USD 996 million in 2007. Alfa-Bank is currently one of the five leaders in the consumer lending sector in Russia.

In 2007, Alfa-Bank paid close attention to the regional development of its business. Active steps to expand the regional retail chain commenced in 2006 when 56 new branches of Alfa-Bank were opened across Russia. In 2007, Alfa-Bank continued extending its regional presence and opened 62 more branches in 23 regions of the Russian Federation. In addition, there were 1250 ATMs installed across the country as of 31 December 2007. During the two years of active regional expansion, Alfa-Bank’s regional customer base increased by 80% and reached 1.9 million by the end of 2007. A competitive advantage of Alfa-Bank is that all clients get access to the full range of banking services in any city of Russia. Key branches of Alfa-Bank have specialised managers for VIP customers.
A rating of retail banks compiled by Retail Finance magazine named Alfa-Bank the winner in terms of quality of customer service. Alfa-Bank scored 37 points out of 38, outshining all the largest Russian retail banks in this parameter. Consumer loans are offered through a network of outlets located in retail banks. At the end of 2007 the number of points of sale across Russia – from Kaliningrad to Vladivostok – totalled 2019.

The opening of two additional A-Club offices for high-net-worth clients in Moscow and the completion of construction on another A-Club office in St Petersburg, which opened for VIP clients early in 2008, deserves special mention. Alfa-Bank plans to open new branches in this format in other Russian cities in 2008. Members of the A-Club elite association (Alfa-Bank currently has 700 VIP clients) have access to a range of unique private banking services and products as well as round-the-clock support from a personal manager. Another benefit offered to the members of A-Club is access to a global ATM network. This service was developed specifically for this customer category, operates around the globe and allows A-Club members to receive reimbursement for the commission charged on cash withdrawals from ATMs of third party banks. The annual national awards event “Financial Russia” recognised Alfa-Bank as the best Russian bank in the private banking segment in 2007. The high confidence of our clients is confirmed by the strong growth in this business unit.

A revision of the target segments in consumer lending represented a significant change that promoted better results for the consumer finance business. In 2007, Alfa-Bank switched from the sale of standard personal instalment loans on the open market to mainly interaction with premium clients in this segment and the employees of companies that are payroll customers of Alfa-Bank. This step allowed for a marked decrease in the risk associated with possible fraud while offering clients a customised range of services and credit products. In 2007 Alfa-Bank also launched a project aimed at developing long-term and multi-purpose relationships with existing customers. As part of this project the credit limit on credit cards is raised by 15% – 35% for credit card holders with a good credit history with Alfa-Bank. Furthermore, cash withdrawal limits are to be increased and customers will be offered new credit facilities on more attractive terms. The project’s database is updated on a monthly basis and so manages to regularly add to the number of Alfa-Bank customers who could potentially make use of this offer. Based on an analysis of the existing customer base, beginning at November 2007, Alfa-Bank started issuing credit cards to customers who had been on different tariff plans without requiring any additional documents from them. The portfolio of this segment amounted to USD 187 million – USD 108 million in retail banking and USD 79 million in consumer lending. As a result of the rollout of this project, significant growth is expected in the consumer lending portfolio in 2008.

One of the highest priorities of Alfa-Bank’s retail business is continuous improvement of its operations in order to create additional opportunities for customers and to build an infrastructure that will promote convenience and ease of use. In 2007 we installed several hundred ATMs that are capable of receiving cash deposits. We are also actively
developing remote customer service channels. In 2007, the number of customers who used Alfa-Click Internet Bank grew three times to 218,000 individuals. Alfa-Bank extended the capabilities of Alfa-Click considerably by adding payment options for mobile phone services, internet access, utilities, other phone services and options to buy investment units from Alfa Capital. A new system of managing individual preferences has extended the capabilities of Alfa-Mobile Mobile Bank. Any transaction that used to be accessible only through internet banking can now be performed using a mobile phone. This is a unique system with no equivalent in the Russian market. Our clients can activate the Mobile Bank facility without assistance by merely selecting the relevant option on the Internet banking menu. Alfa-Check, an SMS banking service also enjoys significant demand – it has been activated on more than 375,000 plastic cards. In 2007, Alfa-Mobile won a Cnews award in the category “Financial management”.

A variety of facilities have been created for our retail lending clients to allow for maximum convenience in and accessibility of the loan repayment. Apart from repayment options through Alfa-Bank cash machines and terminals with a deposit function and directly through Alfa-Bank branches, loan repayment has been enabled through the branches of numerous business partners: post offices of Russian Post and payment systems Elecsnet, Contact and Rapida. In addition, the number of online loan repayment points has grown due to the popularity of the terminals and offices of OSMP, Cyberplat and Unistream.

Additional benefits that were created for consumer lending customers undoubtedly include the speedy consideration of loan applications. In order to facilitate this, Alfa-Bank implemented cutting-edge information technology. Alfa-Bank is issuing consumer loans through an online system based on a centralised platform. This has meant that the time it takes for a loan to be approved has been reduced to one minute. This system is capable of working 24/7 and is able to assist clients in all regions of the Russian Federation simultaneously. In terms of speed of service and other capabilities, it is considered one of the most advanced consumer lending systems in the Russian market.

“Alfa-Bank offers the complete spectrum of banking services to its customers and is always working to expand its product range and create banking products with added value. The annual public award titled “Best financial services for individuals/Best retail financial services” recognised Alfa-Bank as the winner in the category “Broadest range of services.”

One of Alfa-Bank’s most successful value-added products is an affiliate programme that was launched in February 2007. This joint project between Alfa-Bank, Cosmopolitan magazine and Visa focuses on women. In the first month of the programme Alfa-Bank issued 4,000 co-branded cards, exceeding the planned numbers by more than twice. This bank product is tailor-made for young women and girls and is based on their needs and preferences. The co-branded card replaces a set of discount cards and is valid for purchases in partner shops, beauty salons and restaurants. In addition to the basic card, Alfa-Bank issues the Visa Mini card, the first Russian card intended for women. It is half the size of a regular card and can be used for a variety of transactions other than cash withdrawal. A specialised website, with site design and content in line with Cosmopolitan magazine’s style, was created for the project. As of today, Alfa-Bank has issued 33,000 co-branded cards. This project is a great success and was awarded the “Creative work of the year” prize at the 2007 Retail Finance Awards, an event founded by Retail Finance magazine for
achievements in retail finance development in Russia. The success of this project is attributed to many factors – detailed market research into the needs of the target market, careful selection of the partner, correct positioning of the product and continuous development and updating of the programme.

Another successful initiative of Alfa-Bank is the affiliate project that was launched in January 2006 to issue Aeroflot-MasterCard-Alfa-Bank cards. The project won the “Most successful programme start-up” award when it was chosen from all MasterCard’s European partners in 2006. This joint programme allows card holders to accumulate points (miles) in a variety of ways by paying for goods and services with a MasterCard. By the end of 2007 Alfa-Bank had issued more than 159 thousand Aeroflot-MasterCard cards. According to estimates made by the programme's participants, average monthly purchases made using this type of card exceeded the figures for a standard MasterCard card by 1.7 times, while the average monthly turnover from Aeroflot-MasterCard-Alfa-Bank cards in trade networks, is nearly 1.8 times more than the same indicator of the standard MasterCard. To further promote purchasing activity, a targeted campaign was held for these card holders at the end of 2007. Customers who had spent a certain amount received additional bonus miles. The event received positive feedback from card holders and resulted in increased turnover.

Alfa-Bank understands the importance of developing value-added products. Alfa-Bank plans to develop these initiatives further and to launch other, similar affiliate programmes in conjunction with popular brands.

Alfa-Bank’s partner relationships in the consumer lending segment deserve special mention. Having made considerable effort to improve the performance of this segment, Alfa-Bank reduced the number of points on retailer premises where consumer credit could be obtained. This step had a positive impact on profitability and overall performance in this segment. At the end of 2007 Alfa-Bank entered into a partnership agreement with Media Markt – the largest European retail chain involved in the sale of appliances. Alfa-Bank also continues its partnership relationships with Eldorado, one of the major players in the electronics and home appliances sector, as well as with MIR and Dixis retail chains.

On its quest to become the best Russian bank in terms of service delivery, Alfa-Bank is continuously involved in developing the skills of its client relations employees. All staff members at branches pass a basic training course. Additionally, a five-stage module was launched in Alfa-Bank’s Moscow offices in 2007. This training programme aims to offer advanced training to staff to ensure constant improvement in customer service. The training module is to be introduced in the regions in 2008 and a survey will be conducted among Alfa-Bank’s customers across Russia to assess the level of service quality.

We expect 2008 to be a very successful year for the retail business of Alfa-Bank. The synergy of uniting the retail business and consumer finance that became evident during 2007 will strengthen in the coming year when the consolidation of the united infrastructure will be complete. The loan portfolio of the integrated business unit will amount to USD 1.2 billion. Efforts to attract customers of tariff plans and payroll projects will continue. Alfa-Bank’s goal is to increase its market share in settlement services and demand accounts by 0.75%. This will allow the business to obtain 5.1-5.2% of the total retail market share and become one of the three leaders in the Russian retail banking sector.
2007 was an important year in the development of Alfa-Bank’s auto finance activities.

At the end of 2007, Alfa-Bank’s vehicle finance portfolio reached USD 531 million. In 2008 Alfa-Bank intends to issue 50,000 car loans valued at around USD 800 million. The retail vehicle finance portfolio is estimated to reach USD 1,037 million.

One of the most important achievements of 2007 was the successful implementation of the GM Finance programme. Alfa-Bank issued 13,000 car loans in 2007 valued at approximately USD 180 million. This amounts to about 35% of Alfa-Bank’s total vehicle finance portfolio. As part of the programme, Alfa-Bank grants loans for the purchase of all car brands sold by authorised dealers of General Motors (GM) in Russia, in particular Opel, Chevrolet, Saab, Cadillac and Hummer. The key benefits of the GM Finance programme are lower interest rates and more convenient lending conditions, a wide range of loan products, speed and ease of loan formalisation and consistently high service levels. According to a survey among GM dealers, Alfa-Bank is the market leader in terms of the number of loans issued in partner car dealerships, more than twice the number of loans issued by other banks. The management of General Motors CIS also acknowledges that the success of the GM Finance programme has exceeded the company’s expectations. In 2008 Alfa-Bank plans to issue 24,000 auto loans to the value of USD 300 million under the GM Finance programme. Building partnership relations with car manufacturers is a priority for Alfa-Bank’s Auto Finance Division and 2008 will see joint promotional events with General Motors as well as with Severstal-Auto and GM-Autovaz.

When assessing Alfa-Bank’s performance in 2007, one item that merits special mention is the Floor-plan programme. This programme was launched by Alfa-Bank in an effort to maximise convenience and promptness in arranging financing for auto dealers. The Floor-Plan programme is aimed at providing corporate finance for wholesale car supplies which are intended for retail sale. The programme involves a revolving credit facility, starting from USD 200,000 which is made available to the car dealer. In contrast to no-purpose corporate lending, the Floor-Plan programme does not require additional security under the loan because the purchased cars themselves will be treated as collateral.

“Having already established itself as a market leader in this area, Alfa-Bank features again on the RBC’s list of top ten lenders in 2007 – this time in position 8 out of 300 market players. The volume of auto loans issued by Alfa-Bank in 2007 increased more than 1.9 times since 2006 and totalled USD 531 million.”
Floor-Plan uses up-to-date online technology and dedicated innovative software developed for this purpose. It allows for a reduction in the operating expenses of car dealers, control over the issuing and repayment of credit funds, analysis of the amount of interest paid for each car and efficient stockmanagement. The programme minimises document flow between Alfa-Bank and the borrower, because after a prompt consideration of the loan application and signing of the loan agreement with the dealer, all other matters are dealt with online. This is very important for regional dealers whose reception of the Floor-plan product has been highly favourable. According to estimates made by Alfa-Bank’s partners, the programme has enabled considerable growth in the number of cars sold, improved control over the funds provided and ultimately increased the average return on each car sold.

As part of this programme, Alfa-Bank cooperates with logistics company DHL International to ensure prompt delivery of vehicle documents once the loan has been repaid fully by the car dealer. This represents an additional benefit for both dealers and their retail customers. Considering the product’s popularity among dealers, Alfa-Bank estimates that the Floor-Plan product portfolio will reach a value of USD 265 million by the end of 2008.

All the key processes associated with consolidating Auto Finance infrastructure and the development of quality technology solutions were completed in 2007. Entry into regional markets began in 2006 when vehicle finance offices were opened in 60 cities across Russia. Regional expansion has now been completed and Alfa-Bank has operations in more than 80 Russian cities. Alfa-Bank makes every effort to develop and offer differentiated products for each region. Therefore the income threshold that qualifies applicants for car loans was established at a lower level for regional customers than for customers in Moscow and St Petersburg. In the Far East, we have launched a car loan programme that does not require mandatory purchase of a Casco insurance policy for used cars less than 15 years old at end of the loan period. In order to meet the needs of our regional customers, the terms of these programmes differ significantly from the standard loan programmes. To improve customer service, we launched a new internet system called GEMINI Autofinancing for the processing of loan applications. This system allows for a time reduction of more than 40% in the handling of a car loan application.

Cross-selling will be a priority for Alfa-Bank in 2008. The sale of vehicle finance along with other settlement, credit and investment products will be a strategic priority for Alfa-Bank. Significant time will also be invested in direct sales. Currently about 25% of car loans are issued to existing or potential clients in Alfa-Bank offices. In addition to the existing range of services, Alfa-Bank also offers a specially designed programme to VIP clients. A survey conducted by Alfa-Bank showed that Auto Finance customers are happy with the choice they have made. About 98% of our respondents indicated that they would make use of Alfa-Bank car loans services again when buying a second car.
RESULTS OF THE YEAR

2007 was the first full year in the market for Alfa-Bank’s mortgage lending business unit and the year proved to be a resounding success. Despite global liquidity problems triggered by the US mortgage crisis and the fallout effects on the Russian mortgage lending market, the Mortgage Lending business unit was able to continue its rapid development.

The professionalism of the specialists working in this business unit, a sound lending policy and the unit’s competitive advantages allowed Alfa-Bank to capitalise on the growth trend in the market and significantly improve its performance indicators. In view of the importance of a bank’s rating as a borrower during a time of more stringent funding conditions, Alfa-Bank maintained its focus on the quality of its loan portfolio. Alfa-Bank does not intend to change its lending policy in future, will continue to use moderate and conservative standards in its lending practices and will uphold principles of safety and quality in its operations.

Alfa-Bank introduced its mortgage lending programme to the market in August 2006 and by the end of the same year had granted loans to the value of USD 15 million.

At the end of 2007 Alfa-Bank’s loan portfolio amounted to USD 226 million, this result is comparable to the performances of banks that have been in the market for four or five years. It should also be mentioned that the number of loans issued continues to grow steadily.
KEY DRIVERS OF SUCCESS

The mortgage lending client base showed significant growth during the year. Apart from attractive lending conditions, this growth was further enabled by the availability of quality distribution channels, client reference programmes and customer motivation for closer relationships with Alfa-Bank. In 2007 Alfa-Bank offered clients mortgage loans for the purchase of apartments in the secondary residential real estate market, loans for the purchase of cottages and loans secured by already owned properties. Alfa-Bank also issued loans to refinance mortgage loans issued by other banks.

Mortgage loans with a term of 15 years enjoyed the highest popularity in 2007. The average loan amount was USD 98,000 with an average monthly payment of USD 1,300 – a 40% share of the total income of the borrower. The average age of an Alfa-Bank mortgage loan applicant is 33 years. These details are indicative of the fact that Alfa-Bank has managed to develop a valuable pool of borrowers with its core comprised of young middle class individuals with relatively high income levels.

Another indicator of the high quality of Alfa-Bank’s mortgage portfolio is the average loan-to-value ratio – 67%, i.e. on average our borrowers pay 33% of the value of purchased property from their own funds while the standard loan-to-value ratio for Alfa-Bank lending products is 85%. This confirms that the mortgage lending clients attracted by Alfa-Bank, of whom 50% are corporate clients, are of a very high quality.

Clear reasons for the increase in the number of clients are the consistently high levels of service offered by Alfa-Bank as well as the additional advantages of using our mortgage products. These include a minimal application handling period, a short early repayment moratorium, the possibility for foreign residents to receive mortgage loans and the large number of ways to repay loans. Our customers are able to make loan repayments in any Russian city at any of Alfa-Bank’s branches or ATMs, regardless of where the loan was issued originally. Alfa-Bank’s borrowers can also use state-of-the-art high-tech servicing methods – in Moscow alone, more than 40% of our clients make use of Alfa-Bank’s website.
A PROFESSIONAL TEAM

Finally, one of the major keys to the success of the Mortgage Lending business unit is the professional and well-coordinated work of the dedicated team who managed to create a fully-fledged and competitive business in just 18 months. Each of the top managers of the business unit is an experienced executive with more than 5 years experience in mortgage lending. The good reputations of our leaders allowed the business unit to gain the status of an accomplished industry leader and our specialists are often quoted in the country's leading industry periodicals.

High value is placed on both qualifications of staff and their professional and personal qualities. Current growth indicators were achieved mainly due to successful team work and efficient interaction within the team. The responsibility borne by each employee engaged in the handling of mortgage lending deals has been considerable. To enhance the performance of the unit, individual team members receive managerial feedback, but are also given the opportunity to express their ideas and suggestions on how to improve the unit’s operations.

REGIONAL EXPANSION

2007 was the year of regional expansion for Alfa-Bank’s Mortgage Lending Division. In 2006 Alfa-Bank offered its mortgage products in Moscow, St. Petersburg, Novosibirsk and Nizhny Novgorod. Throughout 2007 the geographic coverage of the mortgage programme expanded significantly to cover 30 Russian cities. Mortgage centres were opened in Arkhangelsk, Volgograd, Yekaterinburg, Izhevsk, Irkutsk, Kazan, Kaliningrad, Kemerovo, Krasnodar, Krasnoyarsk, Lipetsk, Omsk, Orenburg, Orsk, Perm, Rostov-on-Don, Samara, Tomsk, Togliatti, Tyumen, Ufa, Khabarovsk, Chelyabinsk, Yaroslavl and Barnaul.

The number of loans issued in the regions is twice the number of loans granted in Moscow. In 2007 Alfa-Bank issued 750 mortgage loans in Moscow and 1,500 in the regions. Due to the lower prices of residential real estate and lower income levels in the regions, these clients typically apply for lower loan amounts than residents of Moscow. As a result, despite the difference in the number of loans issued, Alfa-Bank’s loan portfolio in Moscow in 2007 was equal to the regional loan portfolio and amounted to USD 110 million.

Regional expansion proved to be effective – the number of mortgage loans issued regionally grew by about 20% each month in 2007. More significantly, Alfa-Bank is now among the top five Russian banks in terms of the number of mortgage centres operating in the Russian regions.
In 2008, specific attention will be paid to the development of mortgage lending in cities across Russia. Alfa-Bank plans to extend its regional presence even further. Thirty new mortgage centres will open in 2008, including in Astrakhan, Vladivostok, Voronezh, Murmansk and Tula. Over time, Alfa-Bank plans to make mortgage programmes accessible to residents of most Russian cities.

PARTNERS

An important element in the development of Alfa-Bank’s mortgage lending business is the extension of partnership relationships with companies involved in the core business. In 2007, Alfa-Bank entered into 100 contracts of cooperation in mortgage lending in Moscow and the Moscow region alone. Alfa-Bank also has partnership relationships with 45 real estate companies, including market leaders like BEST, MIAN, MIEL and Inkom. Alfa-Bank attracted more than 20% of its Moscow region portfolio through partnership programmes. Alfa-Bank mortgage loans are also offered through 55 brokers, including Kreditmart and Fosbourne Home. These brokers provide approximately 7% of total mortgage loans. Because Alfa-Bank is interested in attracting borrowers that meet certain parameters, it held 180 workshops for brokers and real estate agents in 2007. Based on the workshop results, certificates were granted to the 50 largest partner firms.

2008 OUTLOOK

Based on the price trend forecasts for the residential market in 2008, it is possible to conclude that the value of security provided against mortgage loans will continue to grow. In 2008, Alfa-Bank plans to grow its mortgage loan portfolio almost 4 times, pushing it up to USD 850 million.

New products will be offered to Alfa-Bank’s customers, including loans to buy apartments in buildings under construction and commercial mortgages for individuals. After significant achievements in 2007, Alfa-Bank has reason to believe that it will achieve further consolidation of its market position in 2008. Alfa-Bank’s share of the mortgage market was 0.9% in 2007, and is expected to rise to the level of 2% by the end of 2008 to become one of the top ten Russian banks in the mortgage lending business.
A STEP AHEAD WITH ALFA-BANK

YOU SAVE TIME BY USING ALFA CLICK INTERNET BANK. NOW MOST BANKING TRANSACTIONS ARE ACCESSIBLE FROM YOUR HOME OR OFFICE COMPUTER. TRANSACTIONS ARE COMPLETED IN NO TIME AT ALL!
2007 was a year of essential transformations within the Investment Banking structure. This process resulted in the segregation of three key elements of the business. The emergence of a Corporate Finance division was an important step forward in the development of the Investment Bank. This division is involved in providing investment products, including the organising of transactions in debt (DCM) and equity capital markets (ECM). The second Investment Banking unit that evolved is in charge of providing services in equities and the fixed income securities market, while the third is involved in customer and investor relationships. This model has proven to be highly efficient: Investment Banking’s performance in 2007 exceeded forecasts by 45%.

Alfa-Bank, like the overwhelming majority of international and European banks, had to factor in the consequences of the US mortgage credit crunch on their operations in 2007. The effects on global markets created a situation in which most capital markets operations were completed in the first two quarters of 2007 when major flotations, bond issues and other investment activities took place. Market volatility had significant implications for most European and international banks. Active work with corporate customers allowed the Investment Bank to avoid performance deterioration. Other success factors included a continued focus on the strategy to bring new and attractive products to the market and vigorous efforts by Alfa-Bank’s analysts to provide their expert assessments of the situation in the Russian market.

EQUITIES

2007 was a year of remarkable growth for all business lines in the equities market. The cumulative volume of transactions by the Markets and Equity department, including transactions on MICEX, RTS, OTS and in ADR/GDR markets, was approximately USD 73 billion, which exceeds the results of 2006 by 46%.

One of the milestones reached in 2007 was the creation of a promising new business line in derivatives market services. The creation of this business line was enabled by the mentioned restructuring of the Investment Banking unit. It was created in late 2007 and intends to become one of the five leading players in the derivatives market in terms of trading volume. The derivatives services offered by Alfa-Bank include exchange and OTC market trading as well as sales of equity derivatives and structured products. Alfa-Bank offers derivatives to western hedge funds, Russian mutual investment funds and Russian retail customers. The development of this business line is driven by a joint effort between Alfa-Bank’s Investment Banking and Retail divisions.
In 2007, Alfa-Bank held a number of investment conferences with a view to develop business relationships with Alfa-Bank’s largest Russian and foreign customers in the equities market. The conferences endeavoured to create awareness of important events in the Russian stock market as well as a better understanding of the political, economic and business climate in our country. In particular, we organised what has already become a traditional conference in the Swiss ski resort of Gstaad. This annual conference was attended by leaders of the largest Russian and Ukrainian companies from a variety of industries. In September 2007, Alfa-Bank organised a client visit to Sochi, the city to host the 2014 winter Olympics. As part of the trip, participating representatives of international investment funds visited the sites that are currently under construction and had meetings with key executives in charge of preparing the city for hosting the Olympic Games.

ALFA-DIRECT

In 2007, Alfa-Bank nearly doubled its gains from Alfa-Direct, a system of Internet Trading in securities. The number of client accounts grew by 63% to almost 14,000. The trading volume was USD 40 billion. In the fourth quarter of 2007 Investment Banking started its cooperation with the Retail business unit and this yielded rapid growth and increased profitability of Alfa-Direct retail sales. An Alfa-Direct training centre was created where professional trainers with extensive experience in the stock market train new investors in the basics of investing in securities and the principal skills of working with Alfa-Direct. The training is provided free of charge.

According to estimates made by Alfa-Bank’s experts, the volume of Alfa-Direct trading will continue its strong growth in 2008.

Number of Client Accounts in the Alfa-Direct System, 2002-2007
ALFA CAPITAL UKRAINE

During the reporting year Alfa-Bank actively operated in the Ukraine and Kazakhstan. Alfa Capital Ukraine, an affiliate of Alfa Capital Holdings (Cyprus) Ltd., has been operating in the Ukrainian market since 2005. The company comprises business units that specialise in corporate finance, equities trading and analytics. The potential of the Ukrainian market was confirmed by the outstanding growth in Alfa Capital Ukraine’s performance against a background of rapid growth in the equities market (+135% in 2007).

The fourth Ukrainian Investment Forum, held by Alfa-Bank in conjunction with Alfa Capital Ukraine, was an important 2007 event. The Forum attracted major domestic and foreign investors who discussed prospects of cooperation and assessed the results of efforts made to develop the Ukrainian stock market. Forum participants were provided with relevant information and expert estimates of investment opportunities in the Ukrainian market.

PFTS Index Performance, 2005-2007

ALFA CAPITAL HOLDINGS (CYPRUS) LIMITED

Alfa Capital Holdings (Cyprus) Limited – an investment company registered in the Republic of Cyprus in 1996 and takes lead positions in the market both on financial parameters, on quality and quantity of given products. After the introduction of Cyprus into the European Union in 2004 the Company, was one of the first Cyprus companies which received a European license from the Cyprus Securities and Exchange Commission for providing investment services of a wide range of financial services and a wide spectrum of financial instruments. The European passport has allowed Alfa Capital Holdings (Cyprus) Ltd. to expand the markets of rendering of services. The company has operations at the basic world stock exchanges and the national markets in Russia and Ukraine. Alfa Capital Holdings (Cyprus) Ltd applies the most strict procedures concerning the protection, fair treatment and best interest of the clients. Alfa Capital Holdings (Cyprus) Ltd has an active branch in the UK regulated by the FSA as host state regulator and the CySEC as a home state regulator. The company also has an affiliated licensed investment company in Ukraine.
ALFA CAPITAL MARKETS (USA)

Alfa Capital Markets (ACM USA) was incorporated in 2001 as Alfa-Bank’s investment subsidiary in New York. The Company holds a licence from the US Securities and Exchange Commission (SEC). ACM USA is focused on serving institutional investors and hedge fund clients in the USA, Canada and Latin America. In 2007, ACM USA achieved a 17% growth in trading volume and a 13% increase in its customer base.

Pursuant to a settlement agreement reached between ACM USA and its parent Alfa-Bank on one hand and Alfa Corporation of Montgomery, Alabama on the other, ACM USA will be changing its name to Alforma Capital Markets, Inc., effective 29 May 2008. This name change is not expected to have a material effect on ACM USA’s operations.

ALFA CAPITAL MARKETS (UK)

Alfa Capital Markets (ACM UK) is an active London branch of Alfa Capital Holdings (Cyprus) Ltd. ACM UK presents an important platform for the flow of deals from Russia and other CIS countries. The company works with institutional investors and hedge fund clients in the UK and continental Europe. The volume of client orders through ACM UK increased by 28% in 2007 while the client base grew by more than 20%.

FIXED INCOME AND DERIVATIVES BROKERAGE

In 2007, Alfa-Bank continued to be one of the leading players and market makers in the Russian debenture market. Alfa-Bank’s priority segment is rouble corporate bonds. In 2007, Alfa-Bank acted as an underwriter in 25 corporate bond issues for a total amount of more than 61 billion roubles. It also guaranteed the placement of bonds for more than 4.2 billion roubles (based on data by Cbonds information agency).

In 2007, Alfa-Bank’s volume of trade in the domestic rouble bond market amounted to USD 4.76 billion. This has enabled it to retain its leading position in corporate and municipal bonds turnover on the MICEX stock exchange.

Alfa-Bank became the market leader in short-term customer financing against securities. At the market’s lowest stagnation point, Alfa-Bank’s financing portfolio amounted to RUB 15 billion.

In the reporting year, Alfa-Bank gave special attention to derivatives operations. The volume of derivatives transactions doubled amid overall positive dynamics in the Russian derivatives market. The market for derivative financial instruments is actively developing globally with new instruments emerging every day. Alfa Investment Bank follows these trends and strives to increase the number of derivatives available to the Russian market.

Due to borrowings backed up by Russian companies’ shares, the volume of funds attracted for Alfa-Bank’s clients and partners increased to USD 800 million.

One of the Investment Bank’s priorities for 2008 will be to work with structured products based on bonds. The Derivatives division conducted a payment rights securitisation for Alfa-Bank in 2007 and intends to organise transactions like these for Alfa-Bank’s clients in future.
CORPORATE FINANCE

- Mergers and Acquisitions

Alfa-Bank demonstrated its strongest growth in the mergers and acquisitions segment, with many of the transactions the results of working with the Corporate Bank’s client base. The results of interaction between Investment Banking’s Corporate Finance unit and the Corporate Bank confirmed the productivity of this strategy. The approach is aimed at integrating the Corporate Bank and Investment Banking units to optimise the operations of each and meet customer needs as much as possible. The joint work of specialists from the two business units resulted in a substantial improvement in the Corporate Finance unit’s performance – the volume of closed transactions grew from USD 800 million in 2006 to almost USD 7 billion in 2007. A major success in 2007 was the advisory role Alfa-Bank played in a number of large and important transactions. The most significant of these were the organisation of the sale of OGK-3 (USD 3.14 billion) and OGK-5 to a strategic investor, the Italian utility ENEL (USD 1.5 billion), and the sale of 51% of Maxi-Group to Novolipetsk Metallurgical Combine (more than USD 1.2 billion). Alfa-Bank is continuing its relationships with companies in the metals, engineering, aviation, pharmaceutical and other industry sectors.

**RAO UES of Russia**
- USD 3 140 000 000
  - Initial public offering by OGK-3
  - Prime Consultant of RAO UES of Russia
  - 2007

**RAO UES of Russia**
- USD 1 516 000 000
  - Sale of 25.03% interest in OGK-5
  - Financial Advisor to RAO UES of Russia
  - 2007

**Maxi Group**
- USD 1 200 000 000
  - Financial Advisor in the sale of a controlling stake in Maxi Group to NLMC
  - 2007

**Agromashholding**
- USD 92 000 000
  - Acquisition of Dunham-Bush (Malaysia)
  - Exclusive Financial Advisor
  - 2007

**Power Machines**
- USD 486 000 000
  - Sale of 25% interest in Power Machines
  - Financial Advisor to RAO UES of Russia
  - 2007

**Kartontara**
- Sale of the company
  - Exclusive Financial Advisor
  - 2007

**Atomenergomash**
- Purchase of controlling stake in EMA Atom
  - Exclusive Financial Advisor
  - 2007

**Efedra pharmacy chain**
- Sale of the pharmacy chain to Erkapharm company
  - Exclusive Financial Advisor
  - 2007
• Debt Capital Markets

Alfa-Bank prioritises the rouble corporate bond segment. In 2007, Alfa-Bank strengthened its positions in this segment despite a substantial slackening in the Russian debt capital market and liquidity problems following the US mortgage crisis in the third quarter of the year. Based on the 2007 results, Alfa-Bank reached the 13th position in a rating of major lead managers of corporate bond issues, compared to the 21st position it held in 2006 (based on Cbonds data). Alfa-Bank acted as the lead manager of 5 bond issues for a total of 16 billion roubles for companies like OJSC Lenenergo (2 issues), CJSC Russian Copper Company, CJSC Transmashholding and OJSC Kubanenergo. Due to the close cooperation with the Corporate Bank, the business unit also received a number of bond issue mandates from Russian companies operating in the power generation, real estate, transportation, IT, utilities and retail sectors. These issues are due in 2008.

Alfa-Bank’s DCM team together with international banks successfully placed subordinated Eurobonds for USD 300 million and an inaugural issue of 144A Eurobonds for USD 500 million, confirming Alfa-Bank’s status as one of the highest quality borrowers in the Russian banking sector. In 2007, Alfa-Bank issued 5 tranches of Eurocommercial papers (ECP), as at 31 December 2007 the total amount of outstanding notes was USD 158 million.
**Equity Capital Markets**

Russian companies, primarily those in the oil, metals and telecommunication sectors, were very active in the initial and secondary public offerings markets in 2007. Total funds raised through IPOs and SPOs exceeded USD 32 billion. Alfa-Bank co-managed the public offering of the shares of Eurasia Drilling Company (EDC), the largest on-shore drilling contractor in Russia. The transaction was worth USD 783 million. Another successful LSE floatation initiative was the Integra IPO for which Alfa-Bank acted as joint global coordinator. The offering raised USD 768 million.

In 2008, Investment Banking will continue its relationship with companies planning to go public.

**FINANCIAL INSTITUTIONS AND COMPANIES**

**Cooperation with international banks**

In 2007, the Financial Institutions Division of the Investment Bank attracted more than USD 2 billion by using international interbank financing. This success was enabled by the growth in the number of foreign financial institutions that consider Alfa-Bank their most important partner in Russia.

Two major syndicated loans were organised for Alfa-Bank in 2007 – for USD 900 million and USD 307 million (club deal) respectively. Credit of USD 126 million that was obtained by Alfa-Bank in 2006 was prolonged.
The USD 900 million deal is very important to Alfa-Bank, since it is the largest syndicated loan ever obtained by a Russian private bank. The loan was organised by Commerzbank, DZ BANK, Emirates Bank International, GarantiBank International, HSBC Bank PLC, ICICI Bank UK PLC, Mega International Commercial Bank, Mizuho Corporate Bank Ltd., Natixis, Standard Chartered Bank and Sumitomo Mitsui Banking Corporation Europe Limited. The deal involved a total of 43 banks from Europe, Asia, the Middle East and the USA.

The loans for USD 307 million and USD 126 million deserve to be mentioned too, because Alfa-Bank obtained these resources even when the US mortgage crisis had already affected the global banking system and many prime borrowers had been forced to cancel their plans to enter global financial markets.

2007 was also a success in terms of trade and export financing, with the Financial Institutions department attracting more than USD 500 million from its foreign partner banks to finance new international trade contracts signed by Alfa-Bank clients.

All these achievements won recognition from Global Finance, the prestigious international magazine that named Alfa-Bank “The best trade finance bank in Russia in 2007”.

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A STEP AHEAD WITH ALFA-BANK

ALFA-MOBILE SERVICE ALLOWS YOU TO MANAGE YOUR ACCOUNTS AND MAKE TRANSACTIONS WITH YOUR MOBILE PHONE WHENEVER AND WHEREVER YOU WANT TO.
AlfaStrakhovanie Group is one of the largest Russian insurers with a diversified portfolio of services comprising both comprehensive business insurance coverage and an extensive range of retail insurance products. AlfaStrakhovanie is an established market leader with more than 350 offices and branches in Russia.

www.alfastrah.ru

RESULTS

AlfaStrakhovanie has a reputation as a reliable and stable company. Consolidated share capital of the Company grew from RUB 2.3 billion (USD 87.4 million) at the end of 2006 to RUB 2.5 billion (USD 99.8 million) at the end of 2007. AlfaStrakhovanie gross premium rose from RUB 8.68 billion (USD 319.8 million) in 2006 to RUB 11.64 billion (USD 474.1 million) in 2007. Total insurer’s liability assumed by the Group rose from RUB 3,160 billion (USD 116.5 billion) in 2006 to RUB 6,836 billion (USD 278.6 billion) in 2007.

The Russian market for voluntary insurance and compulsory motor third-party liability insurance (CMTPLI), which are Group priorities, expanded by 18% in 2007. The Group’s portfolio in these insurance segments grew by 34%, enabling growth of market share to 2.45%. The key drivers of this growth were property insurance, the share of which in the Group’s portfolio is nearly 70%, personal insurance and CMTPLI. The highest growth rate was demonstrated by following segments (year-on-year): property insurance of individuals – 126%, accident insurance – 136%, property insurance of legal entities – 67%.

LEADERSHIP

The new strategy of AlfaStrakhovanie Group which was approved by the Supervisory Board provides for a fast growth of its market share to 6.1% by 2012 (currently 2.3%). Expansion is planned using organic growth and M&A transactions of the Group. The key objectives in organic growth include:

- Balanced approach to developing corporate and retail businesses;
- Quick and aggressive grab of significant share in the corporate sector and gradual growth of the retail share;
- Reduction of dependence on intermediaries, development of the network of own salespeople based on the established regional network;
- Work site marketing. The entry into this sales channel is planned using growth of the corporate business and consequently the customer base;
- Increased efficiency of intermediary relations in order to:
  - obtain client base for cross sales;
  - sell the least unprofitable products;
- Recognizability of the AlfaStrakhovanie brand;
- Increase customer loyalty through improved service;
- Clear strategy for the vehicle insurance development;
Clear strategy for the life insurance development;
- Establishment of the regional network of treatment and prophylactic facilities;
- IT-systems upgrade;
- Become the best employer in the financial sector.

CUSTOMERS

About 20,000 companies chose AlfaStrakhovanie for their business insurance. Among these companies there are the leading banks, vessels owners and carriers, electric and atomic power enterprises, metallurgic and machine-building enterprises, representative offices of foreign companies and public and state institutions, including:


The number of customers of AlfaStrakhovanie is more than one million.

RELIABILITY

High reliability of the Group’s insurance operations is supported by reinsurance programs with leading international companies: Munich Re, Swiss Re, Hannover Re, Gen Re, SCOR, as well as Lloyd’s of London (via international brokers Willis, Marsh, Aon, Benfield, etc.).

Surveys by United Financial Group (UFG) and Expert rating agency suggest that AlfaStrakhovanie Group is one of the top five companies on the open insurance market. In December 2007, Expert RA confirmed the highest reliability rating, A++, which was awarded to AlfaStrakhovanie Group in 2003 for the first time. This rating means that the Group is very likely to perform its financial obligations even during unfavourable economic conditions.

INNOVATION

AlfaStrakhovanie Group is developing complex individual, tailored insurance programs for corporate customers, taking into account the business specifics of each customer. Policies for individuals are simple, understandable and easy to set up, enabling customers to choose the cover, which they require, namely:

AlfaDrive  I AlfaKasko 50X50 I AlfaKasko 500 I AlfaBusiness I AlfaPredprinimatel I AlfaRemont I AlfaCity I AlfaCity Complex I AlfaCountry I AlfaCountry Weekend I AlfaCountry Express I AlfaEstate Complex I AlfaIpoteka (Mortgage) I AlfaTravel I AlfaTravel Business I AlfaFarus I AlfaGarant
AlfaStrakhovanie Group continued its regional expansion in 2007, by opening 38 new branches. In 2007, in the territory of the Russia the Group launched independent branches of AlfaStrakhovanie-Zhizn Ltd. Currently over 350 branches and departments of the Group provide insurance services in the territory of Russia.

Sustaining high customer service quality under intensive business expansion is one of the key objectives of the Group. As a consequence, a hotline function was expanded and service audit performance got much better. The Group invested significant amounts to automate all of its business processes, upgrade its infrastructure, form a unified information space, and ensure its information security.

TEAM


5 Top-Managers of AlfaStrakhovanie Group have received the award Top-1000 Russian Managers from the Association of Managers of Russia and Kommersant magazine:

(Laureate – 1000 Most Professional Top-Managers of Russia), Vladimir Skvortsov, CEO of AlfaStrakhovanie Group; (Laureate – 1000 Most Professional Financial Directors of Russia), Svetlana Ovchinnikova, CFO of AlfaStrakhovanie Group; (Laureate – 1000 Most Professional Commercial Directors of Russia), Vladimir Sorokin, Commercial Director/Deputy General Director of AlfaStrakhovanie Group; (2nd Place – 1000 Most Professional HR Directors of Russia), Elena Gordeeva, HR Director of AlfaStrakhovanie Group; (1st Place – 1000 Most Professional IT Directors of Russia), Andrey Pedorenko, Director of Information Technology of AlfaStrakhovanie Group.

Alfa Capital

Alfa Capital is one of the largest and most successful players in the asset management business and has been in the market for more than 10 years – since 1996. The primary operations of Alfa Capital include asset management for mutual funds, non-state pension funds, insurance companies and corporations, as well as trust management for individual high-net-worth investors. In the asset management services market, the Alfa Capital brand symbolises quality and reliability.

www.alfacapital.ru

2007 – A YEAR OF ACTIVE GROWTH

In 2007, the professional team of Alfa Capital implemented its business development strategy in key segments of the asset management market. The aggregate asset base under management increased 2.5 times and exceeded RUB 30 billion. In addition, the aggregate assets in mutual funds grew 2.1 times in 2007 (to RUB 17 billion) while the managed assets of pension funds and insurance companies increased 3.2 times (to RUB 8.6 billion).

An important confirmation of the high quality of asset management services provided by Alfa Capital is the evolution of the company’s relationship with the Deposit Insurance Agency (DIA). Among the asset management companies entrusted with managing the funds of the Mandatory Deposit Insurance Fund, Alfa Capital demonstrated the best performance. As a result, the Management Board of the DIA decided to increase the share of the Fund’s assets managed by Alfa Capital.
In 2007, the company actively expanded its geographical presence, both in Moscow and Russia’s regions. The expansion was achieved through the growth of an agency network and the creation of corporate offices. New Alfa Capital offices opened in Moscow, St. Petersburg, Novosibirsk, Samara, Tyumen, Yekaterinburg and Krasnodar. Alfa Capital’s agencies increased from 119 to more than 295 since the beginning of 2007.

In 2007, the company’s product range was supplemented by new investment strategies and mutual investment funds: Alfa Capital Consumer Sector open-end mutual funds, Alfa Capital Finance, Alfa Capital Pension Reserve and Alfa Capital State Participation Enterprises were established.

MARKET LEADER

Based on the 2007 results, Alfa Capital is the clear leader in the overall investment market, both in terms of the value of assets under management and the performance of mutual investment funds. Four mutual funds of the company became market leaders:

- The interval mutual fund Alfa Capital Equity Growth achieved best performance among all open-end and interval domestic funds.
- OEMF Alfa Capital Metals & Mining showed best performance among domestic open-end equity funds.
- OEMF Alfa Capital Equity Fund showed best performance among domestic non-sector funds.
- OEMF Alfa Capital MICEX Index achieved best performance among domestic index funds.

Net funds attracted into open and interval mutual funds managed by Alfa Capital in 2007 amounted to RUB 6.84 billion – the best figure among fund management companies. Alfa Capital’s share in the aggregate funds under management in 2007 amounted to 54%. Therefore, every second rouble invested in retail mutual funds in 2007 was invested in funds managed by Alfa Capital.

Three of the company’s funds – Alfa Capital Equity Fund, Alfa Capital Balanced Fund and Alfa Capital Equity Growth – were rated among the top 10 funds by the Investfunds rating “Most Popular Mutual Funds” in 2007. Ratings are done in terms of the volume of funds attracted. With a net input of more than RUB 2.2 billion, Alfa Capital Equity Fund achieved the best rating among open-end investment funds.

MARKET RECOGNITION

Based on its performance in 2007, Alfa Capital’s professional operations were recognised by various independent market experts. The company received the following high ratings and awards:

- an “AAA” rating, the highest possible rating for reliability, awarded by the National Rating Agency
- the RosBusinessConsulting “Company of the Year” award in the “Management Company” category
- the “Management Company of the Year” title from Pifia-2007 awards for performance and achievements in asset management and mutual investments
- the “Financial Pearl of Russia 2007” award for financial services to individual customers in the “Best Asset Management Programmes” category
- the “Count Guryev” award for “Management Company of the Year” in the pension segment of social insurance
- a personal award from Finance magazine to Mikhail Khabarov, General Director of Alfa Capital, for “Reputation in the Financial Market”
- a first place in the rating of open-end mutual investment fund managers, published by RosBusinessConsulting and based on 2007 performance, awarded to Andrey Kilin, senior portfolio manager of MC Alfa Capital.
Performance of mutual investment funds operating in 2007

<table>
<thead>
<tr>
<th>Mutual Fund</th>
<th>Yield index in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity IMF Alfa Capital Equity Growth</td>
<td>78.22%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Metals &amp; Mining</td>
<td>56.79%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Equity</td>
<td>24.07%</td>
</tr>
<tr>
<td>Blend OEMF Alfa Capital Balanced Fund</td>
<td>17.08%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Utilities</td>
<td>15.10%</td>
</tr>
<tr>
<td>OEIMF Alfa Capital MICEX Index</td>
<td>13.77%</td>
</tr>
<tr>
<td>Blend IMF Alfa Capital</td>
<td>11.53%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Telecoms</td>
<td>10.87%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Oil &amp; Gas</td>
<td>9.67%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital State Participation Enterprises*</td>
<td>7.31%</td>
</tr>
<tr>
<td>Bond OEMF Alfa Capital Bonds Plus</td>
<td>6.28%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Consumer Sector*</td>
<td>5.83%</td>
</tr>
<tr>
<td>Equity OEMF Alfa Capital Finance*</td>
<td>5.66%</td>
</tr>
<tr>
<td>Bond OEMF Alfa Capital Reserve Fund*</td>
<td>3.76%</td>
</tr>
<tr>
<td>Blend OEMF Alfa Capital Pension Reserve*</td>
<td>1.71%</td>
</tr>
</tbody>
</table>

* – Funds created during the last 12 months.

Assets under management of Alfa Capital based on 2007 results, million roubles

1 – Mutual investment funds (MF) 17 045,6; 54%
2 – Individual trust management 1 092,5; 4%
3 – Corporate customers 2 325,5; 8%
4 – Pension savings (net of RPF) 1 824,4; 6%
5 – n-house funds of non-state pension fund 1 824,4; 2%
6 – Institutional customers 7 129,7; 23%
7 – State funds 915,4; 3%

Alfa Capital Partners

ALFA CAPITAL PARTNERS ("ACP"), A PRIVATE EQUITY AND REAL ESTATE INVESTMENT ADVISORY FIRM, SPECIALISES IN FUNDS THAT INVEST IN LEADING COMPANIES AND REAL ESTATE IN RUSSIA, UKRAINE AND THE COMMONWEALTH OF INDEPENDENT STATES (CIS). INTERNATIONAL INSTITUTIONAL AND PRIVATE INVESTORS FROM NORTH AMERICA, EUROPE, ASIA AND THE MIDDLE EAST, MULTILATERALS (EBRD, IFC) AS WELL AS THE ALFA GROUP ITSELF, HAVE COMMITTED OVER USD 700 MILION IN CAPITAL TO ACP’S THREE FUNDS.
ACP positions itself as a partner to both international investors seeking to enter the region and local entrepreneurs and companies seeking financing for growth. ACP employs a rigorous investment process that combines the best of international and local approaches. ACP currently serves as advisor to three investment fund initiatives in the areas of corporate private equity, infrastructure and real estate. While there is significant potential for cooperation and synergy across the three funds, each has a dedicated team and each targets a large and attractive market. ACP aims to start a follow-on fund in the near future.

PRIVATE EQUITY FUND

In February 2007, Alfa Private Equity Partners LP (“APEP”) held its final closing at USD 200 million. APEP’s investment strategy is to provide equity capital to companies that are considered emerging leaders in the new economies of Russia, Ukraine and the CIS.

The Fund made its first investment in February 2006 when it acquired a stake in World Class, Russia’s leading chain of upscale fitness clubs. In 2007, APEP made three more investments: it entered Russia’s thriving automotive market through a leading national dealership chain, Nezavisimost; launched a mortgage business, IpoTech Bank and acquired the popular mid-market Russian cuisine restaurant chain Yolki-Palki. With approximately half the Fund already committed, the fund management team is working closely with the management of its portfolio companies to reach long-term development objectives and help maximise the growth potential of each company. APEP continues to follow a strategy of financing emerging leaders by actively looking for medium-sized companies that have the potential to become true market leaders. The Fund will invest in management buyouts, growth capital, sector consolidation and co-investment with strategic partners.

INFRASTRUCTURE FUND

In April 2005 Alfa Capital Partners helped negotiate the restructuring and relaunch of the USD 180 million Great Circle Fund. Alfa Group is a limited partner in the fund and ACP is its regional manager. With sponsorship from the US Government’s Overseas Private Investment Corporation, the Great Circle Fund’s mandate is to invest in maritime transportation, transportation infrastructure and logistics in Russia, Ukraine, Central Asia, Central and Eastern Europe, the Baltic States and Turkey. Modernisation and expansion of the existing infrastructure is currently a priority for the governments throughout the region and we are seeing substantial demand for investment in this sector. The Great Circle Fund has made investments totalling USD 70 million in three leading logistics companies. They are Russian Logistic Service, a Russian nationwide logistics company servicing the Russian FMCG sector; STS Logistics, a Russian logistics companies focusing on the industrial economy and Balnak Logistics, a well established Turkish Logistics company focusing on warehouse operations and supply chain management. The strategy of the Great Circle Fund is to expand these companies in order to consolidate their positions as sector leaders in fast-growing but fragmented markets. Core focus is consistently placed on management best practice.

REAL ESTATE FUND

In June 2007 the Marbleton Property Fund LP (“Marbleton”) closed with equity commitments of USD 321 million from institutional investors in the United States, Canada and Europe. Marbleton was sponsored and is managed by a joint venture between ACP and JER Partners, a leading international real estate private equity firm based in McLean, Virginia. Marbleton pursues investments in real estate opportunities in Russia, Ukraine and CIS countries. It seeks to build a diversified portfolio of real estate and real estate-related assets that balances risk and return and emphasises strong cash flow. Marbleton will utilise financial leverage as appropriate. In 2007 the Fund made investments totalling USD 100 million in partnership with developers and on a standalone basis in Russia, Ukraine and Georgia. These investments include a suburban office park development in Moscow, the acquisition of two big-box retail DIY stores in St Petersburg and a pre-IPO investment in a development portfolio being managed by Georgia’s leading developer.
INDEPENDENT AUDITOR’S REPORT

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

1 The accompanying summarised consolidated financial statements have been derived from the consolidated financial statements of ABH Financial Limited (“Group”) for the year ended 31 December 2007. These summarised consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on whether these summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

2 We have audited the consolidated financial statements of ABH Financial Limited for the year ended 31 December 2007, from which these summarised consolidated financial statements were derived, in accordance with International Standards on Auditing. In our report dated 25 April 2008 we expressed an unqualified opinion on the consolidated financial statements from which the summarised financial statements were derived.

3 In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

4 For a better understanding of the Group’s financial position and the results of its operations for the year and of the scope of our audit, the summarised consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarised consolidated financial statements were derived and related independent auditor’s report thereon.

ZA0 PricewaterhouseCoopers Audit
25 April 2008
Moscow, Russian Federation
# ABH Financial Limited Consolidated Balance Sheet As at 31 December 2007

<table>
<thead>
<tr>
<th></th>
<th>31 December 2007</th>
<th>31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2 634 359</td>
<td>1 672 681</td>
</tr>
<tr>
<td>Mandatory cash balances with central banks</td>
<td>308 092</td>
<td>256 579</td>
</tr>
<tr>
<td>Trading securities</td>
<td>841 457</td>
<td>673 199</td>
</tr>
<tr>
<td>Repurchase receivables</td>
<td>534 426</td>
<td>495 849</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1 916 685</td>
<td>1 667 662</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>15 037 535</td>
<td>9 480 359</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>58 973</td>
<td>198 806</td>
</tr>
<tr>
<td>Other investments</td>
<td>55 228</td>
<td>21 918</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>778 447</td>
<td>417 236</td>
</tr>
<tr>
<td>Other assets</td>
<td>176 236</td>
<td>114 511</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>290 818</td>
<td>208 403</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>62 304</td>
<td>2 740</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>22 694 560</td>
<td>15 209 943</td>
</tr>
</tbody>
</table>

| **LIABILITIES**         |                  |                  |
| Due to other banks      | 2 849 461        | 1 430 440        |
| Customer accounts       | 12 180 392       | 7 946 381        |
| Promissory notes issued | 789 192          | 529 593          |
| Other borrowed funds    | 3 743 834        | 3 126 296        |
| Subordinated debt       | 526 006          | 224 837          |
| Other financial liabilities | 565 594    | 493 186          |
| Other liabilities       | 128 545          | 132 611          |
| Deferred tax liability  | 56 839           | 16 415           |
| **TOTAL LIABILITIES**   | 20 839 863       | 13 899 759       |

| **EQUITY**              |                  |                  |
| Share capital           | 694 800          | 344 800          |
| Fair value reserve for investments available for sale | 39  | 70   |
| Revaluation reserve for premises | 56 785 | 25 929 |
| Retained earnings and other reserves | 1 103 073 | 939 376 |
| **Net assets attributable to the equity holders of the Company** | 1 854 697 | 1 310 175 |
| Minority interest       | -                | 9                |
| **TOTAL EQUITY**        | 1 854 697        | 1 310 184        |

| **TOTAL LIABILITIES AND EQUITY** | 22 694 560 | 15 209 943 |

These summarised consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 25 April 2008 and further changes require approval of this body.
## CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2007

### In thousands of US Dollars

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1,706,243</td>
<td>1,028,117</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(790,211)</td>
<td>(477,843)</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>916,032</strong></td>
<td><strong>550,274</strong></td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(222,875)</td>
<td>(127,223)</td>
</tr>
<tr>
<td><strong>Net interest income after provision for loan impairment</strong></td>
<td><strong>693,157</strong></td>
<td><strong>423,051</strong></td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>318,973</td>
<td>223,326</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>(60,606)</td>
<td>(54,977)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>43,303</td>
<td>68,970</td>
</tr>
<tr>
<td>Gains less losses arising from foreign currencies</td>
<td>18,957</td>
<td>(33,049)</td>
</tr>
<tr>
<td>Gains less losses arising from investments</td>
<td>34,630</td>
<td>102,490</td>
</tr>
<tr>
<td>Other impairment provisions</td>
<td>(8,370)</td>
<td>7,903</td>
</tr>
<tr>
<td>Other operating income</td>
<td>18,174</td>
<td>81,478</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(698,980)</td>
<td>(535,342)</td>
</tr>
<tr>
<td>Share of results and impairment of associates</td>
<td>(30,304)</td>
<td>7,830</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td><strong>328,934</strong></td>
<td><strong>271,680</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(75,448)</td>
<td>(81,394)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>253,486</strong></td>
<td><strong>190,286</strong></td>
</tr>
</tbody>
</table>

**Attributable to:**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity holders of the Company</td>
<td>253,486</td>
<td>190,333</td>
</tr>
<tr>
<td>Minority interest</td>
<td>-</td>
<td>(47)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>253,486</strong></td>
<td><strong>190,286</strong></td>
</tr>
</tbody>
</table>
## ABH Financial Limited

### Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007

In thousands of US Dollars

<table>
<thead>
<tr>
<th>Attributable to the equity holders of the Company</th>
<th>Minority interest</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>Fair value reserve for investments available for sale</td>
<td>Revaluation reserve for premises</td>
</tr>
</tbody>
</table>

#### Balance as at 1 January 2006

<table>
<thead>
<tr>
<th></th>
<th>160 800</th>
<th>585</th>
<th>3 051</th>
<th>689 012</th>
<th>853 448</th>
<th>2 400</th>
<th>855 848</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer of net fair value gains arising on investments available for sale to profit</td>
<td>-</td>
<td>(515)</td>
<td>-</td>
<td>-</td>
<td>(515)</td>
<td>-</td>
<td>(515)</td>
</tr>
<tr>
<td>Revaluation of premises, net of taxation</td>
<td>-</td>
<td>-</td>
<td>27 123</td>
<td>-</td>
<td>27 123</td>
<td>-</td>
<td>27 123</td>
</tr>
<tr>
<td>Translation movement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>76 807</td>
<td>76 807</td>
<td>-</td>
<td>76 807</td>
</tr>
<tr>
<td>Adjustment on the initial recognition of associates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1 673)</td>
<td>(1 673)</td>
<td>-</td>
<td>(1 673)</td>
</tr>
<tr>
<td>Share of other equity movements of associates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4 791</td>
<td>4 791</td>
<td>-</td>
<td>4 791</td>
</tr>
<tr>
<td><strong>Net income/(expense) recognised directly in equity</strong></td>
<td>-</td>
<td>(515)</td>
<td>27 123</td>
<td>79 925</td>
<td>106 533</td>
<td>-</td>
<td>106 533</td>
</tr>
</tbody>
</table>

#### Profit for the year

| | - | - | - | 190 333 | 190 333 | (47) | 190 286 |

#### Total income/(expense) recognised

| | - | (515) | 27 123 | 270 258 | 296 866 | (47) | 296 819 |

#### Share capital contribution

| | 184 000 | - | - | - | 184 000 | - | 184 000 |

#### Dividends

| | - | - | - | (23 915) | (23 915) | - | (23 915) |

#### Other movements

| | - | - | - | (4 245) | 4 021 | (224) | (2 344) |

#### Balance as at 31 December 2006

| | 344 800 | 70 | 25 929 | 939 376 | 1 103 175 | 9 | 1 310 184 |

#### Transfer of net fair value gains arising on investments available for sale to profit

| | - | (31) | - | - | (31) | - | (31) |

#### Revaluation of premises, net of taxation

| | - | - | 33 108 | - | 33 108 | - | 33 108 |

#### Translation movement

| | - | - | - | 90 867 | 90 867 | - | 90 867 |

#### Net change in hedge of net investment in foreign operations

| | - | - | - | (74 607) | (74 607) | - | (74 607) |

#### Share of other equity movements of associates

| | - | - | - | (17 689) | (17 689) | - | (17 689) |

#### Net income/(expense) recognised directly in equity

| | - | (31) | 33 108 | (1 429) | 31 648 | - | 31 648 |

#### Profit for the year

| | - | - | - | 253 486 | 253 486 | - | 253 486 |

#### Total income/(expense) recognised

| | - | (31) | 33 108 | 252 057 | 285 134 | - | 285 134 |

#### Share capital contribution

| | 350 000 | - | - | - | 350 000 | - | 350 000 |

#### Dividends

| | - | - | - | (92 393) | (92 393) | - | (92 393) |

#### Other movements

| | - | - | - | (2 252) | 4 033 | 1 781 | (9) |

#### Balance as at 31 December 2007

| | 694 800 | 39 | 56 785 | 1 103 073 | 1 854 697 | - | 1 854 697 |
ABH FINANCIAL LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of US Dollars

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>1 677 579</td>
<td>997 454</td>
</tr>
<tr>
<td>Interest paid, other than on other borrowed funds and subordinated debt</td>
<td>(485 728)</td>
<td>(324 999)</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>316 113</td>
<td>224 706</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(59 342)</td>
<td>(68 563)</td>
</tr>
<tr>
<td>Net income received from trading securities</td>
<td>36 930</td>
<td>81 492</td>
</tr>
<tr>
<td>Net income received from trading in foreign currencies</td>
<td>63 346</td>
<td>56 500</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>10 912</td>
<td>23 207</td>
</tr>
<tr>
<td>Staff costs paid</td>
<td>(374 779)</td>
<td>(287 191)</td>
</tr>
<tr>
<td>Other operating expenses paid</td>
<td>(298 559)</td>
<td>(194 418)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(146 507)</td>
<td>(134 846)</td>
</tr>
</tbody>
</table>

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

| 739 965  | 373 342 |

**Changes in operating assets and liabilities**

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in mandatory cash balances with central banks</td>
<td>(30 975)</td>
</tr>
<tr>
<td>Net increase in trading securities and repurchase receivables</td>
<td>(369 767)</td>
</tr>
<tr>
<td>Net increase in due from other banks</td>
<td>(186 599)</td>
</tr>
<tr>
<td>Net increase in loans and advances to customers</td>
<td>(5 234 509)</td>
</tr>
<tr>
<td>Net increase in other assets</td>
<td>(225 210)</td>
</tr>
<tr>
<td>Net increase in due to other banks</td>
<td>1 314 268</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>3 676 325</td>
</tr>
<tr>
<td>Net increase in promissory notes issued</td>
<td>209 914</td>
</tr>
<tr>
<td>Net increase/(decrease) in other liabilities</td>
<td>31 183</td>
</tr>
</tbody>
</table>

**Net cash used in operating activities**

| 75 405  | (950 987) |
### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of other investments</td>
<td>(14 340)</td>
<td>(145)</td>
</tr>
<tr>
<td>Proceeds from disposal of other investments</td>
<td>16 537</td>
<td>27 751</td>
</tr>
<tr>
<td>Acquisition of additional interest in associates</td>
<td>-</td>
<td>(11 800)</td>
</tr>
<tr>
<td>Proceeds from disposal of interests in associates</td>
<td>-</td>
<td>18 250</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(90 372)</td>
<td>(83 111)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>15 353</td>
<td>4 014</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiaries</td>
<td>19 792</td>
<td>12 000</td>
</tr>
<tr>
<td>Cash outflow on disposal of subsidiaries</td>
<td>(1 557)</td>
<td>(21 180)</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>4 005</td>
<td>2 640</td>
</tr>
</tbody>
</table>

**Net cash used in investing activities**

(50 582)  (51 581)

### Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital contribution</td>
<td>350 000</td>
<td>184 000</td>
</tr>
<tr>
<td>Proceeds from other borrowed funds</td>
<td>2 314 647</td>
<td>2 743 453</td>
</tr>
<tr>
<td>Repayment of other borrowed funds</td>
<td>(1 696 335)</td>
<td>(1 057 237)</td>
</tr>
<tr>
<td>Interest paid on other borrowed funds</td>
<td>(217 958)</td>
<td>(105 140)</td>
</tr>
<tr>
<td>Proceeds from subordinated debt</td>
<td>298 525</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid on subordinated debt</td>
<td>(32 359)</td>
<td>(19 406)</td>
</tr>
</tbody>
</table>

**Net cash from financing activities**

1 016 520  1 745 670

### Net increase in cash and cash equivalents

890 533  743 102

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>1 672 681</td>
<td>878 670</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>71 145</td>
<td>50 909</td>
</tr>
</tbody>
</table>

**Cash and cash equivalents at the end of the year**

2 634 359  1 672 681
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